ltr

New Accounting Standards and Interpretations for New Zealand Tier 1 Public Sector and Not-for-Profit Public Benefit Entities (PBEs)

For 31 December 2023 year-end reports

New and changed requirements

We provide you with an overview of the accounting pronouncements, for Public Benefit Entities (PBEs), issued as of 31 December 2023 which:

- **Must** be applied for the first time for 31 December 2023 year-ends. **They are contained in yellow boxes.**
- **May** be applied early for 31 December 2023 year-ends if specific criteria are met. **They are contained in grey boxes.**

Implementing new accounting standards often impacts entities beyond their financial reporting functions. We hope that this publication will:

- Support you in having better conversations about accounting changes with your stakeholders
- Help you respond in a timely manner to all accounting changes in your next financial report
- Keep you focused on future changes in financial reporting and their impact on your implementation efforts

Accounting change disclosures

Financial statements are required to:

- Present the impact of the initial application of new accounting standards applied
- Disclose the possible impact of the initial application of forthcoming accounting standards not yet applied, or if the impact is not known or estimable, a statement to that effect

Please note that Tier 2 PBEs applying the *Reduced Disclosure Requirements* are not required to disclose the possible impact of accounting pronouncements issued but adoption has not yet commenced.

Remain alert to further changes

This publication is updated as of 30 November 2023. Any pronouncements issued afterwards (up until the date of authorisation of your financial report) must also be considered. EY Eye on Reporting publications will keep you informed of further changes.

Contents

Catalogue of new accounting pronouncements issued as of 30 November 2023

New pronouncements[1] that must be applied for 31 December2023 year-ends	Commencement date[2]	Application date[3]	Page
PBE IFRS 17 *Insurance Contracts*[4] - Not-for-profits	1 January 2023	1 January 2023	5
Amendments to PBE IFRS 17 – Initial Application of PBE IFRS 17 and PBE IPSAS 41 – Comparative Information [4] – Not-for-profits	1 January 2023	1 January 2023	6
2022 Omnibus Amendments to PBE Standards [5]	1 January 2023	1 January 2023	
▸ Amendments to PBE IPSAS 19			8
▸ Amendments to PBE IPSAS 17			8
▸ Amendments to PBE IAS 12			9
▸ Amendments to PBE IPSAS 27			9

New pronouncements that may be applied early for 31 December2023 year-ends if specific requirements are met[6]	Commencement date	Application date	Page
Amendments to PBE IPSAS 1 - Disclosure of Fee for Audit Firms' Services	1 January 2024	1 January 2024	10
Amendments to PBE IFRS 17 - Insurance Contracts in the Public Sector[4]	1 January 2026	1 January 2026	7

[1] For full access to PBE Standards please visit https://www.xrb.govt.nz/.
[2] Commences annual reporting periods beginning on or after this date.
[3] Assuming that the entity has not early adopted the pronouncement according to specific provisions in the Standard.
[4] PBE IFRS 17 *Insurance Contracts* and its amendments apply to not-for-profit public benefit entities and Public Sector PBEs that have elected to early apply PBE IFRS 17 where criteria for early application is met. The amendments to PBE IFRS 17 issued in 2023 make PBE IFRS 17 applicable to public sector entities from 1 January 2026.
[5] *2022 Omnibus Amendments to PBE Standards* also amended the application guidance or the implementation guidance in some other standards to clarify certain requirements which are not included in this publication, for full access to the amendments, please visit 2022 Omnibus Amendments to PBE Standards » XRB
[6] The ability to early adopt new standards and amendments will depend on the specific commencement and application date requirements of each new standard or amendment.

Catalogue of IFRIC agenda decisions

Insurance contracts

PBE IFRS 17 Insurance Contracts (only applies to not-for-profit PBEs)

Commences to apply for annual reporting periods beginning on or after 1 January 2023

This Standard was issued in July 2019 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

PBE IFRS 17 applies to **not-for-profit** PBEs ONLY and is relevant for all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entity that issues them, as well as to certain guarantees, and financial instruments with discretionary participation features.

PBE IFRS 17 provides a comprehensive accounting model for insurance contracts. The core of PBE IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of insurance liabilities at the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- The concept of a Contractual Service Margin (CSM), representing the unearned profit on the insurance contracts to be recognised in profit or loss over the coverage period
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period
- The effect of changes in discount rates is reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet

Entities are required to adopt PBE IFRS 17 using the full retrospective approach, however, if this is impracticable for a group of insurance contracts, either the modified retrospective approach or fair value approach may be used.

PBE IFRS 17 will be mandatory from 1 January 2023 for not-for-profit PBEs, with early adoption permitted, if requirements are met, for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17.

Resources

Insurance Accounting Alert September 2023

Insurance Accounting Alert March 2023

Insurance contracts

Amendments to PBE IFRS 17 Insurance Contracts – Initial Application of PBE IFRS 17 and PBE IPSAS 41 – Comparative Information

Commences to apply for annual reporting periods beginning on or after 1 January 2023

When insurers apply PBE IFRS 17 and PBE IPSAS 41 for the first time in 2023[7], PBE IFRS 17 requires restatement of comparatives. However, under PBE IPSAS 41, insurers may restate the comparatives only when hindsight is not required but cannot restate for financial assets derecognised before the application date of PBE IPSAS 41. The accounting mismatch caused by financial assets derecognised during the comparative period is potentially significant and could make financial statements more difficult to understand.

The NZASB amended PBE IFRS 17 to add a transition option "classification overlay". The overlay addresses the above accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of PBE IFRS 17.

If an entity elects to apply the classification overlay, it can only do so for comparative periods to which it applies PBE IFRS 17 (i.e., from transition date to the date of initial application of PBE IFRS 17). An entity that applies the classification overlay to a financial asset should:

- Use reasonable and supportable information available at the transition date to determine how the entity expects a financial asset would be classified and measured on initial application of PBE IPSAS 41 (for example, using preliminary assessments performed to prepare for initial application of PBE IPSAS 41)
- Present comparative information as if the classification and measurement requirements of PBE IPSAS 41 had been applied to that financial asset

Resources

Insurance Accounting Alert December 2021

[7] Entities that have already applied PBE IPSAS 41 are allowed, or in some cases required, under the transition guidance in PBE IFRS 17, to redesignate financial assets on initial application of PBE IFRS 17 in order to reduce accounting mismatches. However, this redesignation cannot be applied to financial assets derecognised in the comparative period, since it applies only from the date of initial application of PBE IPSAS 41. The classification overlay can also be applied to such financial assets for the purpose of presenting comparative information, as if the redesignation guidance in PBE IFRS 17 had been applied to them based on how the entity expects the assets would be designated at the date of initial application of PBE IFRS 17.

Insurance contracts

Amendments to PBE IFRS 17 - Insurance Contracts in the Public Sector

Commences to apply for annual reporting periods beginning on or after 1 January 2026.

The amending standard Insurance Contracts in the Public Sector adds public sector modifications to PBE IFRS 17 *Insurance Contracts* to include public sector entities within its scope from periods beginning on or after 1 January 2026.

Amendments are also made to ensure the Standard is suitable for this sector. This includes the following modifications:

- Information on how to identify arrangements to which PBE IFRS 17 should apply – specifically when an arrangement is in substance a contract
- Specific exemptions relating to sub-grouping contracts. Public sector entities are not required to divide contracts into onerous, no possibility of being onerous and all remaining contracts. A public sector entity is also not required to sub-group insurance contracts based on the date they were issued. The portfolio of insurance contracts will be the unit of account
- An amendment to the timing of initial recognition. A public sector entity will recognise an insurance contract at the earlier of the beginning of the coverage period and the date when the first payment is due
- Guidance on coverage periods in the public sector
- An accounting policy choice to allow the public sector to apply the premium allocation approach to all insurance contracts
- Additional application guidance with specific public sector examples

Early application is permitted if requirements are met. These amendments require comparative information to be provided in respect of the preceding accounting period.

Resource

Insurance Contracts in the Public Sector

Other topics

Amendments to PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Commences to apply for annual reporting periods beginning on or after 1 January 2023

PBE IPSAS 19 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable cost is the lower of the:

- Cost of fulfilling the contract and
- Any compensation or penalties arising from failure to fulfil it

PBE IPSAS 19 does not specify which costs to include in determining the cost of fulfilling a contract. Consequently, PBE IPSAS 19 was amended to clarify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises all costs that relate directly to the contract, which includes both the:

- Incremental costs of fulfilling that contract (e.g., materials and labour) and
- An allocation of other costs that relate directly to fulfilling contracts (e.g., depreciation of property, plant and equipment)

An entity shall apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

Comparative information is not restated. Instead, the cumulative effect of initially applying the amendments is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Early application is permitted if specific requirements are met.

Amendments to PBE IPSAS 17 Property, Plant and Equipment

Commences to apply for annual reporting periods beginning on or after 1 January 2023

Under PBE IPSAS 17 *Property, Plant and Equipment*, net proceeds from selling items produced while constructing an item of property, plant and equipment[1] are deducted from the cost of the asset. The research indicated practical diversity in interpreting this requirement. As a result, PBE IPSAS 17 was amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment, the proceeds from selling items produced before that asset is available for use. An entity is also required to measure production costs of the sold items by applying PBE IPSAS 12 *Inventories*. Proceeds from selling any such items, and the cost of those items, are recognised in profit or loss in accordance with applicable standards.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are 'ready to use' on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments – 'ready to use' meaning the asset is in the location and condition necessary to be capable of operating in the manner intended by management.

Early application is permitted if specific requirements are met.

Return to the content page

Other topics

Amendments to PBE IAS 12 Income taxes

Commences to apply for annual reporting periods beginning on or after 1 January 2023.

The amendment narrows the scope of the recognition exemption under PBE IAS 12 *Income Taxes* so that it would not apply to transactions that give rise to equal amounts of taxable and deductible temporary differences.

Such situations can arise on the recognition of a leased asset and the associated lease obligation when commencing a finance lease for a lessee. It can also arise on the recognition of decommissioning, restoration and similar liabilities with corresponding amounts included in the cost of the related asset.

The amendment clarifies that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

In the amended standard, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leased asset and lease obligation under a finance lease (or other liability and asset such as decommissioning obligations) gives rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which is expected to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in surplus or deficit.

Earlier application is permitted if specific requirements are met.

Amendments to PBE IPSAS 27 Agriculture

Commences to apply for annual reporting periods beginning on or after 1 January 2023.

When using a present value technique to measure fair values of assets within the scope of PBE IPSAS 27 *Agriculture*, taxation cash flows are not included. PBE IPSAS 27 does not prescribe an entity to use a particular present value technique to measure fair value, it requires assumptions about cash flows and discount rates to be internally consistent. Depending on facts and circumstances, an entity applying a present value technique might measure fair value by discounting after-tax cash flows using an after-tax discount rate or pre-tax cash flows at a pre-tax discount rate.

The NZASB has removed from PBE IPSAS 27 the requirement to exclude taxation cash flows when measuring fair value.

Earlier application is permitted if specific requirements are met.

Return to the content page

Other topics

Amendments to PBE IPSAS 1 Disclosure of Fees for Audit Firms' Services

Commences to apply for annual reporting periods beginning on or after 1 January 2024.

The amendments to PBE IPSAS 1 aim to address concerns about the quality and consistency of disclosures an entity provides about fees paid to its audit or review firm for different types of services.

The enhanced disclosures are expected to improve the transparency and consistency of disclosures about fees paid to an entity's audit or review firm.

Entities are required to disclose the fees incurred for services received from their audit or review firm, and a description of each service, using the following specified categories:

- Audit or review of the financial report
- Other non-audit and non-review services:
  - Audit or review related services
  - Other assurance services and other agreed-upon procedures engagements
  - Taxation services
  - Other services

Tier 2 entities have reduced requirements and are required to disclose:

- The total fee incurred for the audit or review of the financial statements; and
- The total fees for any other services together with a general description of those services

Earlier application of the amendments is permitted if specific requirements are met.

Resource

Disclosure of fees for audit firms' services - illustrative example

Interpretations and agenda decisions

The XRB has noted that" although, [the IFRS Interpretations committee's (IFRIC's)] agenda decisions are specifically developed with for-profit entities in mind, PBEs applying Tier 1 or Tier 2 PBE Standards may also consider applicable explanatory material in the IFRIC interpretations and agenda decisions when developing and applying accounting policies in accordance with PBE IPSAS 3". Therefore, on this basis this publication outlines recent activities of the IFRIC for consideration by PBEs.

During calendar year 2022, the IFRIC issued no interpretations. However, it issued several agenda decisions on matters brought to its attention.

Entities need to consider the impact of each agenda decision, based on their circumstances, and possibly adopt a change in policy. Agenda decisions do not have commencement dates and so commence when issued. However, entities are entitled to sufficient time[8] to assess impacts and make required changes.

Below we summarise all IFRIC agenda decisions published during the period from 1 July 2022 to 31 December 2023.

Negative Low Emission Vehicle Credits – July 2022

The IFRIC discussed whether particular government measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In the situation considered, entities receive positive or negative credits for produced or imported vehicles whose average fuel emissions are lower or higher than a government target. Entities are required to eliminate negative credits by surrendering or obtaining, either by purchasing from another entity or by generating more in the next year, positive credits. Failing to eliminate negative credits could result in government — imposed sanctions such as restricting access to the market. The sanctions would not involve fines or penalties, or any other outflow of economic benefit resources. In considering whether an entity that has negative credits has a present obligation that represents an IAS 37 liability, the IFRIC noted that either method of settling the negative credits would result in an outflow of resources.

It also noted that if an entity has produced or imported vehicles that do not meet the government target, an obligation has arisen from past events and exists independently of the entity's future actions.

The IFRIC concluded that the government measures could create a legal obligation if accepting the sanctions for non-settlement is not a realistic alternative for the entity. It also observed, however, that determining whether accepting sanctions is a realistic alternative requires judgement and will depend on the nature of the sanctions and the entity's specific circumstances. If an entity determines that it has no legal obligation to eliminate its negative credits, it will then need to consider whether it has a constructive obligation to do so.

[8] The IASB advised that "sufficient time" will depend on the particular facts and circumstances. Refer IFRS feature article: Agenda decisions -time is of the essence.

It was concluded that IFRS accounting standards provide an adequate basis to determine whether the entity has an obligation that meets the definition of a liability under IAS 37; however, no conclusion was reached for the fact pattern discussed.

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity – July 2022

The IFRIC considered an issue relating to the assessment of shareholders' contractual rights when classifying public shares issued by a SPAC as financial liabilities or equity. A SPAC is a listed entity established to acquire a yet-to-be-identified target entity.

In the fact pattern discussed, a SPAC issues two classes of shares, class A (founder shares) and class B (public shares). Class B shareholders, along with class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired, avoiding a reimbursement of the Class B shares. The question asked is whether the shareholders' decision to extend the SPAC's life is considered to be within the control of the SPAC.

The IFRIC observed that IAS 32 includes no requirements on how to assess whether a decision of shareholders is treated as a decision of the entity, and also acknowledged that similar questions about shareholder decisions arise in other circumstances.

However, the issue has been identified as a practice issue to be considered in the Financial Instruments with Characteristics of Equity (FICE) project.

Transfer of Insurance Coverage under a Group of Annuity Contracts - July 2022

The IFRIC discussed the method to determine the amount of the contractual service margin (CSM) to be recognised in a period for a group of annuity contracts. The amount of CSM recognised needs to reflect the provision of insurance services during the period.

Under the groups of annuity contracts described, policyholders pay the premium upfront with no right to cancel or seek a refund. They receive periodic payments from the start of the annuity period for as long as they survive but receive no other services under the contracts. The group includes both contracts that have an immediate annuity, and those that have a deferred annuity.

In considering an appropriate method for determining the benefits of insurance coverage provided in the current period, and expected to be provided in the future, the IFRIC observed that the benefits of insurance coverage under the contracts are the policyholders' right to claim a periodic amount as long as they survive. The policyholders have no right to claim before the start of the annuity period, and their right to claim in future years is contingent on them surviving in those future years.

The IFRIC considered a method under which the benefits in the current period are determined based on the annuity payments in the current period, and the benefits in the future are determined based on the present value of the annuity payments expected in the future. The IFRIC concluded that such a method met the requirement of IFRS 17 *Insurance Contracts* by assigning the quantity of benefits only to periods in which an insured event (survival) can occur, resulting in a policyholder having the right to claim, and aligning the quantity of benefits in a period with the amount that could be claimed in that period.

The IFRIC also noted that for the annuity contracts described, the entity accepts insurance risk related to the uncertainty about how long the policyholders will survive. The entity would apply other requirements in IFRS 17 to recognise in profit or loss, separately from the CSM, the risk adjustment for that non-financial risk.

Multi-currency Groups of Insurance Contracts -October 2022

The IFRIC considered how an entity accounts for insurance contracts with cash flows in more than one currency. Two specific questions asked were whether currency exchange rate risks should be considered when identifying portfolios of insurance contracts under IFRS 17, and how to apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* in conjunction with IFRS 17 when measuring a multi-currency group of insurance contracts.

In relation to the first question, the IFRIC concluded that an entity is required to consider all risks, including currency exchange rate risks, when assessing whether insurance contracts are "subject to similar risks" for the purpose of identifying portfolios of insurance contracts. However, "similar risks" does not mean "identical risks", and therefore an entity could identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The IFRIC observed that what an entity considers to be "similar risks" will depend on the nature, and extent of risks in the insurance contracts.

In relation to the second question, the IFRIC observed that both IFRS 17, and IAS 21 refer to single currency transactions or items. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items with cash flows in more than one currency.

The IFRIC therefore observed that an entity, based on its specific circumstances, and the terms of the contracts in the group, uses judgement to develop, and apply an accounting policy that determines the currency denomination of the group, including the CSM, which could be a single currency or multiple currencies. The entity cannot simply presume that the CSM is denominated in the functional currency.

In measuring a multi-currency group of insurance contracts, the IFRIC observed that an entity applies IFRS 17 to treat that group, including the CSM, as a monetary item, and applies IAS 21 to translate their carrying amounts into the entity's functional currency.

A multi-currency denomination treats all changes in exchange rates as exchange differences accounted for under IAS 21.

The IFRIC also considered and decided not to add a standard-setting project on how to account for the foreign currency aspects of insurance contracts to the workplan.

Lessor Forgiveness for Lease Payments - October 2022

The IFRIC discussed the application of IFRS 9, and IFRS 16 in accounting for forgiveness of lease payments in an operating lease. In the fact pattern considered, the lease payments forgiven include both amounts due but not paid, and amounts not yet due, and no other changes are made to the lease contract.

The IFRIC discussed three issues:

- *Applying the IFRS 9 expected credit loss (ECL) model to the operating lease receivable (amounts due but not paid) before the rent forgiveness is granted*: The IFRIC concluded that before the rent forgiveness is granted, the lessor measures ECL on the operating lease receivable considering its expectation of forgiving the lease receivables

- *Applying IFRS 9 derecognition requirements to the operating lease receivables forgiven*: on granting the forgiveness, the derecognition requirements under IFRS 9 are met. On the grant date, the lessor remeasures ECL, and derecognises the operating lease receivable, and associated ECL allowance
- *Applying IFRS 16 modification requirements to future lease payments*: the forgiveness of lease payments meets the definition of a lease modification, and the lessor accounts for the modified lease as a new lease from the grant date. Neither the due-but-not-paid lease payments nor their forgiveness are considered part of the lease payments for the new lease

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition – October 2022

The IFRIC discussed how an entity accounts for warrants issued on acquisition of a SPAC. In the fact pattern discussed:

- An entity acquires control of a SPAC that has raised cash in an IPO. The purpose of the acquisition is to obtain the cash, and the SPAC's stock exchange listing. The SPAC has no assets other than cash and is not a business under the definition of IFRS 3 *Business Combinations*
- Before the acquisition, in addition to ordinary shares, the SPAC had issued warrants to founder shareholders for their services, and warrants to public shareholders along with ordinary shares at the IPO
- The entity issues new ordinary shares, and new warrants to the SPAC's shareholders in exchange for the SPAC's ordinary shares, and the legal cancellation of the SPAC warrants, and replaces the SPAC as the entity listed on the stock exchange
- The SPAC's shareholders are not SPAC employees, nor will they provide any services to the entity after the acquisition
- The fair value of instruments the entity issues to acquire the SPAC exceeds the fair value of the SPAC's identifiable net assets

The IFRIC considered key questions in accounting for the transaction, and noted:

- The acquisition is an asset acquisition, and not a business acquisition. The entity recognises individual identifiable assets acquired, and liabilities assumed
- In identifying individual liabilities assumed as part of the acquisition, the entity assesses whether it assumes the SPAC warrants as a part of the acquisition. If so, the entity issues only the ordinary shares to acquire the SPAC, and assume the SPAC warrants, then issues new warrants to replace the SPAC warrants. If not, the entity issues both ordinary shares, and new warrants to acquire the SPAC
- The fair value of the instruments issued to acquire the SPAC may exceed the fair value of net assets acquired. If so, in applying IFRS 2 requirements relating to unidentifiable goods or services, the IFRIC concluded that the entity receives a stock exchange listing service as part of a share-based payment transaction, and measures the service received as the difference between the fair value of the instruments issued, and the fair value of net assets acquired
- The entity applies IFRS 2 *Share-based Payment* to account for instruments issued to acquire the stock exchange listing service
- The entity applies IAS 32 *Financial Instruments: Presentation* to account for

instruments issued to acquire cash, and assume any liability related to the SPAC warrants

The IFRIC also provided some additional accounting considerations if the entity concludes that, as part of the acquisition, it assumes the SPAC warrants, specifically how to account for the SPAC warrants assumed, and the replacement warrants issued, and accounting considerations if it concludes that it does not assume the SPAC warrant, specifically which types of instruments were issued for the SPAC's net assets, and which were issued for the listing service.

Definition of a Lease – Substitution Rights – April 2023

The IFRIC discussed how to determine whether there is an identified asset when an arrangement contains a substitution right. In the situation considered:

- A customer enters into a 10-year contract with a supplier for a number of similar assets (batteries), each of them is used together with other readily available resources (buses) of the customer
- The supplier has the practical ability to substitute alternative assets throughout the contract term. The supplier, however, is required to compensate the customer for any revenue lost or costs incurred while the substitution takes place
- Whether substitution is economically beneficial for the supplier at a point in time depends on both the amount of compensation payable to the customer and the condition of the battery
- At inception of the contract, it is expected that the supplier would not benefit economically from substituting a battery that has been used for less than 3 years, but could benefit economically from substituting a battery that has been used for 3 years or more.

The IFRIC concluded that:

- The level at which to assess whether the contract contains a lease is individual assets, since each battery is specified, either explicitly in the contract or implicitly at the time is it made available to the customer
- Because the supplier is not expected to benefit economically from its right to substitute a battery for at least the first 3 years of the contract, the supplier does not have the substantive right to substitute a battery throughout the period of use

The IFRIC also observed that:

- The standard sets a high hurdle to conclude that there is no identified asset when an asset is explicitly or implicitly specified
- Determining whether a supplier's right to substitute an asset is substantive throughout the period of use requires judgement
- A supplier can have the practical ability to substitute alternative assets throughout the period of use even if the supplier does not already have alternative assets but could source those assets within a reasonable period of time. This illustrates that the term 'throughout the period of use' does not mean 'at all times' within that period

Premium Receivable from an Intermediary (IFRS 17 and IFRS 9) – October 2023

The IFRIC discussed how an insurer should account for the premium receivable from an intermediary who arranges an insurance contract between the insurer and a policyholder.

In the fact pattern considered, the policyholder has paid premiums to the intermediary, upon which, the insurer is obliged to provide insurance services to the policyholder. The insurer, however, has not yet received the premiums from the intermediary.

The question asked is whether the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the "group of insurance contracts" under IFRS 17 ('View 1') or are a separate financial asset under IFRS 9 ('View 2').

The IFRIC observed that:

- IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and those to be collected through an intermediary.
- IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when those cash flows are settled in cash.

The IFRIC therefore concluded that an insurer should develop an accounting policy under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to determine when to remove the cash flows from the measurement of insurance contracts, either when the premiums are received from the intermediary (View 1) or when the policyholder has paid the premium (View 2).

Homes and Home Loans Provided to Employees – October 2023

The IFRIC received a question on how an entity accounts for:

- Employee home ownership plans where the entity provides its employee with a house that it constructed and owns. Repayments are deducted from the employee's salary until the agreed sale price is fully repaid. The right to the house will be forfeited if the employee leaves within five years, in which case they recover the salary deductions. If the employee leaves after five years, they can choose to keep the house and repay the outstanding balance immediately; and
- Employee home loans where the entity provides a loan to its employee to buy a house which the entity does not own. The loan is typically at a below-market rate of interest or interest free and is repaid through salary deductions. Upon termination of employment, the outstanding balance becomes repayable.

Based on evidence gathered, the IFRIC concluded that the matters above do not have widespread effect and decided not to add a standing-setting project to the work plan.

Guarantee over a Derivative Contract (IFRS 9) – October 2023

The IFRIC received a question about whether, in applying IFRS 9, an entity accounts for a guarantee it issued over a derivative contract as a financial guarantee or as a derivative. Such guarantee reimburses the holder, who is a party to a derivative contract, for the actual loss incurred, up to a close-out amount, in an event of default of the other party to the derivative contract. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative immediately prior to default.

Based on evidence gathered, the IFRIC concluded that the matter does not have widespread effect and it does not have (nor is it expected to have) a material effect on those affected and decided not to add a standing-setting project to the work plan.

Key contacts

New Zealand

Lara Truman
Partner
Ernst & Young, New Zealand
Tel: +64 274 899 896
lara.truman@nz.ey.com

Alex Knyazev
Associate Director
Ernst & Young, New Zealand
Tel: +64 21 853 152
alex.knyazev@nz.ey.com

EYSCORE 001262-24-AUNZ

ED None