



Accounting Alert

Quarterly update – For-profit entities

Connect to what's new in financial reporting for March 2023

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 31 March 2023. Information is also included for December 2022 year-ends for entities who are still finalising their financial statements. [➔](#)

Financial reporting standards update

Four new financial reporting standards or amendments are effective for the financial year ending 31 March 2023 including guidance on costs to consider when assessing whether a contract is onerous, a prohibition on deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before the asset is ready for its intended use, and the 2018-2020 Annual Improvements to IFRS Standards, which are outlined at [Appendix B](#). All entities will need to assess the impact of the new standards and amendments and ensure that relevant policies and functionalities are in place to implement the changes. These new standards and amendments also apply for the first time to interim periods ending 31 March 2023.

NZ IFRS 17 Insurance Contracts which applies to insurance contracts issued is a new standard effective 1 January 2023, which entities may wish to consider for early adoption.

The IASB issued narrow-scope amendments to IAS 1 relating to the presentation of [non-current liabilities with covenants](#).

All Tier 1 entities (applying full NZ IFRS) who are yet to adopt standards and amendments that are approved but not yet effective need to consider appropriate disclosure in their annual financial statements.

Importance of disclosures

Judgement will be required to determine what additional disclosure is appropriate to explain the impact of the new standards and amendments on the financial statements.



Our model financial statements for Tier 1 and Tier 2 for-profit New Zealand reporting entities identify areas that could be affected by Covid-19 or by emerging risks such as climate change by adding symbols to indicate where disclosures may be needed to explain **how the entity's financial performance or financial position has been**

impacted by Covid-19 or climate change. The model financial statements can be found [here](#).

Russia-Ukraine War

Entities may need to consider the effect of the Russia-Ukraine war on certain accounting and financial reporting matters. Deloitte's [IFRS in Focus](#) publication outlines key considerations, including impairment or disposal of assets (including goodwill), loss of control of operations, restructuring plans, foreign currency matters, and other material judgements and estimates.

Climate-related disclosures



Financial statement preparers must consider the accounting implications of climate change as well as the appropriate disclosures to include in the entity's financial statements. See [Page 12](#) for information about reflecting climate risk in financial statements.

The XRB issued its first climate disclosure standards in December 2022 and these are required as early as financial reporting periods beginning on or after 1 January 2023. Refer to [page 13](#) for further information.

Accounting implications of natural disasters

CAANZ has issued guidance on [accounting implications of natural disasters](#). The guidance addresses financial reporting areas including impairment of assets, provisions and post balance date events. This guidance will be useful for entities that were affected by the recent weather events that impacted the country.

The New Zealand Accounting Standards Framework

The Accounting Standards Framework is a two sector (for-profit and public benefit entities (PBE)), multi-tiered Framework. This approach has been adopted 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* (XRB A1) sets out the tiers for reporting, the standards that apply to each tier and the requirements for transitioning between tiers. Each reporting period, entities should consider whether there have been any changes to the business that would result in a change in reporting or audit requirements. These could include:

- Changes in ownership (such as an increase in the number of shareholders or proportion of overseas ownership)
- Increases in revenue or assets through growth, business combinations or capital raises.



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](#).

FMA guidance on proper accounting records

The FMA recently issued a document for FMC reporting entities entitled [Guidance and expectations for keeping proper accounting records](#). All FMC reporting entity directors and management should read this document.

For-profit entities: What are the new and revised accounting pronouncements for March 2023?

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 and overleaf outline the new and revised pronouncements that are either to be applied for the first time for a 31 March 2023 annual or interim reporting period, or may be early adopted at that date¹. 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](#).

The information below was updated on 14 March 2023 for developments to that date. Further information on each pronouncement can be found in the next section. [»»](#)

New pronouncements	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to NZ IFRS 16)</i>	1 Apr 2021	M	M ²	M ²
<i>Property, plant and equipment – Proceeds before Intended Use (Amendments to NZ IAS 16)</i>	1 Jan 2022	M	M	M
<i>Annual Improvements to NZ IFRS Standards 2018-2020</i>	1 Jan 2022	M	M	M
<i>Reference to the Conceptual Framework (Amendments to NZ IFRS 3)</i>	1 Jan 2022	M	M	M
<i>Onerous Contracts – Cost of Fulfilling a Contract (Amendments to NZ IAS 37)</i>	1 Jan 2022	M	M	M
NZ IFRS 17 Insurance Contracts	1 Jan 2023 ^Y	O	O	O
<i>Amendments to NZ IFRS 17</i>	1 Jan 2023 ^Y	O	O	O
<i>Initial Application of NZ IFRS 17 and NZ IFRS 9 – Comparative Information</i>	1 Jan 2023	O	O	O
<i>Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts (Amendments to NZ IFRS 4)</i>	Refer to page 10 for more detail			
<i>Disclosure of Accounting Policies (Amendments to NZ IAS 1 and IFRS Practice Statement 2)</i>	1 Jan 2023	O	O	O



Key

- O** Optional
- M** Mandatory – first time
- M²** Mandatory in a previous period
- * Annual reporting periods beginning on or after
- ^Y Effective date delayed due to Covid-19

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.

New pronouncements (continued)	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<i>Definition of Accounting Estimates (Amendments to NZ IAS 8)</i>	1 Jan 2023	O	O	O
<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to NZ IAS 12)</i>	1 Jan 2023	O	O	O
<i>Classification of Liabilities as Current or Non-current (Amendments to NZ IAS 1)</i>	1 Jan 2023 ²	O	O	O
<i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>	1 Jan 2024	O	O	O
<i>Lease Liability in a Sale and Leaseback (Amendments to NZ IFRS 16)</i>	1 Jan 2024	O	O	O
<i>Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28)</i>	1 Jan 2025	O	O	O
<i>Editorial Corrections to NZ IFRS</i>	Effective immediately			




Key




- O** Optional
- M** Mandatory – first time
- M²** Mandatory in a previous period
- * Annual reporting periods beginning on or after
- ^Y Effective date delayed due to Covid-19
- ^Z Effective date expected to be delayed to 1 January 2024






Impact of each new and revised pronouncement



The following tables set out information on the impact of the recent new pronouncements (see key on pages 3 and 4).

New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar2023	Mar 2023
<p><i>Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to NZ IFRS 16)</i></p> <p>In June 2020 the NZASB issued an amendment to NZ IFRS 16 providing lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification if all the following conditions were met:</p> <ul style="list-style-type: none"> the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments originally due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. <p>Due to the ongoing nature of the pandemic, the NZASB has extended the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments due on or before 30 June 2021).</p> <p>Lessees that elect to apply the practical expedient are required to account for Covid-19 related rent concessions as if they are not lease modifications and to apply the expedient retrospectively, recognising the cumulative effect of applying the amendment as an adjustment to the opening retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment. In addition, disclosures are also required as to whether the practical expedient has been applied to all eligible contracts, or, if not, information about the nature of the contracts to which the practical expedient has been applied. The amount recognised in profit or loss arising from the concessions to which the practical expedient has been applied must also be disclosed</p>	1 Apr 2021	M	M ²	M ²
 IFRS in Focus Newsletter				

New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<p><i>Property, Plant and Equipment – Proceeds before Intended Use (Amendments to NZ IAS 16)</i></p> <p>The amendments 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, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, the sales proceeds and related costs should be recognised in the profit or loss.</p> <p>Disclosures are required for the amounts of the proceeds and cost included in the profit or loss that relate to items produced that are not outputs of an entity's ordinary activities (if not presented separately), including which line item(s) in the statement of comprehensive income include such proceeds and cost.</p> <p>The amendments also clarify that 'testing whether an asset is functioning properly' means assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.</p> <p>Entities should apply the amendments retrospectively but only to items of property, plant and equipment that are 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. Early application is permitted.</p>	1 Jan 2022	M	M	M
		 IFRS in Focus Newsletter		
<p><i>Annual Improvements to NZ IFRS Standards 2018-2020</i></p> <p>These amendments include the following:</p> <ul style="list-style-type: none"> • Subsidiary as a first-time adopter (Amendment to NZ IFRS 1) • Fees in the '10 per cent' test for derecognition of financial liabilities (NZ IFRS 9) • Lease incentives (Amendment to NZ IFRS 16) • Taxation in fair value measurements (NZ IAS 41 <i>Agriculture</i>) <p>The amendments are discussed in detail in Appendix B.</p>	1 Jan 2022	M	M	M
		 IFRS in Focus Newsletter		
<p><i>Reference to the Conceptual Framework (Amendments to NZ IFRS 3)</i></p> <p>These amendments include:</p> <ul style="list-style-type: none"> • Updating NZ IFRS 3 <i>Business Combinations</i> so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; • Adding a requirement that, for transactions and other events within the scope of NZ IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> or NZ IFRIC 21 <i>Levies</i>, an acquirer applies NZ IAS 37 or NZ IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and • Adding an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. <p>Early application is permitted if the entity also applies all other updated references at the same time or earlier.</p>	1 Jan 2022	M	M	M
		 IFRS in Focus Newsletter		

New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<p><i>Onerous Contracts – Cost of Fulfilling a Contract (Amendments to NZ IAS 37)</i></p> <p>The amendments have clarified that the cost of fulfilling a contract comprises the ‘costs that relate directly to the contract’ which are both:</p> <ul style="list-style-type: none"> incremental costs of fulfilling the contract (e.g. direct materials and labour); and an allocation of other costs that relate directly to fulfilling contracts (e.g. overheads such as allocation of depreciation expense on an item of property, plant and equipment used in fulfilling the contract). <p>Entities should apply the amendments to contracts for which the entity has not yet fulfilled all its obligation at the beginning of the annual reporting period in which the entity applies the amendments. Restatement of comparatives is not allowed. Early application is permitted.</p>	1 Jan 2022	M	M	M
		 IFRS in Focus Newsletter		
<p><i>Classification of Liabilities as Current or Non-current (Amendments to NZ IAS 1) and Non-current Liabilities with Covenants (Amendments to IAS 1)</i></p> <p>In 2020, IAS 1 and NZ IAS 1 were amended to:</p> <ul style="list-style-type: none"> clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period. specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. explain that rights are in existence if covenants are complied with at the end of the reporting period. introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. <p>In October 2022, the IASB published amendments to IAS 1 titled ‘Non-current Liabilities with Covenants’ clarifying that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Additional disclosures are also required that enable users to understand the risk that the liabilities could become repayable within twelve months after the reporting period including information about the nature of the covenants, when they are measured and any facts and circumstances that indicate the entity might have difficulty complying with them.</p> <p>*The 2022 amendments are effective for annual reporting periods beginning on or after 1 January 2024. The IASB also deferred the effective date of the 2020 amendments to 1 January 2024. The XRB is expected to approve the 2022 amendments and defer the effective date of the 2020 amendments in New Zealand to 1 January 2024.</p> <p>The amendments issued affect only the presentation of liabilities as current or non-current in the statement of financial position. These are to be applied retrospectively. Early application is permitted.</p>	1 Jan 2024*	○	○	○
		 IFRS in Focus Newsletter (2020 amendments) iGAAP in Focus Newsletter (2022 amendments)		

New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
NZ IFRS 17 Insurance Contracts	1 Jan 2023	○	○	○
<p>NZ IFRS 17 Insurance Contracts has been issued to replace NZ IFRS 4.</p> <p>The scope of NZ IFRS 17 differs from NZ IFRS 4 because it introduces:</p> <ul style="list-style-type: none"> 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 <i>Revenue from Contracts with Customers</i> to fixed-fee contracts, provided certain criteria are met. <p>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:</p> <ul style="list-style-type: none"> 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. <p>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.</p> <p>The standard measures insurance contracts either under the general model or a simplified version of this called the <i>Premium Allocation Approach</i>.</p> <p>The general model is defined such that at initial recognition an entity shall measure a group of contracts at the total of:</p> <ul style="list-style-type: none"> 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"). <p>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.</p> <p>An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the <i>premium allocation approach</i> 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.</p> <p>The new Standard may also result in changes to presentation in the statement of financial performance.</p>	 <p>IFRS in Focus Newsletter</p> <p>IAS Plus – Transition Resource Group for IFRS 17</p> <p>IFRS in Focus Newsletter – Amendments to IFRS 17</p>			

New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<p>On 13 August 2020, the NZASB issued the <i>Amendments to NZ IFRS 17</i>, which includes deferral of NZ IFRS 17's effective date to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted if NZ IFRS 9 has also been applied. Other amendments to NZ IFRS 17 are discussed below.</p> <p>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.</p> <p>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.</p>				
Amendments to NZ IFRS 17	1 Jan 2023	○	○	○
<p>The other amendments to NZ IFRS 17 include the following:</p> <ul style="list-style-type: none"> • Scope exclusion for credit card contracts and similar contracts and optional scope exclusion for loan contracts with insurance coverage limited to the loan amount; • Recognition of insurance acquisition cash flows relating to expected contract renewals, including guidance for insurance acquisition cash flows recognised in a business combination; • Application of NZ IFRS 17 in interim financial statements; • Allocation of CSM attributable to investment-return service and investment-related service; • Risk mitigation option using instruments other than derivatives; • Recovery of losses from underlying insurance contracts through reinsurance contracts held; • Presentation in the statement of financial position; • Transition issues: classification of contracts acquired in their settlement period and guidance on the restatement of the risk mitigation option applied in prior periods; and • Minor application issues. • Entities should apply the amendments retrospectively in accordance with NZ IAS 8. Earlier application is permitted. 	 IFRS in Focus Newsletter			
Initial Application of NZ IFRS 17 and NZ IFRS 9 – Comparative Information	1 Jan 2023	○	○	○
The amendments will help insurers avoid temporary accounting mismatches due to different transition requirements in NZ IFRS 17 and NZ IFRS 9 <i>Financial Instruments</i> .	 IFRS in Focus Newsletter			
Editorial Correction to NZ IFRS		Effective immediately		
The XRB issued editorial corrections in December 2022. Editorial corrections revise minor inaccuracies, including misspellings and numbering or grammatical mistakes. The correction issued in December 2022 relates to NZ IFRS 17.				




New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<p>Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts (Amendments to NZ IFRS 4)</p> <p>For insurers (other than those entities that apply Appendix C <i>Life Insurance Entities</i> or Appendix D <i>Financial Reporting of Insurance Activities</i> of NZ IFRS 4 <i>Insurance Contracts</i>), 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:</p> <ul style="list-style-type: none"> a temporary exemption from applying NZ IFRS 9 (i.e. the deferral approach); or an overlay approach. <p>The temporary exemption from applying NZ IFRS 9 expires on the effective date of NZ IFRS 17.</p> <p><i>Because the amendments are not available to entities using Appendix C or Appendix D, application is not expected to be widespread in New Zealand.</i></p>	Effective date depends on when NZ IFRS 9 is first applied.			
<p>Disclosure of Accounting Policies (Amendments to NZ IAS 1 and IFRS Practice Statement 2)</p> <p>The amendments are issued by the NZASB as part of the IASB's overall disclosure initiative project which aims to help preparers in deciding which accounting policies to disclose in their financial statements. Entities are now required to disclose their 'material' accounting policies instead of 'significant' accounting policies. Further amendments to NZ IAS 1 are made to explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material have been added.</p> <p>The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and that accounting policy information may be material because of its nature, even if the related amounts are immaterial.</p> <p>To support the amendments, the IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.</p> <p>The amendments are applied prospectively with earlier application permitted.</p>	1 Jan 2023	○	○	○
<p>Definition of Accounting Estimates (Amendments to NZ IAS 8)</p> <p>The definition of "change in accounting estimates" is replaced with a definition of "accounting estimates". Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments also clarify that:</p> <ul style="list-style-type: none"> a change in accounting estimate that results from new information or new developments is not the correction of an error; and the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. <p>The amendments are effective for changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Earlier application is permitted</p>	1 Jan 2023	○	○	○



IFRS in Focus Newsletter



IFRS in Focus Newsletter

New pronouncement	Effective date*	Year ending		Interim ending
		Dec 2022	Mar 2023	Mar 2023
<p><i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to NZ IAS 12)</i></p> <p>The amendments introduce an exception to the initial recognition exemption in NZ IAS 12. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.</p> <p>The amendments apply to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, and decommissioning obligations and corresponding amounts recognised as assets. Any resulting adjustment is recognised at the beginning of the earliest comparative period presented.</p> <p>The amendments also apply to other transactions that occur on or after the beginning of the earliest comparative period presented. Early application of the amendments is permitted.</p>	1 Jan 2023	0	0	0
		 IFRS in Focus Newsletter		
<p><i>Lease Liability in a Sale and Leaseback (Amendments to NZ IFRS 16)</i></p> <p>The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in NZ IFRS 15 <i>Revenue from Contracts with Customers</i> to be accounted for as a sale.</p> <p>The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. The amendment is fully retrospective to sale and leaseback transactions entered into after the date of initial application.</p>	1 Jan 2024	0	0	0
		 iGAAP in Focus Newsletter		
<p><i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28)</i></p> <p>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.</p> <p>A gain or loss is recognised in full where an entity:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Originally the amendments were to apply prospectively to annual periods beginning on or after 1 January 2016. However, the IASB postponed the effective date indefinitely 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 2025 (which will be reassessed in accordance with the IASB's decision on the matter). Early application of the amendments is still permitted.</p>	1 Jan 2025	0	0	0
		 IFRS in Focus Newsletter IFRS in Focus Newsletter – deferral of effective date		

Reflecting climate risk in financial statements

Climate change is an urgent risk that entities around the world are already facing. With growing pressure from investors and other stakeholders, as well as increased government activity, entities must take action to consider and provide meaningful and useful disclosure about climate-related risks that could impact the entity and how management are responding to these risks.

The IFRS Foundation has issued educational materials on the [Effects of climate-related matters on financial statements](#). The International Public Sector Accounting Standards Board (IPSASB) staff have also issued a [Q&A publication on climate change](#).

As New Zealand financial reporting standards are based on IASB and IPSASB developed standards, the guidance is also relevant for financial statements prepared in accordance with NZ Generally Accepted Accounting Practice (NZ GAAP).

Preparers of financial statements must consider the **accounting implications of climate change** as well as the appropriate **disclosures** to include in the entity's financial statements, including the **consistency of that disclosure** with other information in the annual report.

Impacts to measurement and recognition

The risks and uncertainties arising from climate change are likely to have some impact on the financial statements of all entities, whether directly, or indirectly (through the supply / value chain).

For example, climate change could result in:

- changes to assumptions in forecasts when considering asset impairment, including for goodwill,
- effects on impairment calculations because of increased costs or reduced demand,
- changes in the useful life of assets,
- changes in the fair values of assets,
- changing availability of future tax profits when assessing recoverability of deferred tax assets,
- changes in provisions for onerous contracts because of increased costs or reduced demand,
- changes in provisions and contingent liabilities arising from fines and penalties,
- changes in expected credit losses for loans and other financial assets, and
- new financing arrangements and terms to be considered.

Forecasts used to assess going concern over a period of at least 12 months from the date of signing the financial statements may also be significantly affected in some cases. The likelihood and extent of impact will require judgement because there is significant uncertainty as to how much the global temperature will increase, what the impact of different climate change scenarios on an entity's business might be, and how these factors may result in changes to cash flow projections or to the level of risk associated with achieving those cash flows.

Assumptions made will need to be consistent with:

- risk management, strategy, and business model disclosure,
- commitments made by the company to investors and other stakeholders,
- commitments made by governments of jurisdictions in which the company operates, e.g., the NZ Government's commitment to 'net zero by 2050' and a carbon neutral public sector by 2025, and
- other disclosures made by the entity (such as the new climate-related disclosures issued by the XRB or other ESG reporting).



If your organisation has made climate commitments, the financial impact of these commitments should be reflected in any related accounting estimates and disclosures.

Increased Disclosure

Investors, regulators, and other stakeholders are also increasingly demanding better disclosures on climate change matters and challenging entities who are not factoring the effects of climate change into their critical accounting judgements.

Accounting standards note that *"information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements"* (NZ IAS 1).

If investors could reasonably expect that climate-related risks (or other emerging risks) will have a significant impact on the entity and this would qualitatively influence investors' decisions, then information on the climate or other assumptions made should be disclosed (if not disclosed elsewhere), including information about the sensitivity of those assumptions. Such disclosure may be necessary, even if the effects of climate change on the entity are not expected in the short term.

[IFRS Practice Statement 2: Making Materiality Judgements](#) provides guidance and examples that help preparers in making materiality judgements.



Climate disclosures in the financial statements should be consistent with information provided elsewhere, for example in management discussions in the annual report and information on the organisation's website.

Reflecting climate risk in financial statements (continued)

Observations

Some entities may consider that climate change is a long-term issue and not relevant to current decision making. However, investors globally are making it clear that climate risk information, along with other ESG risks, are important to their decision making and allocation of capital resources.

Government actions to incentivise market action on climate change or penalise high carbon activities also bring forward the financial impacts of climate change for many entities.

Directors are also being increasingly held accountable for the entity's climate impacts and actions as noted in the May 2019 [Climate Change and the Law](#) report issued by Hon Chief Justice Helen Winkelmann, Hon Justice Susan Glazebrook and Hon Justice Ellen France of the Supreme Court of New Zealand to the Asia Pacific Judicial Colloquium where they stated that "Climate change is no longer an ethical issue. As a material financial risk, directors are accountable under care and diligence duties to take account of the financial consequences of climate change..."

Entities that are not well advanced in considering climate risks will need time to debate and pinpoint the risks that have a material impact on the financial statements, but action needs to be taken now.

Entities should consider both quantitative and qualitative impacts that could influence investor or other stakeholder decisions and start discussing where they are in their journey with those parties.

Consider:

- What would your future cash flow projections look like? (customer demand, increasing costs, changes to cost of capital etc.)
- How and when will your existing assets be replaced?
- Do you need to provide now for the cost of future action arising from climate-related risks?
- Can your debtors pay? Make a forward-looking assessment.

Climate scenario analysis, ESG risk evaluations, stress testing, sensitivity analysis or credit risk assessments may be needed to assess the business implications of climate risks and opportunities. How this is disclosed in a way that highlights the important information for investors without overwhelming them with too much data will be important.

Climate-related disclosures

The XRB issued its first climate disclosure standards in December 2022. The standards are effective for annual reporting periods beginning on or after 1 January 2023.

These standards affect the following types of entities known as Climate Reporting Entities (CREs):

- Large, listed companies with a market capitalisation of more than \$60 million
- Listed issuers of quoted debt securities with a combined face value of quoted debt exceeding \$60 million
- Large, licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than \$1 billion in assets
- Some crown financial institutions (via letters of expectation)

The [FMA guidance page](#) provides fact sheets and flow charts to help determine whether an organisation is a Climate Reporting Entity. The FMA has also released a brief [podcast](#) providing an overview of the new requirements.

Climate Reporting Entities will be required to prepare an annual climate statement that discloses information about the effects of climate change on their business or any fund they manage. They will need to obtain independent assurance about the part of the climate statement that relates to the disclosure of GHG (Greenhouse Gas) emissions, generally in the second year of reporting.

The new Climate Standards issued are:

- [Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures \(NZ CS 1\)](#)

This standard requires disclosures explaining how the entity manages its climate-related risks and opportunities. The disclosure requirements cover four key areas (Governance, Strategy, Risk Management and Metrics and Targets). Entities must obtain assurance over the greenhouse gas emissions disclosures.

- [Aotearoa New Zealand Climate Standard 2: First-time Adoption of Aotearoa New Zealand Climate Standards \(NZ CS 2\)](#)

This standard provides optional disclosure exemptions that entities may apply during the first few periods of climate reporting.

- [Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related Disclosures \(NZ CS 3\)](#)

This standard includes the principles for climate-related disclosures (such as relevance, accuracy, and verifiability), general requirements for how the information is disclosed, and guidance on topics such as materiality and estimation uncertainty.

The XRB expects to release additional supporting guidance shortly. In the meantime, they have provided a [useful resources page](#) to help entities get started.

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 statements	Interim financial statements
Initial mandatory or voluntary application of a new or revised pronouncement	<p>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.</p> <p><i>Tier 2 entities would not need to disclose details of transitional provisions.</i></p> <p>(NZ IAS 8.28)</p> <p>In addition, each standard may have specific transitional provisions with which the entity needs to comply.</p> <p>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:</p> <p><i>“All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements.”</i></p>	<p>The nature and effect of any change in accounting policy compared with the most recent annual financial report.</p> <p>(NZ IAS 34.16A(a))</p> <p>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.</p> <p>An IFRS in Focus Newsletter with more details can be found here.</p>
Pronouncement on issue but not adopted	<p>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).</p> <p>The tables within the body of this update could be reviewed to identify such pronouncements for periods ending 31 December 2022 or 31 March 2023 (updated to 14 March 2023).</p> <p>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:</p> <p><i>“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.”</i></p> <p>Tier 2 entities are exempt from these disclosures.</p> <p>(NZ IAS 8.30-31)</p>	

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 deciding 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. *2019 Omnibus Amendments to NZ IFRS* has amended FRS 44 to require for-profit entities to disclose the information required by paragraphs 30 and 31 of NZ IAS 8 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 14 March 2023, *Non-current Liabilities with Covenants (Amendments to IAS 1)* was approved by the IASB but has not yet been approved in New Zealand. Information about this amendment is included [here](#).



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:

2018-2020 cycle

NZ IFRS	Subject of amendment
NZ IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Subsidiary as first-time adopter. The amendment permits a subsidiary that becomes a first-time adopter later than its parent and elects to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements in accordance with paragraph D16(a) of NZ IFRS 1 to extend the relief to cumulative translation differences for all foreign operations. The subsidiary can now elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to NZ IFRS.
NZ IFRS 9 <i>Financial Instruments</i>	Fees in the '10 per cent' test for derecognition of financial liabilities. The amendment clarifies that the fees to be included when an entity applies the '10 per cent' test in assessing whether to derecognise a financial liability are only those fees paid or received between the entity (borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. This amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
NZ IFRS 16 <i>Leases</i>	Lease incentives. The amendment removes from Illustrative Example 13 the illustration of the reimbursement relating to leasehold improvements to resolve any potential confusion regarding the treatment of lease incentives.
NZ IAS 41 <i>Agriculture</i>	Taxation in fair value measurements. The amendment removes the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique following the amendment in 2008 removing the requirement to use pre-tax discount rates, which ensures consistency with the requirements of NZ IFRS 13 to use internally consistent cash flows and discount rates (pre-tax or post-tax). This amendment should be applied prospectively.

The amendments to NZ IFRS 1, NZ IFRS 9 and NZ IAS 41 are all effective for annual periods beginning on or after 1 January 2022. Early application is permitted. As the amendment to NZ IFRS 16 pertains to an illustrative example, no effective date is stated.

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