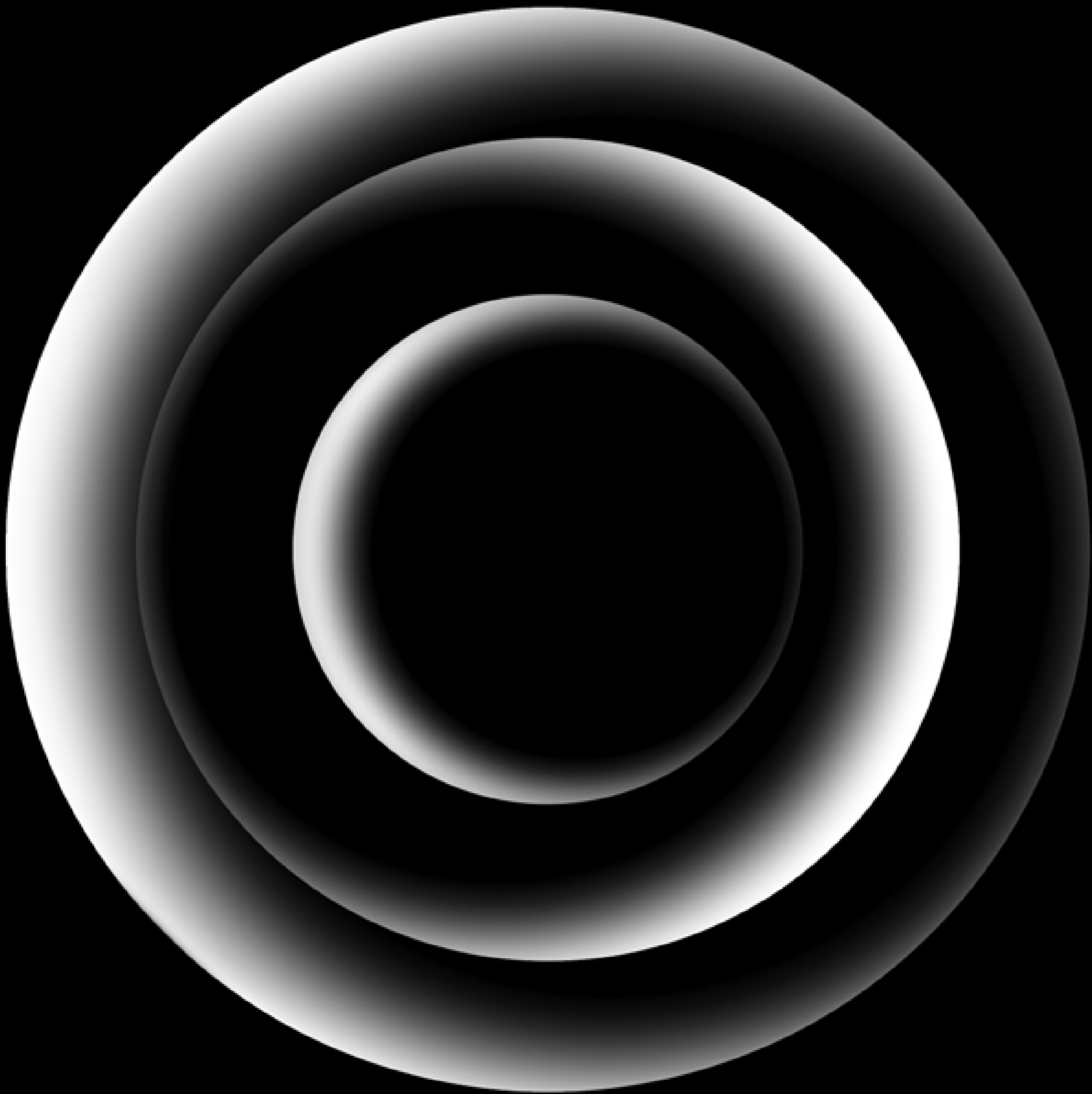

Accounting Alert

Quarterly update – For-profit entities
What's new in financial reporting for June 2018?

This quarterly update includes a high level overview of new and revised financial reporting requirements that need to be considered by for-profit entities for annual and interim financial reporting periods ending on 30 June 2018. Information is also included for March 2018 year ends for entities who are still finalising their financial statements.

Financial reporting standards update

There are two new financial reporting amendments applicable for financial years ending 30 June 2018 and five new financial reporting standards and amendments for interim periods ending 30 June 2018. All entities will need to assess the impact of these amendments and ensure that relevant policies and functionalities are in place to implement and comply with the changes.

There are a number of significant new Standards and amendments, including NZ IFRS 9 *Financial Instruments*, NZ IFRS 15 *Revenue from Contracts with Customers,* NZ IFRS 16 *Leases*, and further out: NZ IFRS 17 *Insurance Contracts.* All Tier 1 entities (applying full NZ IFRS) who have not already adopted these standards need to consider appropriate disclosure in relation to these approved but not yet effective Standards. The FMA has issued an alert highlighting the importance of full, accurate and timely disclosure of the known or reasonably estimable information about the possible impact on financial statements. Find the FMA's guidance in their FAQs **here**.

For those entities who have reached the first interim reporting period under the new Standards disclosure will be required of the effects of changes in accounting policy. Judgement will be required to determine what additional disclosure is appropriate to explain the impact of changes the new Standards introduce to the financial statements. NZ IAS 34 *Interim Financial Reporting* also includes additional disclosures in respect of accounting under NZ IFRS 15 *Revenue from Contracts with Customers.* An IFRS in Focus Newsletter with more details can be found **here**.

The New Zealand Accounting Standards Framework

The Accounting Standards Framework is a two sector (for-profit and PBE), multi-tiered Framework. This approach has been adopted in order to meet the differing information needs of each sector's users of financial statements. The for-profit entity framework is based on International Financial Reporting Standards (IFRS).

XRB A1 *Application of the Accounting Standards Framework* sets out the tiers for reporting, the standards that apply to each tier and the requirements for transitioning between tiers. Entities will need to carefully consider which tier applies, to determine whether they will be required to apply NZ IFRS or NZ IFRS RDR.

You may find our framework publication, 'The New Zealand financial reporting landscape' useful. This publication provides a summary of the legislative and accounting standards requirements for New Zealand entities and is available: **here**.

The New Zealand Conceptual Framework

The XRB has updated the Conceptual Framework which describes the objectives and concepts for financial reporting. It is not a Standard and its purpose is to assist the XRB develop Standards which are based on consistent concepts, assist users develop accounting policies for which no specific Standard applies and to help with the interpretation of existing Standards. The XRB's update mirrors an update by the International Accounting Standards Board of the IFRS Conceptual framework.

The new Conceptual Framework:

- Reintroduces the terms stewardship and prudence;
- Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- Removes from the asset and liability definitions references to the expected flow of economic benefits–this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement;
- Discusses historical cost and current value measures, and provides some guidance on how the NZASB would go about selecting a measurement basis for a particular asset or liability;
- States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the NZASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability; and
- Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

The XRB has also updated references in Standards so that they will refer to the new Framework, but it has not made consequential amendments to Standards to reflect changes in the Framework such as changing the asset and liability definitions in the Standards.

You may find our publication, 'IASB issues a revised Conceptual Framework' useful. This publication provides more detail about the changes made and is available: **here**.

The information below was updated on 5 June 2018 for developments to that date.

For-profit entities: What are the new and revised accounting pronouncements for June 2018?

As occurs so often with changes in accounting standards and financial reporting requirements, some of the new or revised pronouncements may have a substantial impact on particular entities. Therefore, it is important that the pronouncements listed below are carefully reviewed for any potential impacts or opportunities.

The tables below outline the new and revised pronouncements that are either to be applied for the first time for a 30 June 2018 annual or interim reporting period, or which may be early adopted at that date[1]. The footnotes distinguish between mandatory initial application, and pronouncements which were also mandatory in a previous period. We have also included links to relevant Deloitte publications which provide further detail, where appropriate.

In the majority of cases, the disclosure requirements of the individual pronouncements listed in the tables below would not be applicable to half-year financial reports; however, the recognition and measurement requirements would be applied where those pronouncements have been adopted by the entity.

In addition, **disclosure** of the application of new and revised accounting pronouncements needs to be carefully considered, along with the impact of those that are approved but not yet effective. We have outlined some considerations in respect of these in Appendix A.

Summary

The table below sets out the recent new pronouncements and whether they are optional or mandatory for financial years ending 31 March 2017 or 30 June 2018, and whether they are optional or mandatory for the interim period ending 30 June 2018. Further information on each pronouncement can be found in the next section.

New Pronouncement	Effective date*	Year ending		Interim ending
		Mar 2018	Jun 2018	Jun 2018
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to **NZ IAS 12***)*	1 Jan 2017	M	M	M[2]
Disclosure Initiative (Amendments to **NZ IAS 7***)*	1 Jan 2017	M	M	M[2]
Annual **Improvements** *to NZ IFRSs 2014–2016 Cycle*	Refer to page 4 for more detail			
NZ IFRS 9 *Financial Instruments*	1 Jan 2018	O	O	M
Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts (Amendments to **NZ IFRS 4***)*	Refer to page 6 for more detail			
NZ IFRS 15 *Revenue from Contracts with Customers*	1 Jan 2018	O	O	M
Classification and Measurement of Share-based Payment Transactions (Amendments to **NZ IFRS 2***)*	1 Jan 2018	O	O	M
Transfers of Investment Property (Amendments to **NZ IAS 40***)*	1 Jan 2018	O	O	M
NZ IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 Jan 2018	O	O	M
2017 **Omnibus Amendments** *to NZ IFRS*	Refer to page 7 for more detail			
NZ IFRS 16 *Leases*	1 Jan 2019	O	O	O
NZ IFRIC 23 *Uncertainty over Income Tax Treatments*	1 Jan 2019	O	O	O
Prepayment Features with Negative Compensation (Amendments to **NZ IFRS 9)**	1 Jan 2019	O	O	O
Long term interests in Associates and Joint Ventures (Amendments to NZ **IAS 28**)	1 Jan 2019	O	O	O
Annual **Improvements** *to NZ IFRSs 2015–2017 Cycle*	1 Jan 2019	O	O	O
Plan Amendment, Curtailment or Settlement (Amendments to **NZ IAS 19***)*	1 Jan 2019	O	O	O
Amendments to the scope of **FRS-42**	1 Jan 2019	O	O	O
Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to **NZ IFRS 10** *and* **NZ IAS 28***)*	1 Jan 2020	O	O	O
NZ IFRS 17 *Insurance Contracts*	1 Jan 2021	O	O	O

Key

O Optional

M Mandatory – first time

M[2] Mandatory in a previous period

* Annual reporting periods beginning on or after

[1]Amendments to NZ IFRS 1 *First-time Adoption of NZ IFRS* have not been considered in this publication. First time adopters should consult the latest version of NZ IFRS 1 when preparing their first financial statements in compliance with NZ IFRS. Entities will also need to monitor approvals between the date of this publication and the date the financial statements are approved.

Impact of each new and revised pronouncement

The following tables set out information on the impact of the recent new pronouncements (see key on page 3).

We have also included a link to our Deloitte publications, where appropriate.

New Pronouncement	Effective date*	Year ending		Interim ending
		Mar 2018	Jun 2018	Jun 2018
***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to* NZ IAS 12)**	1 Jan 2017	M	M	M[2]
The amendments clarify the following: • unrealised losses on debt instruments measured at fair value for accounting purposes but at cost for tax purposes can give rise to deductible temporary differences, regardless of whether the carrying amount is expected to be recovered through holding the instrument until maturity or by sale of the instrument; • when determining whether future taxable profits are available against which deductible temporary differences may be utilized, tax deductions resulting from the reversal of those deductible temporary differences are excluded; and • estimates of future taxable profits may take into account the recovery of an asset for more than its carrying amount if there is sufficient evidence that this recovery is probable. The amendments apply retrospectively to annual periods beginning on or after 1 January 2017, with early application permitted.	**IFRS in Focus Newsletter**			
Disclosure Initiative (Amendments to* NZ IAS 7*)	1 Jan 2017	M	M	M[2]
These amendments have been issued as part of the Disclosure Initiative project to improve presentation and disclosure requirements. The amendments require disclosures that allow users of financial statements to evaluate changes in liabilities which arise from financing activities – this includes both changes arising from cash flows and non-cash changes. Illustrative examples have been included in the amendments to demonstrate how to meet the objective; namely, to improve the information provided by entities about their financing activities. The amendments apply prospectively to annual periods beginning on or after 1 January 2017, with early application permitted. Comparative information is not required to be presented for prior periods.	**IFRS in Focus Newsletter**			
Annual Improvements to NZ IFRSs 2014-2016 Cycle	Different effective dates depending on the specific improvement.			
These annual improvements are largely clarifications, covering: • removal of short-term exemptions in NZ IFRS 1; • applicability of NZ IFRS 12 *Disclosure of Interests in Other Entities* to certain interests that are held for sale, held for distribution or are discontinued operations; and • measurement of interests in associates and joint ventures held by a venture capital organisation. A list of all the topics covered is included in Appendix B. Entities will need to review each individual amendment to identify if any are relevant. Amendments to NZ IFRS 12 have an effective date of 1 January 2017. Amendments to NZ IFRS 1 and NZ IAS 28 have an effective date of 1 January 2018. The amendments to NZ IFRS 12 and NZ IAS 28 are to be applied retrospectively. Early application is permitted.	**IFRS in Focus Newsletter**			

New Pronouncement	Effective date*	Year ending		Interim ending
		Mar 2018	Jun 2018	Jun 2018
NZ IFRS 9 *Financial Instruments*	1 Jan 2018	O	O	M
Financial assets NZ IFRS 9 introduces a new classification and measurement regime for financial assets and will need to be carefully considered by each entity. Some key changes include: • debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances); • the new measurement category of FVTOCI will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; • investments in equity instruments can be designated as 'fair value through other comprehensive income' (FVTOCI) with only dividends being recognised in profit or loss; • all other instruments (including all derivatives) are measured at fair value with changes recognised in profit or loss; • the concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines; and • all equity investments are measured at fair value (including unquoted equity investments). **Financial liabilities** • NZ IAS 39 classification categories of amortised cost and fair value through profit or loss are retained; • changes in credit risk on liabilities designated as at fair value through profit or loss is recognised in other comprehensive income, unless it creates or increases an accounting mismatch, and is not recycled to profit or loss; • the meaning of credit risk is clarified to distinguish between asset-specific and performance credit risk; and • the cost exemption in NZ IAS 39 for derivative liabilities to be settled by delivery of unquoted equity instruments is eliminated. **Hedge accounting and credit risk on own liabilities** The key changes to the hedge accounting model are: • a broadening of the risks eligible for hedge accounting; • changes in the way forward contracts and derivative options are accounted for when in a hedge accounting relationship, which reduces profit or loss volatility; • the effectiveness test has been replaced with the principle of an "economic relationship" and retrospective assessment of effectiveness is no longer required; and • enhanced disclosures regarding an entity's risk management activities. **The expected loss impairment model** The expected loss impairment model will apply to debt instruments measured at amortised cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. The loan loss allowance will be for either 12-month expected losses or lifetime expected losses (the latter applies if credit risk has increased significantly since initial recognition). A different approach applies to purchased or originated credit-impaired financial assets. Extensive disclosure requirements have also been added to NZ IFRS 7 *Financial Instruments: Disclosures.* **Consequential amendments and transition** Consequential amendments affecting a number of Standards including NZ IFRS 7 can be found in Appendix C of NZ IFRS 9 and should be considered. These have been issued with the same effective date as NZ IFRS 9. The Standard shall be applied retrospectively, subject to certain exceptions (e.g. most hedge accounting is applied prospectively). *Some disclosure exemptions for Tier 2 entities can be found in a separate document entitled RDR Expected Credit Losses (Amendments to NZ IFRS 7).*	**IFRS in Focus Newsletter - hedging** **IFRS in Focus Newsletter - impairment**			

<table>
<tr><th rowspan="2">New Pronouncement</th><th rowspan="2">Effective date*</th><th colspan="2">Year ending</th><th>Interim ending</th></tr>
<tr><th>Mar 2018</th><th>Jun 2018</th><th>Jun 2018</th></tr>
<tr><td>Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts (Amendments to NZ IFRS 4)</td><td colspan="4">Effective date depends on when NZ IFRS 9 is first applied.</td></tr>
<tr><td>For insurers (other than those entities that apply Appendix C Life Insurance Entities or Appendix D Financial Reporting of Insurance Activities of NZ IFRS 4 Insurance Contracts), these amendments provide two voluntary approaches to mitigate the issues arising from the fact that NZ IFRS 9 will become effective before the effective date of the new insurance contracts standard. The two approaches are:
• a temporary exemption from applying NZ IFRS 9 (i.e. the deferral approach); or
• an overlay approach.
Because the amendments are not available to entities using Appendix C or Appendix D, application is not expected to be wide spread in New Zealand.</td><td colspan="4">IFRS in Focus Newsletter</td></tr>
<tr><td>NZ IFRS 15 Revenue from Contracts with Customers</td><td>1 Jan 2018</td><td>O</td><td>O</td><td>M</td></tr>
<tr><td>NZ IFRS 15 provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:
• identify the contract with the customer;
• identify the performance obligations in the contract;
• determine the transaction price;
• allocate the transaction price to the performance obligations in the contract; and
• recognise revenue when (or as) the entity satisfies a performance obligation.
Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. For some entities, the profile of revenue and profit recognition may change significantly.
Some disclosure exemptions for Tier 2 entities were approved in NZ IFRS 15 Disclosure Concessions, and are now incorporated into NZ IFRS 15.</td><td colspan="4">IFRS in Focus Newsletter
IFRS in Focus Newsletter - clarifications</td></tr>
<tr><td>Classification and Measurement of Share-based Payment Transactions (Amendments to NZ IFRS 2)</td><td>1 Jan 2018</td><td>O</td><td>O</td><td>M</td></tr>
<tr><td>These amendments relate to the following areas:
• the accounting for the effects of vesting conditions on cash-settled share-based payment transactions;
• the classification of share-based payment transactions with net settlement features for withholding tax obligations; and
• the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.
The amendments apply prospectively to annual periods beginning on or after 1 January 2018, with specific transitional requirements. The amendments may be applied retrospectively only if it is possible to do so without using hindsight. Early application is permitted.</td><td colspan="4">IFRS in Focus Newsletter</td></tr>
<tr><td>Transfers of Investment Property (Amendments to NZ IAS 40)</td><td>1 Jan 2018</td><td>O</td><td>O</td><td>M</td></tr>
<tr><td>These amendments clarify that a transfer to or from investment property shall occur only when there is evidence of a change in use of the property, which will occur when a property meets or ceases to meet the definition of an investment property. On its own, a change in management's intention for the use of the property does not provide evidence of a change in use.
In addition, the examples of evidence currently found in paragraph 57(a) – (d) will now be shown to be a non-exhaustive list (rather than an exhaustive list).
The amendments apply to changes in use that occur in annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is permitted if possible without the use of hindsight.</td><td colspan="4">IFRS in Focus Newsletter</td></tr>
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<tr><th rowspan="2">New Pronouncement</th><th rowspan="2">Effective date*</th><th colspan="2">Year ending</th><th>Interim ending</th></tr>
<tr><th>Mar 2018</th><th>Jun 2018</th><th>Jun 2018</th></tr>
<tr><td>NZ IFRIC 22 Foreign Currency Transactions and Advance Consideration</td><td>1 Jan 2018</td><td>O</td><td>O</td><td>M</td></tr>
<tr><td>The Interpretation provides guidance on determining the date of transaction where advance consideration is received or paid in a foreign currency. The following consensus was reached:
• the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability relating to the payment or receipt of advance consideration; and
• where there are multiple receipts or payments in advance, then there is a separate date of transaction for each receipt or payment.
The Interpretation will be applied either:
• retrospectively; or
• prospectively to assets, income and expenses within the scope of NZ IFRIC 22 either from the beginning of the reporting period where NZ IFRIC 22 is initially applied, or the beginning of the prior reporting period presented as comparative information.</td><td colspan="4">IFRS in Focus Newsletter</td></tr>
<tr><td>2017 Omnibus Amendments to NZ IFRS</td><td colspan="4">Different effective dates depending on the specific amendment.</td></tr>
<tr><td>These amendments consist of the following:
• amendments to NZ IFRS 10 and NZ IAS 28, requiring the ultimate New Zealand parent to present consolidated financial statements and apply the equity method when accounting for interests in associates and joint ventures. These amendments do not apply where the parent is an investment entity.
• other amendments, which include:
– aligning the definition of "separate financial statements" in NZ IFRS 4 with the updated definition in NZ IAS 27, along with other minor wording changes to NZ IFRS 4;
– removing most of the paragraphs in Appendix E of NZ IFRS 7.
Amendments to NZ IFRS 10 and NZ IAS 28 have an effective date of 1 January 2019. Amendments to NZ IFRS 4 and NZ IFRS 7 have an effective date of 1 January 2018. Early application is permitted.</td><td colspan="4"></td></tr>
<tr><td>NZ IFRS 16 Leases</td><td>1 Jan 2019</td><td>O</td><td>O</td><td>O</td></tr>
<tr><td>The new leases standard eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets.
Highlights of NZ IFRS 16 include the following:
Use of a control model for the identification of leases
This model distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.
Distinction between operating and finance leases removed for lessees
Assets and liabilities will now be recognised in respect of all leases, with the exception of certain short-term leases and leases of low value assets.
The main changes affect lessee accounting only – lessor accounting is mostly unchanged from NZ IAS 17 Leases.
NZ IFRS 16 supersedes NZ IAS 17 and associated interpretative guidance. Early application is permitted, provided that NZ IFRS 15 is also early adopted.</td><td colspan="4">IFRS in Focus Newsletter
Accounting Alert - January 2016</td></tr>
</table>

New Pronouncement	Effective date*	Year ending		Interim ending
		Mar 2018	Jun 2018	Jun 2018
NZ IFRIC 23 *Uncertainty over Income Tax Treatments*	1 Jan 2019	O	O	O
This Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group (depending on which approach gives a better prediction of the resolution of the uncertainty), and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If it is probable a tax authority will accept the treatment, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, the entity should reflect the effect of uncertainty in determining its accounting tax position by estimating the tax payable (or receivable), using either the most likely amount or the expected value method. On transition, an entity may either use full retrospective application or modified retrospective application without restatement of comparatives. Earlier application is permitted.	**IFRS in Focus Newsletter**			
Prepayment Features with Negative Compensation (Amendments to* NZ IFRS 9*)	1 Jan 2019	O	O	O
The amendments are narrow in scope and relate to financial assets with prepayment options which may result in the party exercising the option receiving compensation from the other party (as opposed to paying compensation to the other party). As a result of the amendments, these instruments do not automatically fail the SPPI test (note: 'SPPI' means 'contractual cash flows that are solely payments of principal and interest on the principal amount outstanding'). These amendments are to be applied retrospectively. Early application is permitted. Specific transition provisions apply depending on the date the amendment is applied (and considering the initial application of NZ IFRS 9).	**IFRS in Focus Newsletter**			
Long Term Interests in Associates and Joint Ventures (Amendments to* NZ IAS 28*)	1 Jan 2019	O	O	O
The amendment clarifies that an entity should apply NZ IFRS 9, including its impairment requirements, to long-term interests in associates or joint ventures that form part of the entity's net investment in these investees.	**IFRS in Focus Newsletter**			
Annual Improvements to NZ IFRSs 2015 – 2017 Cycle	1 Jan 2019	O	O	O
These annual improvements are largely clarifications, covering: • appropriate measurement of previously held interests, when an entity obtains control of a business that is a joint operation under NZ IFRS 3 *Business Combinations* and under NZ IFRS 11 *Joint Arrangements;* • income tax consequences of dividends; and • calculation of the capitalisation rate on general borrowings if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale. A list of all the topics covered is included in Appendix B. Entities will need to review each individual amendment to identify if any are relevant.	**IFRS in Focus Newsletter**			
Plan Amendment, Curtailment or Settlement (Amendments to* NZ IAS 19*)	1 Jan 2019	O	O	O
The amendment now makes it mandatory that when a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendment also clarifies the effect that plan amendment, curtailment or settlement has on the requirements regarding the asset ceiling.	**IFRS in Focus Newsletter**			

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<tr><th rowspan="2">New Pronouncement</th><th rowspan="2">Effective date*</th><th colspan="2">Year ending</th><th>Interim ending</th></tr>
<tr><th>Mar 2018</th><th>Jun 2018</th><th>Jun 2018</th></tr>
<tr><td>Amendments to the scope of FRS-42</td><td>1 Jan 2019</td><td>O</td><td>O</td><td>O</td></tr>
<tr><td>The changes to the scope of the standard that this amendment introduces include:
• That the standard applies to entities who are required by legislation or regulation, rather than choice, to present general purpose prospective financial statements that comply with GAAP; and
• That the standard applies to general purpose prospective GAAP financial statements rather than all prospective financial information.
The NZASB continues to encourage entities who are not required by legislation or regulation to present general purpose prospective financial statements that comply with GAAP to apply the requirements of the standard.</td><td colspan="4"></td></tr>
<tr><td>Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28)</td><td>1 Jan 2020</td><td>O</td><td>O</td><td>O</td></tr>
<tr><td>The amendments clarify that in a transaction involving an associate or joint venture, the extent of the gain or loss recognised is dependent upon whether the assets sold or contributed constitute a business, as defined in NZ IFRS 3 Business Combinations.
A gain or loss is recognised in full where an entity:
• sells or contributes assets constituting a business to a joint venture or associate; or
• loses control of a subsidiary that contains a business but retains joint control or significant influence.
Where the sold or contributed assets do not constitute a business, or where the subsidiary over which control was lost does not contain a business then the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate, i.e. the entity's share of the gain or loss is eliminated.
Originally the amendments were to apply prospectively to annual periods beginning on or after 1 January 2016. However, the IASB has decided to postpone the effective date indefinitely in order to complete its research project on equity accounting (which may include further clarifications to these amendments). Since the Financial Reporting Act 2013 requires all accounting standards issued in New Zealand to have an effective date, the NZASB has decided on an effective date of 1 January 2020 (which will be reassessed in accordance with the IASB's decision on the matter). Early application of the amendments is still permitted.</td><td colspan="4">IFRS in Focus Newsletter
IFRS in Focus Newsletter - deferral of effective date</td></tr>
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New Pronouncement	Effective date*	Year ending		Interim ending
		Mar 2018	Jun 2018	Jun 2018
NZ IFRS 17 *Insurance Contracts*	1 Jan 2021	O	O	O

IFRS in Focus Newsletter

NZ IFRS 17 *Insurance Contracts* has been issued to replace NZ IFRS 4.

The scope of NZ IFRS 17 differs from NZ IFRS 4 because it introduces:

- a requirement that in order to apply the insurance standard to investment contracts with discretionary participation features, an entity has to also issue insurance contracts; and
- an option to apply NZ IFRS 15 *Revenue from Contracts with Customers* to fixed-fee contracts, provided certain criteria are met.

NZ IFRS 17 requires entities to identify portfolios of insurance contracts which are subject to similar risks and managed together. Each portfolio shall be divided into a minimum of three groups:

- a group of contracts that are onerous at initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

An entity is not permitted to include contracts issued more than one year apart in the same group. Furthermore, if a portfolio would fall into different groups only because law or regulation 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 standard measures insurance contracts either under the general model or a simplified version of this called the *Premium Allocation Approach*.

The general model is defined such that at initial recognition an entity shall measure a group of contracts at the total of:

- the amount of fulfilment cash flows ("FCF"), which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money ("TVM") and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and
- the contractual service margin ("CSM").

On subsequent measurement, the carrying amount shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM of the group at that date. The liability for incurred claims is measured as the FCF related to past services allocated to the group at that date.

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the *premium allocation approach* on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or the coverage period of each contract in the group is one year or less.

The new Standard may also result in changes to presentation in the statement of financial performance.

NZ IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted if both NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 9 *Financial Instruments* have also been applied.

An entity shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

At the date of initial application of the standard, those entities already applying NZ IFRS 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the standard.

Appendix A – Shedding light on the disclosures required

NZ IFRS requires disclosures in relation to all the new or revised Standards and Interpretations that have had or may have a material impact on the annual financial report of the entity, **whether they have been adopted or not.** The requirements for interim financial reports are less onerous but must still be considered.

The disclosure requirements surrounding new or revised accounting pronouncements are specified by:

- for annual reporting periods – NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- for interim reporting periods – NZ IAS 34 *Interim Financial Reporting.*

Entities reporting under NZ IFRS RDR (Tier 2 entities) are permitted exemptions from certain disclosures as noted below.

What disclosures are required?

Applicability of new or revised pronouncement	Summary of disclosures required	
	Annual financial report	**Interim financial report**
Initial mandatory or voluntary application of a new or revised pronouncement	The relevant pronouncement, the nature of the change in accounting policy, details of any transitional provisions, line-by-line analysis of the effect of the change in policy on the financial statements and the impacts on earnings per share. *Tier 2 entities would not need to disclose details of transitional provisions.* (NZ IAS 8.28) When initial application has not had a material impact on the financial statements (and is also not expected to have a material impact in future periods), an entity may wish to include a generic disclosure such as: *"All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements."*	The nature and effect of any change in accounting policy compared with the most recent annual financial report. (NZ IAS 34.16A(a)) NZ IAS 34 does not specify the level of detail of the disclosures required, and accordingly the level of detail may be less than is presented in an annual financial report in accordance with NZ IAS 8. However, best practice might suggest that the requirements of NZ IAS 8 be used as a guide. An IFRS in Focus Newsletter with more details can be found **here**.
Pronouncement on issue but not adopted	The financial report must disclose which pronouncements have been issued but not adopted in the financial report, when the pronouncements have mandatory application, when those pronouncements are going to be applied by the entity and the possible impact on the entity's financial report (where known or reasonably estimable). The tables within the body of this update could be reviewed to identify such pronouncements for periods ending 31 March 2018 or 30 June 2018 (updated to 5 June 2018). The FMA has issued an alert highlighting the importance of full, accurate and timely disclosure of the known or reasonably estimable information about the possible impact on financial statements. Find the FMA's guidance in their FAQs **here**. When initial application is genuinely not expected to have a material impact on the financial statements, an entity may wish to include a generic disclosure such as: *"There are a number of Standards, Amendments and Interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become mandatory. None are expected to result in a material impact on the Company's financial statements."* *Tier 2 entities are exempt from these disclosures.* (NZ IAS 8.30-31)	The impacts of new or revised accounting pronouncements that have not been early adopted are not explicitly required to be disclosed in interim financial reports. Entities should consider making additional disclosures where the effects of these pronouncements are expected to be material and those effects have not been previously disclosed in the prior annual financial report. *Tier 2 entities are exempt from these disclosures in an annual financial report, and accordingly would also be exempt at the interim period.*

Example disclosures can be found in our New Zealand model financial statements (which also illustrates the RDR disclosure concessions for Tier 2 entities) **here**. Tier 2 model financial statements can be found **here**. Our Tier 2 disclosure checklist (which includes the disclosure requirements on first-time adoption of NZ IFRS RDR) can be found **here**.

Deciding on the early adoption of Interpretations

Interpretations that merely interpret the requirements of existing Standards are often considered best practice and so would ordinarily be adopted at an entity's next reporting date or at the mandatory adoption date.

Other Interpretations that effectively introduce new recognition and measurement requirements not explicitly covered under existing Standards might not ordinarily be early adopted, particularly where they change established industry practice and/or require substantial effort to implement.

Accordingly, where an Interpretation is on issue but is not yet mandatory, entities should carefully consider the requirements of each Interpretation and its potential impacts when making a decision whether early adoption is appropriate.

Do the annual disclosures extend to pronouncements issued by the IASB/IFRIC where an equivalent New Zealand pronouncement has not been approved at the date of signing the financial report?

Yes

Although not technically required by paragraph 30 of NZ IAS 8, for-profit entities should disclose the information required by that paragraph (where material) in relation to a Standard or Interpretation issued by the IASB/IFRIC where an equivalent New Zealand Standard or Interpretation has not been approved at the date of signing the financial report. This approach ensures that the entity can make an unreserved statement of compliance with IFRS as required by paragraph 16 of NZ IAS 1 *Presentation of Financial Statements.*

As at 5 June 2018, there were no amendments or interpretations that were approved by the IASB but not yet approved in New Zealand.

Appendix B – Annual Improvements

The IASB undertakes an annual project to pass necessary but non-urgent amendments to Standards and Interpretations. This appendix includes a list of the Standards affected and subject matters of the amendments passed in the IASB's annual improvement projects as follows:

2014-2016 cycle:

NZ IFRS	Subject of amendment
NZ IFRS 1 *First-time adoption of International Financial Reporting Standards*	The short-term exemptions in paragraphs E3 to E7, which relate to disclosures about financial instruments, employee benefits and investment entities, have been deleted, as they were available only for certain reporting periods already passed.
NZ IFRS 12 *Disclosure of Interests in Other Entities*	Clarifies that an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities that are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations are within the scope of NZ IFRS 12. However, the disclosure requirements in paragraphs B10 – B16 (i.e. the summarised financial information) do not apply to those entities.
NZ IAS 28 *Investments in Associates and Joint Ventures*	Clarifies that upon initial recognition, a venture capital organisation (or other qualifying entity) can elect to measure an investment in an associate or joint venture at fair value through profit or loss on an investment-by-investment basis.

(The amendments to NZ IFRS 12 are applicable for periods beginning on or after 1 January 2017. The amendments to NZ IFRS 1 and NZ IAS 28 are applicable for periods beginning on or after 1 January 2018.)

2015-2017 cycle:

NZ IFRS	Subject of amendment
NZ IFRS 3 *Business Combinations*	Clarifies that when an entity obtains control of a business that is a joint operation, then it remeasures interests previously held in that business.
NZ IFRS 11 *Joint Arrangements*	Clarifies that when an entity obtains joint control of a business that is a joint operation, then it does not remeasure interests previously held in that business.
NZ IAS 12 *Income Taxes*	Clarifies that all income tax consequences of dividends should be recognised in profit and loss, regardless of how the tax arises.
NZ IAS 23 *Borrowing costs*	Clarifies that when calculating the capitalisation rate on general borrowings, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, then that borrowing becomes part of the funds that the entity borrows generally.

(Applicable for periods beginning on or after 1 January 2019.)

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