



Insights into Accounting and Financial Reporting

For-profit entities applying NZ IFRS

November 2021



Agenda

Standard setting Update



Simon Lee
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Cloud computing



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Rent concessions



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Covid reporting issues & Insurance accounting for corporates



Marcia Smith
Director



Standard setting update

Update on international financial reporting standards



Newly effective requirements

For periods beginning on or after 1 January 2021



Forthcoming requirements

New requirements finalised at 30 September 2021 but not yet effective



Future developments

Projects on the IASB's agenda at 30 September 2021, IFRIC agenda decisions to be finalised



Use our [Web tool](#) to generate your customised list of newly effective and forthcoming IFRS Standards

Newly effective requirements

Effective date	New standards or amendments
1 January 2021	Interest Rate Benchmark Reform – Phase 2
1 April 2021	<i>COVID-19-Related Rent Concessions beyond 30 June 2021</i> – Amendment to IFRS 16 <i>Leases</i>

Forthcoming requirements

Effective date	New standards or amendments
1 January 2022	Annual Improvements to IFRS Standards 2018–2020
	Reference to the Conceptual Framework
	Property, Plant and Equipment – Proceeds before Intended Use: Amendments to IAS 16 <i>Property, Plant and Equipment</i>
	Onerous Contracts – Cost of Fulfilling a Contract

Forthcoming requirements

Effective date	New standards or amendments
1 January 2023	IFRS 17 Insurance Contracts *
	Classification of Liabilities as Current or Non-current
	Definition of Accounting Estimates
	Disclosure Initiative: Accounting Policies
	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
To be determined	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Future developments – IASB work plan (1/4)

Standard-setting projects	Next milestone
Rate-regulated Activities	ED feedback
Management Commentary	Comment letter on ED
Disclosure Initiative – Targeted Standards-level Review of Disclosures	Comment letter on ED
Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures	Comment letter on ED
Financial Instruments with Characteristics of Equity	ED
Primary Financial Statements	New IFRS standard
Second Comprehensive Review of the IFRS for SMEs Standard	ED

Future developments – IASB work plan (2/4)

Maintenance projects	Next milestone
Initial Application of IFRS 17 and IFRS 9 – Comparative Information – Amendments to IFRS 17	ED feedback
Classification of Debt with Covenants as Current or Non-current – Amendments to IAS 1	ED
Supplier Finance Arrangements	ED
Lease Liability in a Sale and Leaseback	Project direction
Lack of Exchangeability – Amendments to IAS 21	ED feedback
Availability of a Refund – Amendments to IFRIC 14	Project direction
Provisions – Targeted Improvements	Project direction

Future developments – IASB work plan (3/4)

Research projects	Next milestone
Pension Benefits that Depend on Asset Returns	Review research
Business Combinations under Common Control	DP feedback
Post-implementation review of IFRS 9 – Classification and Measurement	Comment letter
Goodwill and Impairment	Project direction
Post-implementation review of IFRS 10, IFRS 11 and IFRS 12	Feedback statement
Extractive Activities	Project direction
Dynamic Risk Management	Project direction
Equity Method	Project direction

Future developments – IASB work plan (4/4)

Strategy and governance	Next milestone
Sustainability Reporting	ED feedback
Third Agenda Consultation	RFI feedback

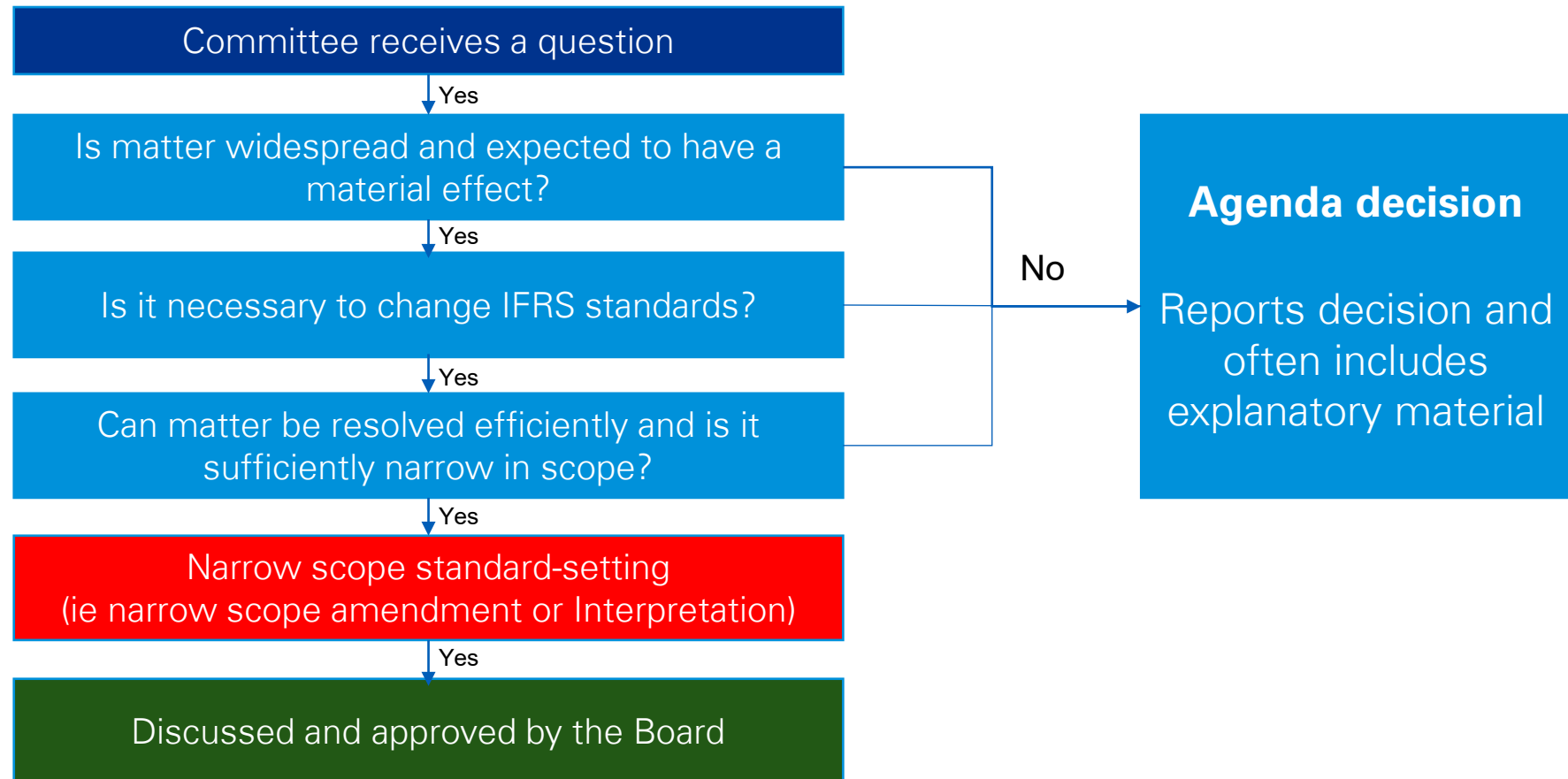
Taxonomy	Next milestone
IFRS Taxonomy Update – Amendments to IAS 1, IAS 8 and IFRS Practice Statement 2	IFRS Taxonomy Update



IFRIC Agenda Decisions



IFRIC agenda decisions



Source: www.ifrs.org

IFRIC agenda decisions

Standard	Agenda decisions subject to Board's review	IFRIC discussion	Expected date
IAS 32	Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition	September 2021	October 2021
IFRS 16	Non-refundable Value Added Tax on Lease Payments	September 2021	October 2021

Standard	Tentative agenda decisions	IFRIC Update	Comment deadline
IFRS 16	Economic Benefits from Use of a Windfarm	June 2021	16 August 2021
IFRS 9 and IAS 20	TLTRO III	June 2021	16 August 2021
IFRS 9	Cash Received via Electronic Transfer as Settlement for a Financial Asset	September 2021	25 November 2021
IAS 7	Demand Deposits with Restrictions on Use	September 2021	25 November 2021



Cloud Computing



Sarah Bate

Associate Director, Accounting Advisory Services

What is Cloud Computing?



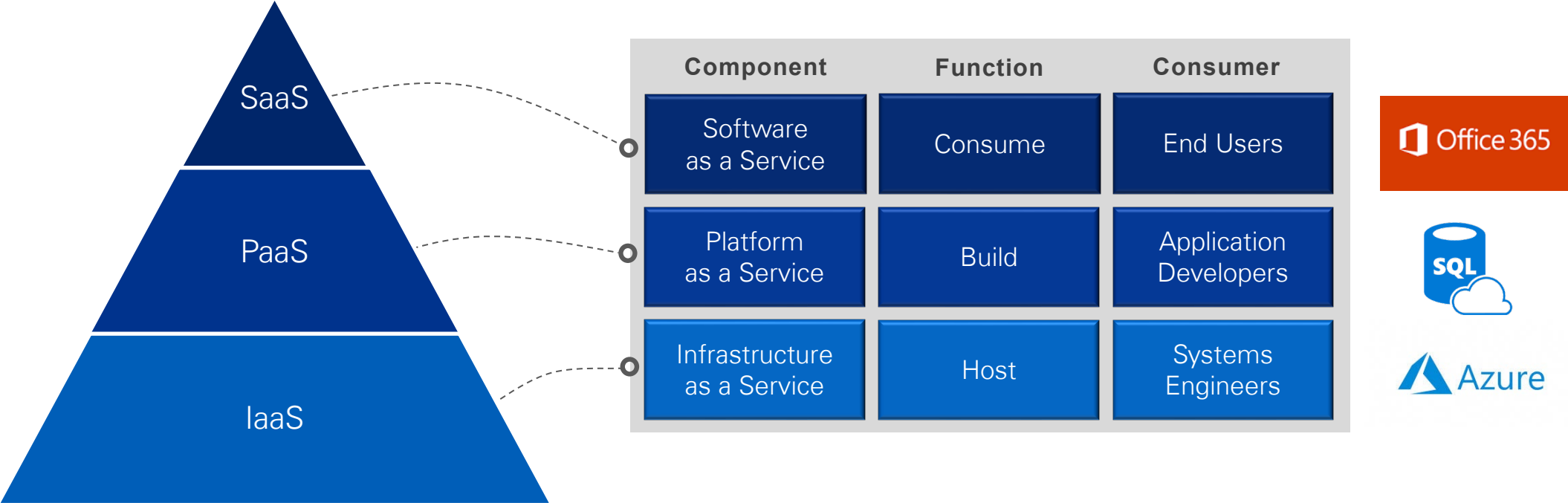
Delivery of computing services such as: servers storage, databases, networking, software, analytics and more-over the internet (the cloud).

Companies offering these computing services are called cloud providers and typically charge for cloud computing services based on usage.

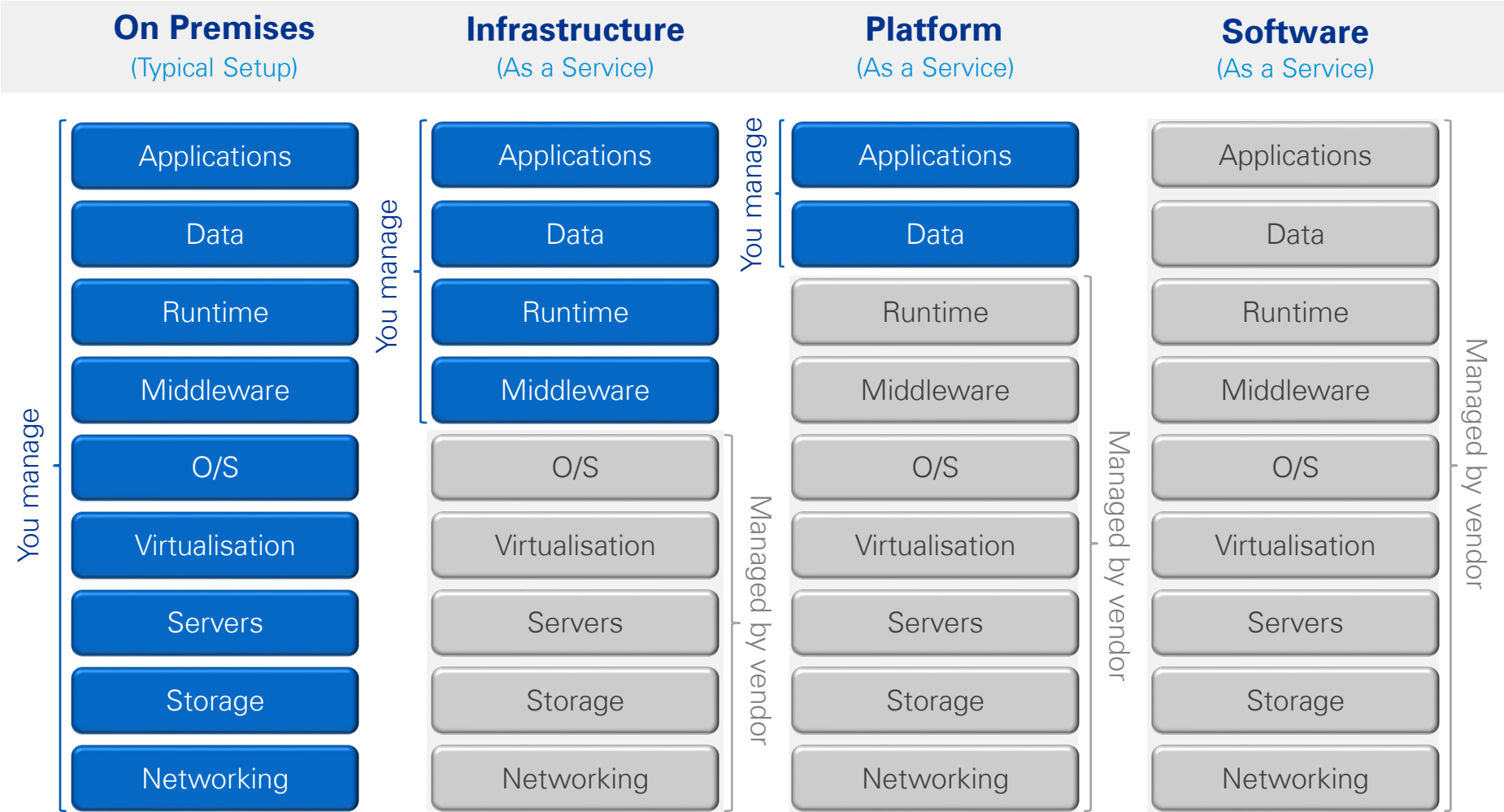
New guidance on accounting for implementation costs in a cloud computing arrangement following the IFRS Interpretations Committee's agenda decision issued in April 2021.

How a customer accounts for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement

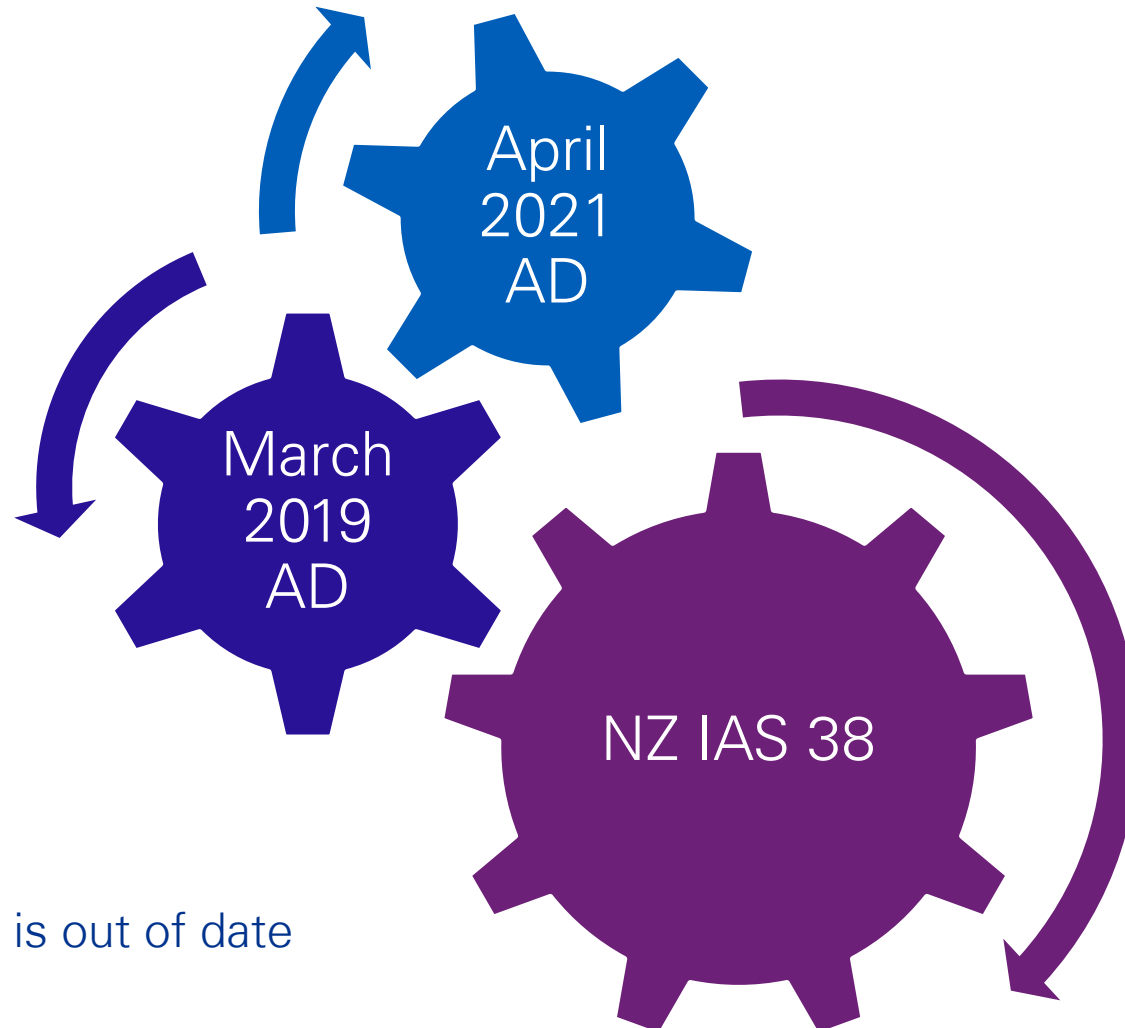
There are 3 Cloud technology service types



There are 3 Cloud technology service types



Technical timeline



NZ IAS 38 is out of date

NZ IAS 38

- ❖ Needs to be identifiable
- ❖ Control
- ❖ Cost - capitalisable costs
- ❖ Expense recognition

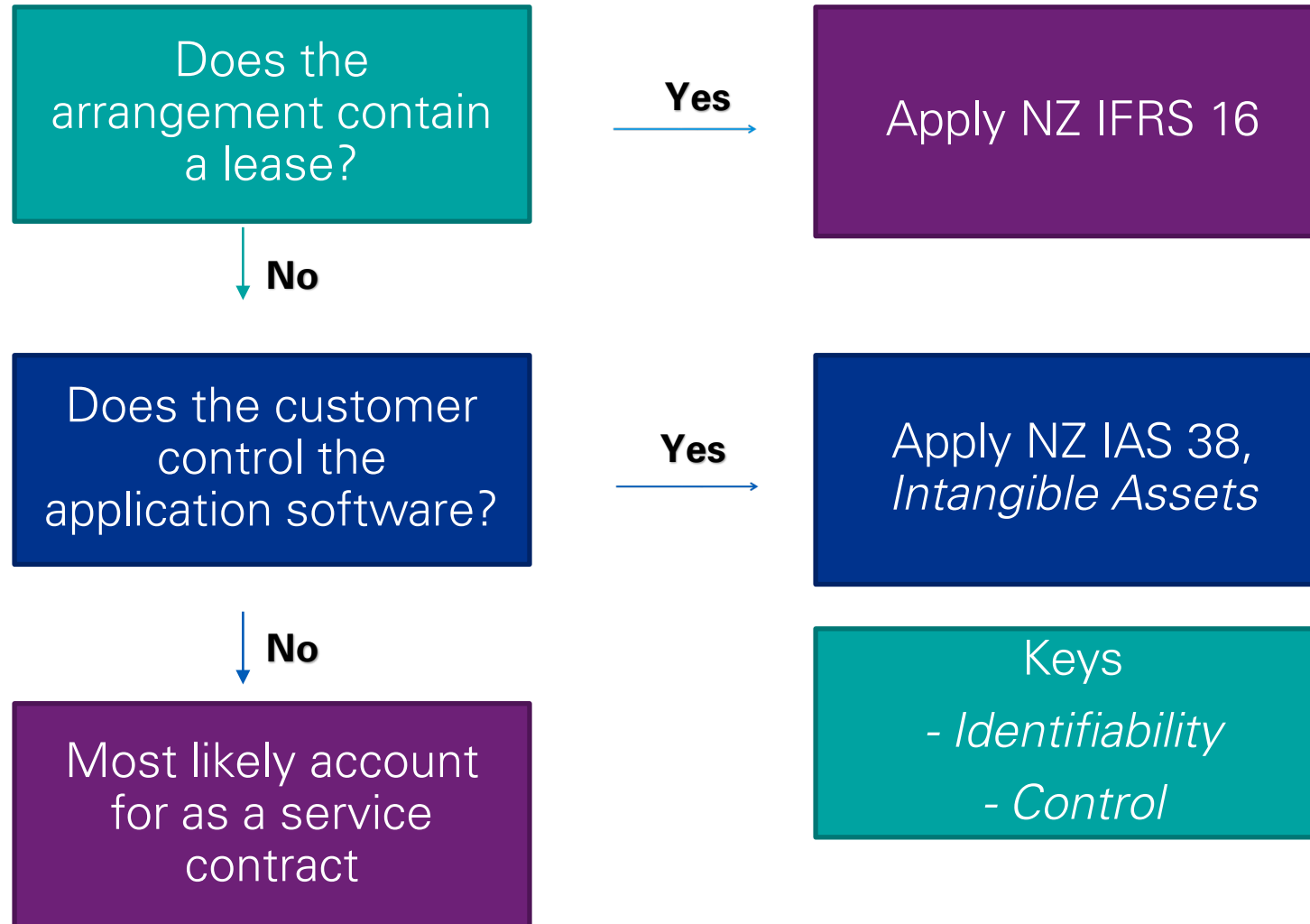
March 2019 Agenda Decision

- ❖ SaaS contracts
- ❖ Service contract unless entity receives software asset- either right-of-use or controlled
- ❖ Reinforce meaning of control

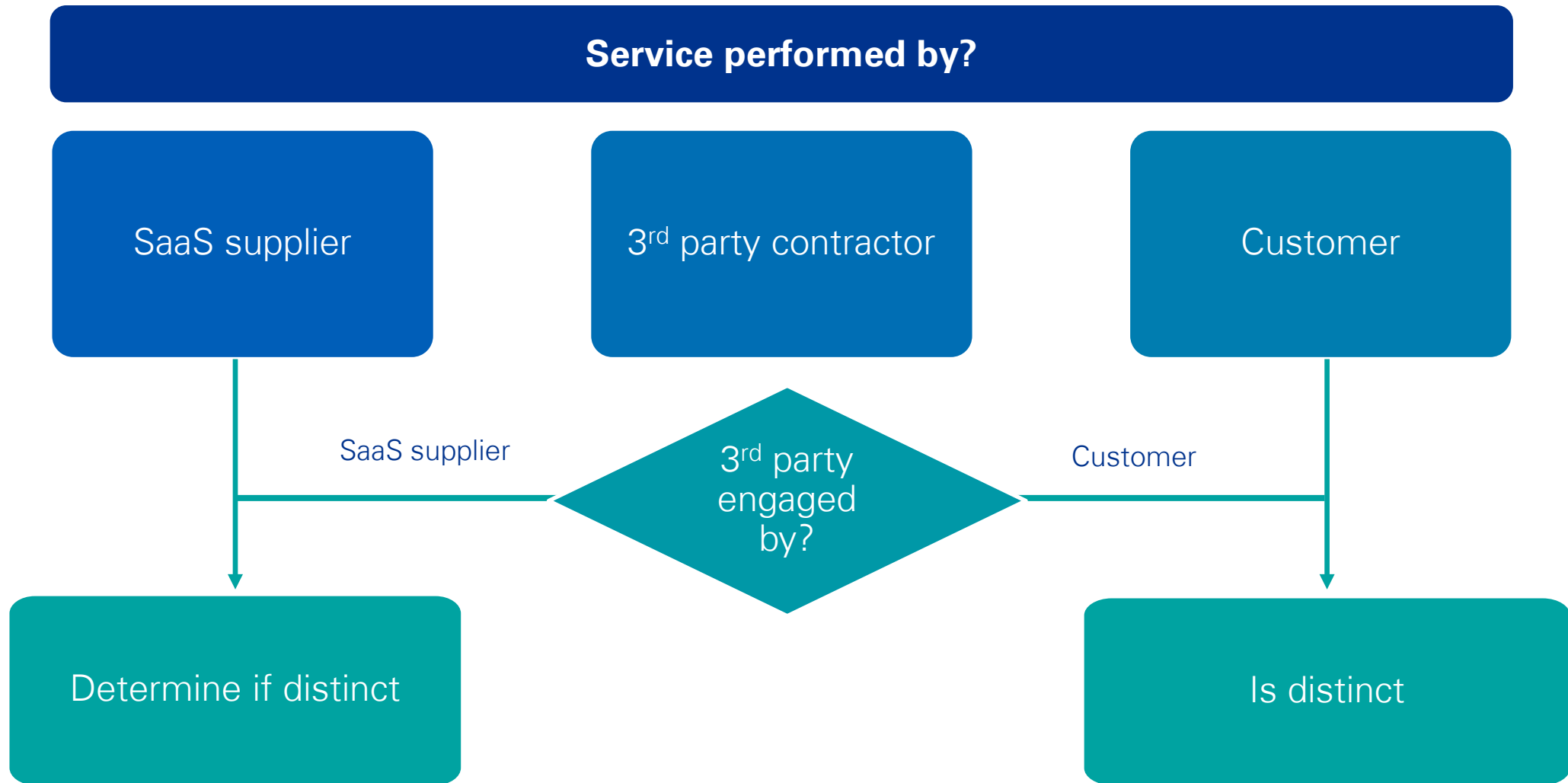
April 2021 Agenda Decision

- ❖ SaaS configuration/customisation costs
- ❖ Intangible asset or service contract
- ❖ Timing of expense recognition for service contract (introduces terms- distinct/not distinct)

Application of technical - overview



IFRS IC - Customisation/configuration expenditure



Cloud computing - Implementation costs (a reminder)

We believe following services are **generally distinct** from access to software:

- testing;
- training;
- data migration and conversion;
- interfacing; and
- configuration

Costs that are generally expensed

- Configuration and testing
- Training
- Data migration and conversion (no asset created)

Costs that may be capitalised:

- Creation of interface (entity controls the code)



Software - Cloud Computing arrangements (a summary)



IFRS IC – Retrospective application

IFRS IC decision – Configuration or customisation costs in a cloud computing arrangement issued April 2021

- Effective on issue
- Implement resulting changes in a timely manner
- Apply retrospectively
- Provide NZ IAS 8 disclosures

Sufficient time – as soon as and as quickly as possible





Examples

Example 1a - CRM solution in the cloud

Background

- Company X is implementing Salesforce (public cloud) as its Customer Relationship Management (CRM) system.
- All Intellectual Property (IP) belongs to Salesforce (including any configuration and customisation performed in the sandbox environment provided by Salesforce)
- Company X has a licence to access for 5 years
- Company X can download its data at any point in the licence period and all data remains the IP of Company X

Costs

- Company X pays an upfront fee of \$300k and \$50k per annum thereafter for access to Salesforce
- Company X employs a third-party contractor to do some customisation for a fee of \$100k

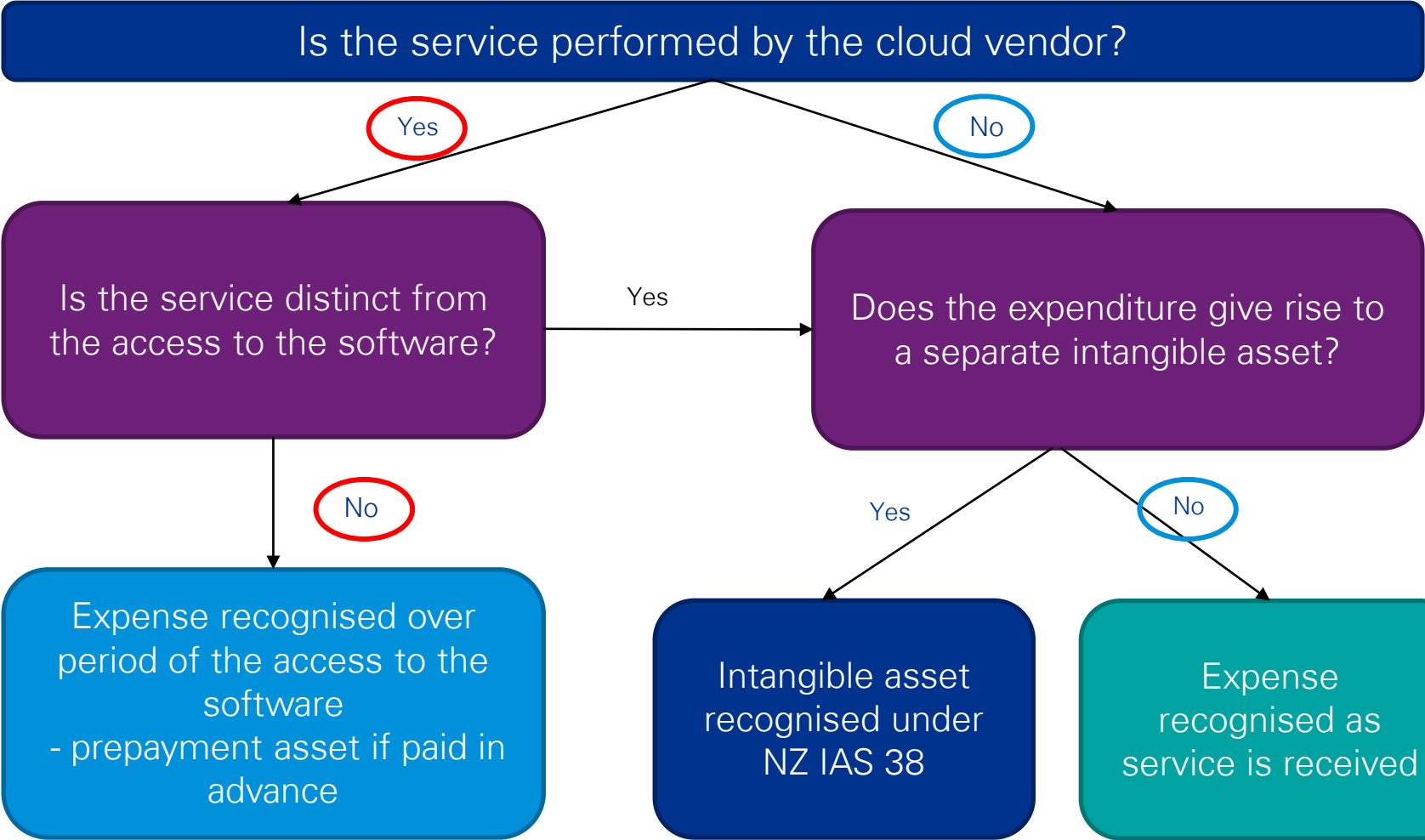


Company X is proposing the following accounting treatment:

- 1) An expense of \$100k per annum for the Salesforce contract; and
- 2) Expensing the customisation costs of \$100k upfront

Do you agree? Yes or no, why?

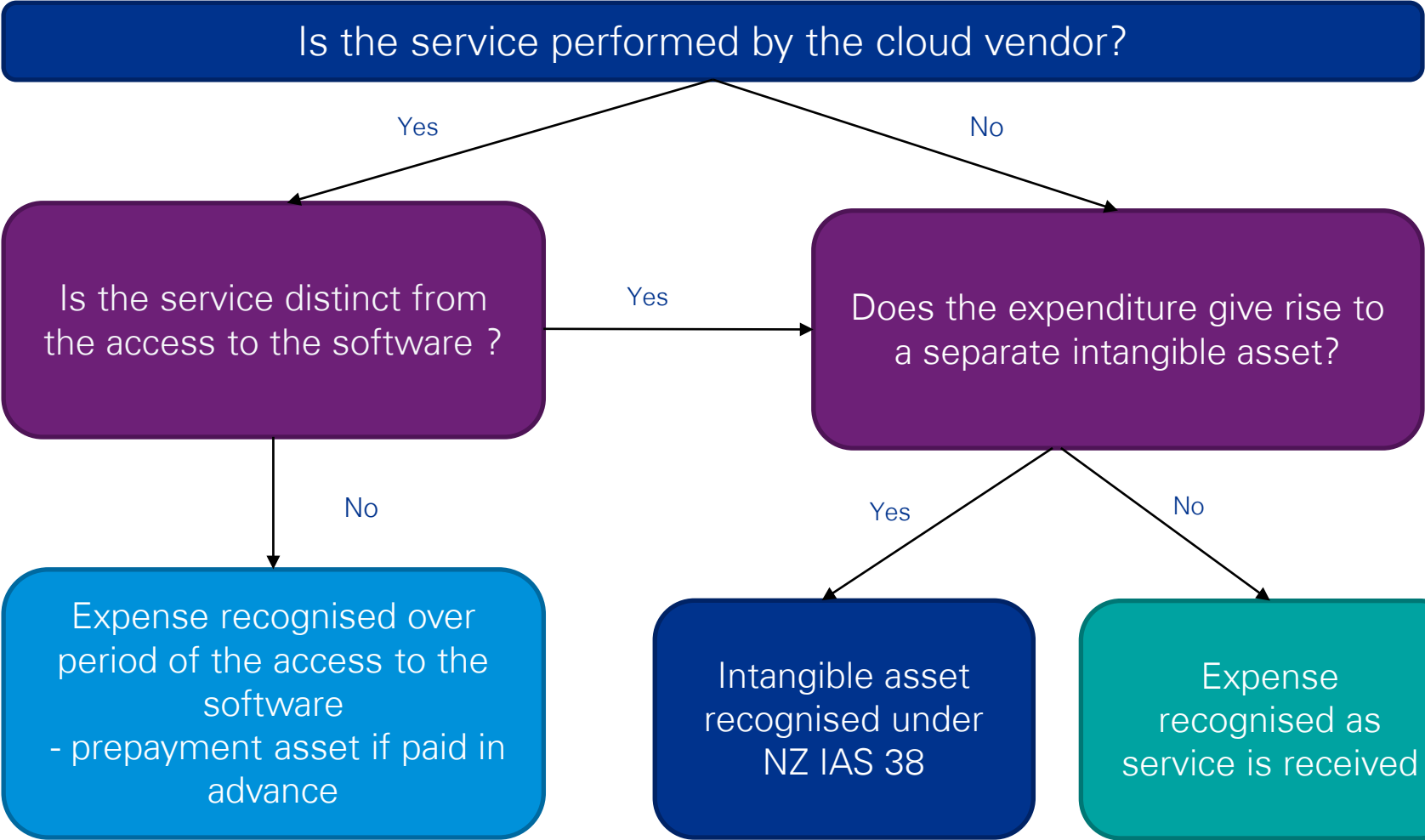
Example 1a - solution



1) Yes, service provided by cloud vendor and is not distinct

2) Yes, service is distinct, however definition of intangible asset is not met. IP is owned by Salesforce

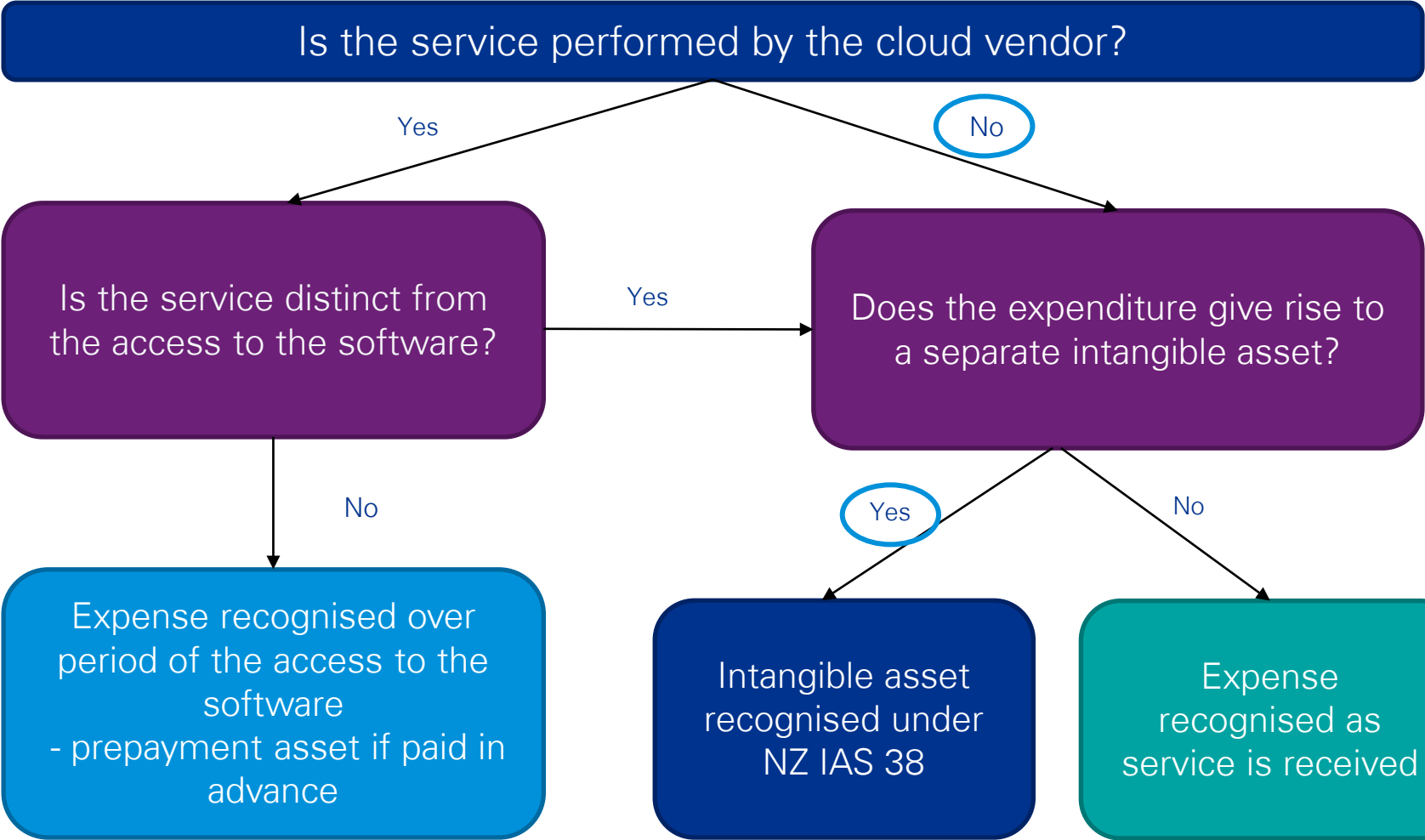
Example 1b - change in fact pattern



Change in facts
The contract with Salesforce prohibits Salesforce from using any customisation and configuration in the Sandbox with their existing customers, further Company X is able to download and keep the code for the customisation.

Does this change your answer for the \$100k customisation costs?

Example 1b - change in fact pattern



Change in facts

The contract with Salesforce prohibits Salesforce from using any customisation and configuration in the Sandbox with their existing customers, further Company X is able to download and keep the code for the customisation.

Does this change your answer for the \$100k customisation costs?

Yes, Intangible asset exists. Company X obtains control of the customisation code

Accounting for Cloud Computing - Takeaways

Pure SaaS contracts may result in the majority of costs being expensed

All of contracts plus related terms and conditions should be read

SaaS contracts are unlikely to contain a lease

Intangible assets may exist where code used in conjunction with the SaaS contract is owned by the customer e.g. interfaces and customisations



NZ IFRS 16 Leases

The impact of rent concessions on leases

Brandon Hanekom

Senior Manager, Accounting Advisory Services



Rent concessions – Lease Modifications

What is a lease modification?

- A change in the scope or the consideration of a lease
- not part of its original terms and conditions

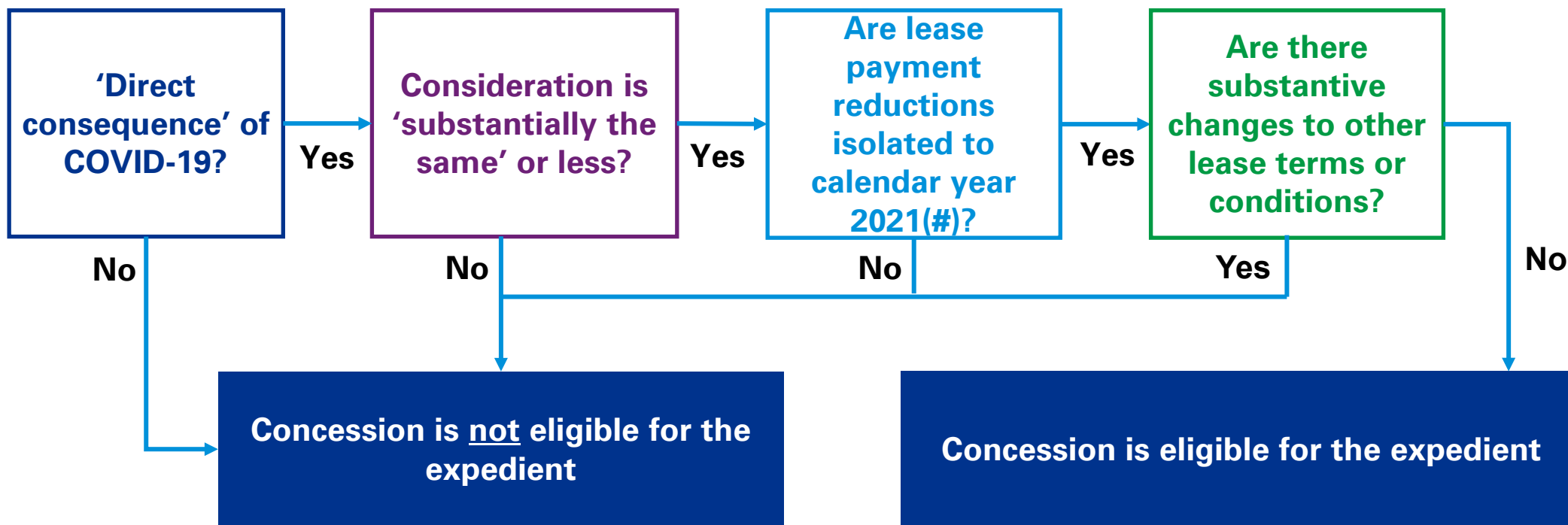
What is the relief provided by the 2020/2021 amendments?

- **Lessees**
 - Not required to assess lease modifications
 - Must apply the practical expedient consistently
- **Lessors**
 - No relief



Practical expedient on rent concessions

Eligibility criteria to apply the practical expedient



extended to 30 June 2022

Time to think

Question

How would a Lessee account for a rent rebate provided on a condition to increase the lease term?

- A. As a lease modification**
- B. As variable lease payment**
- C. It depends**



Time to think

Solution:

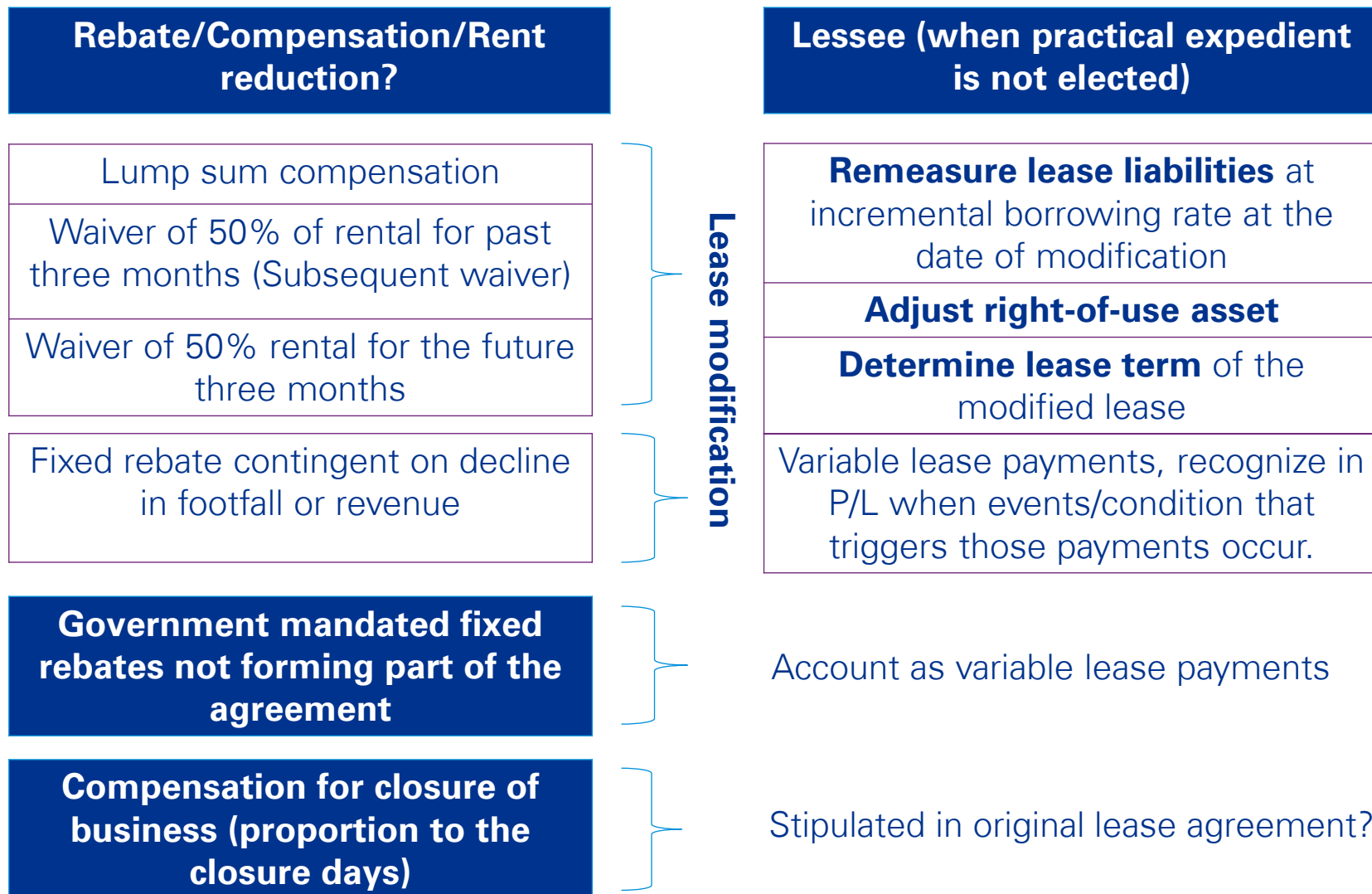
Correct answer: C – It depends

Lessee has to assess whether the rent concession is within the scope of the practical expedient.

Considerations:

1. Whether criteria for the Practical Expedient is met or not?
 - Have all 4 criteria been met?
2. If the contract does not qualify for Practical Expedient (or lessee decides not to apply the Practical Expedient)?
 - Does the contract contain an existing clause that provides rent rebate?

Rebate/compensation/rental education from lessors

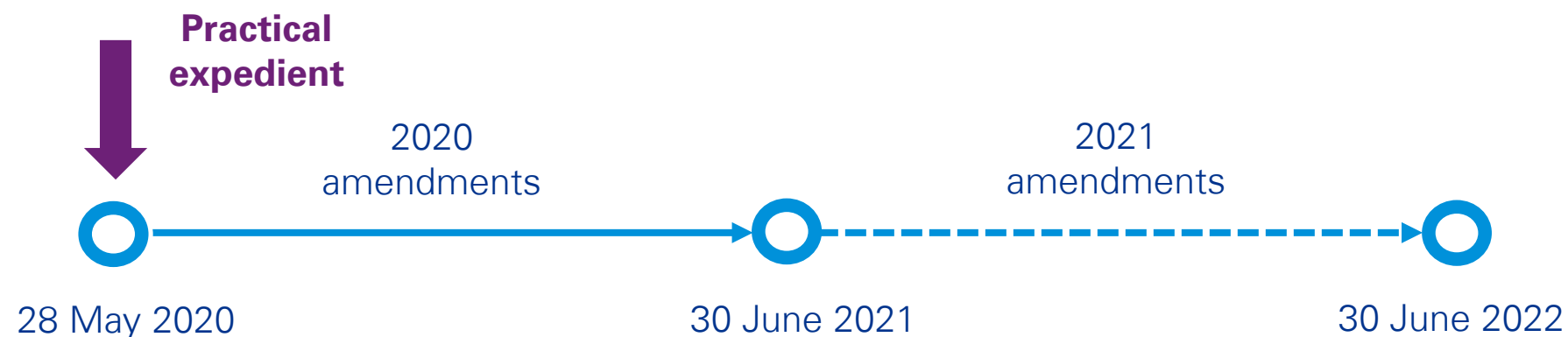


Rebate/compensation/rental education from lessors

Terms in the Lease agreement

If the said premises or the said building or any part thereof shall at any time during the said term be destroyed or damaged or become inaccessible owing to fire, water, storm, typhoon, defective construction, white ants, earthquake, subsidence of the ground, act of God, force majeure or any calamity or cause beyond the control of the Landlord or the Tenant and not attributable directly or indirectly to any act or default or neglect or omission of the Tenant his servants agents employees contractors or licensees so as to be rendered unfit for use and occupation or inaccessible and the policy or policies of insurance for such risk effected by the Landlord shall not have been vitiated or payment of the policy moneys refused in whole or in part in consequence of any act or default or neglect or omission of the Tenant or if at any time during the continuance of this Agreement the said premises or the said building shall be condemned as a dangerous structure or a demolition order or closing order shall become operative in respect of the said premises or the said building the happening of which is not attributable directly or indirectly to any act or default or neglect or omission of the Tenant his servants agents employees contractors or licensees then the rent hereby reserved or a fair proportion thereof according to the nature and extent of the damage sustained or order made shall after the expiration of the then current calendar month be suspended until the said premises or the said building shall have been reinstated or again be rendered accessible and

Covid-19-Related Rent Concessions beyond 30 June 2021





COVID-19 Impacts

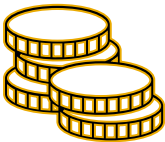
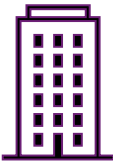
Marcia Smith
Director, Accounting Advisory Services



Impacts of COVID-19 in New Zealand

Key impact areas

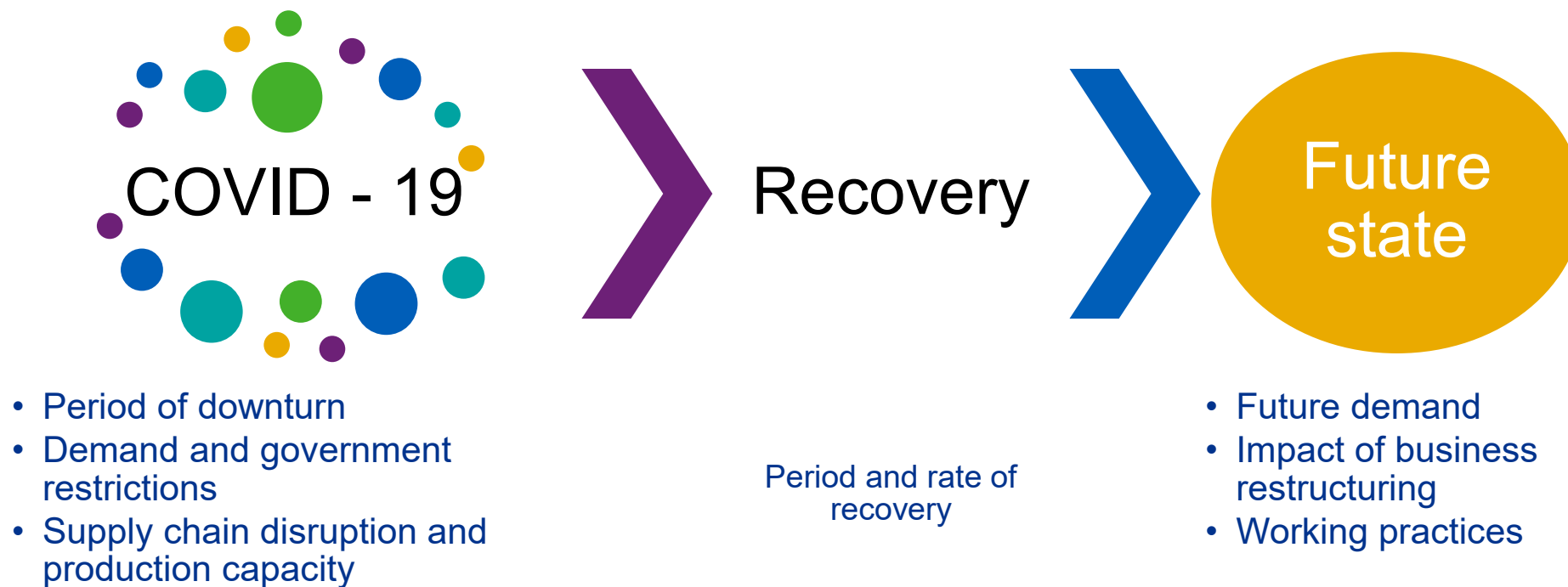
- Impairment or reversal thereof for non-financial assets (goodwill, PPE, Investment Property)
- Fair values calculation and disclosure
- Impairment of Right of use assets, think office space, assets sublet
- Recognition of deferred tax assets
- Expected credit losses – any impact on the model(s) used
- Liabilities may need to be remeasured
- Insurance policies – pandemic insurance
- Government assistance e.g. wage subsidy
- Going concern



Impacts of COVID-19 in New Zealand

Cash flow forecasts for impairment and fair value purposes

Consider:



Don't forget disclosures!



NZ IFRS 17 Insurance Contracts

The potential impact for Corporates/Non-Insurers



Question

Do you think the new insurance standard will impact your business?

- A) Yes**
- B) No**
- C) It depends**
- D) There's a new insurance standard?**



NZ IFRS 17 Insurance Contracts - Scope

- Effective 1 January 2023
- Applies to all contracts
- There are scope exemptions
- Scope goes beyond the insurance industry
- Does not apply to policyholders



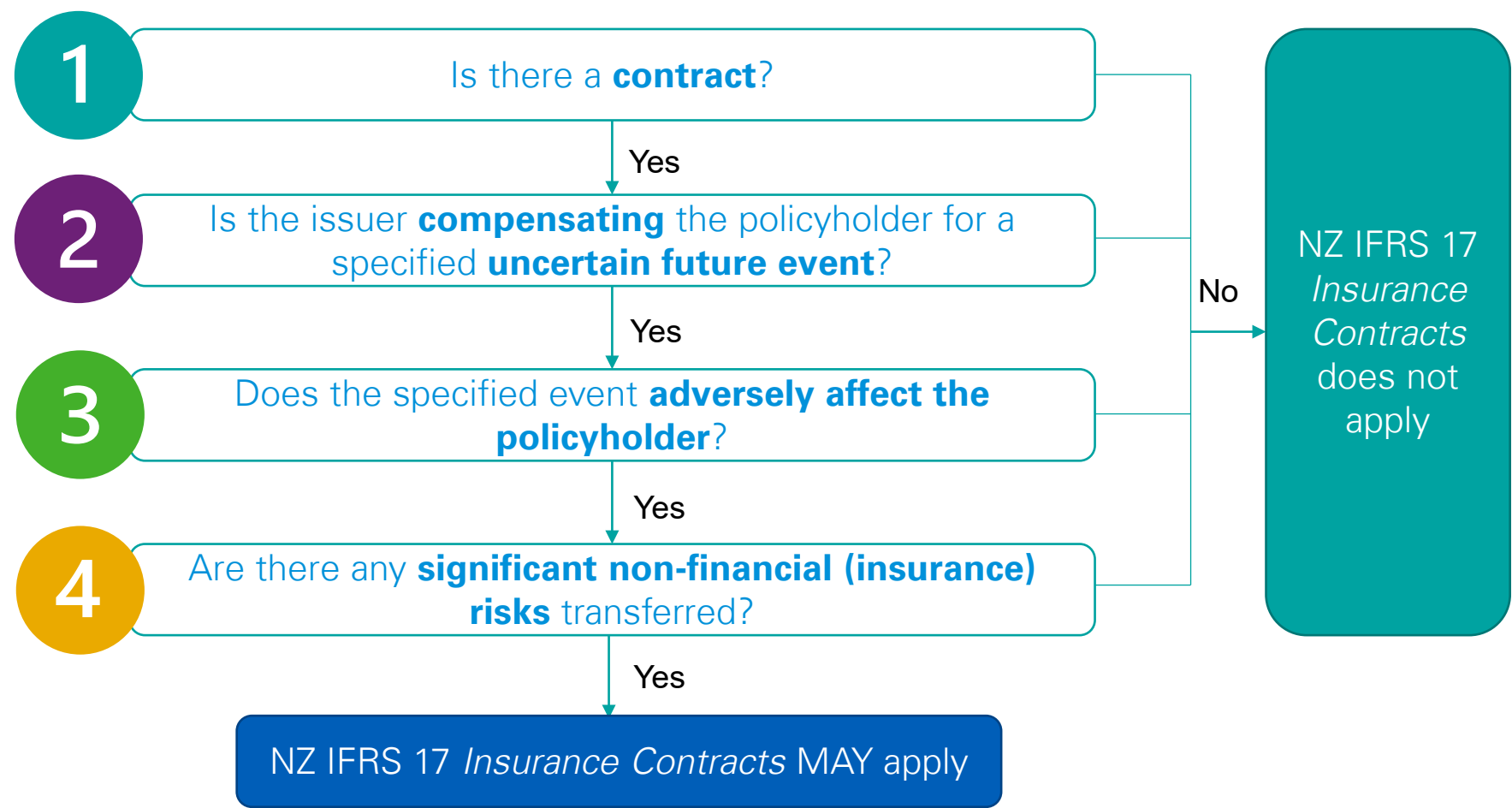
Insurance contract definition

“An insurance contract is a contract under which one party (the issuer) accepts **‘significant insurance risk’** from another party (the policyholder) by agreeing to compensate the policyholder if a **specified uncertain future event** (the insured event) **adversely affects the policyholder.**”

Key to understand

- What is insurance risk?
- When is insurance risk significant?
- What is specified uncertain future event?
- What is an adverse effect on the policyholders?

Insurance contract definition (cont.)



Insurance contract definition (cont.)

Is the issuer compensating the policyholder for a specified uncertain future event and does it adversely affect the policy holder?

Contract covering weather events or earthquakes that cause damage to a building of the customer

Yes, there is an adverse effect to the policyholder.

Contract that pays the customer if flooding occurs in a particular region

No, no specific adverse effect to the customer required.

Key definitions from NZ IFRS 17

Financial risk

“the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract”



Insurance risk

“any risk, other than financial risk, transferred from the holder of a contract to the issuer”

Definition – insurance risk

Insurance risk <i>Events that are specific to the policyholder</i>	Financial risk <i>Not specific to the policyholder and are market variables</i>
Property damage	Credit ratings
Illness	Commodity prices
Debtor default	Currency exchange rates

Definition – significant insurance risk

Insurance risk is significant if the issuer of the contract:

- suffers a loss on the contract caused by the insured event, and
- has to pay significant additional amounts beyond what would be paid if the insured event had not occurred

Significance is based **on what could be paid**, not the likelihood of the event occurring



Contract requires insurer to reimburse company for the value of the property it owns if the property is destroyed by a hurricane.

The likelihood of a hurricane destroying a building is low, but if it did occur, the payment by the insurer would be substantial.

Contract therefore contains significant insurance risk

Definition – significant insurance risk

Considerations for determining significance:

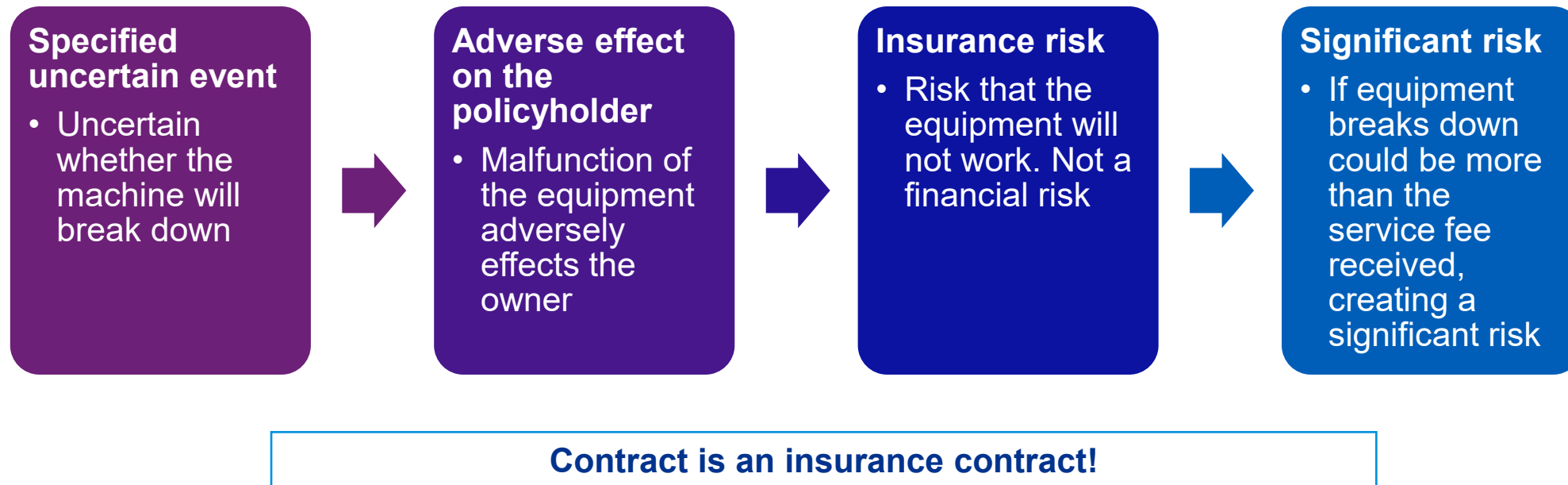
- Assessed from the **perspective of the issuer**
- Assessed at **an individual contract level**
- **Time value of money is** considered when determining significance
- Contracts that **expose the issuer to both financial risk and significant insurance risk** are insurance contracts



Example

A company provides a maintenance contract whereby they agree to repair specified equipment after a malfunction.

- The fixed service fee is based on the expected number of malfunctions for that equipment.
- The potential cost to repair the specified equipment could exceed the fixed service fee received in some circumstances.



Other potential examples

All depends on the terms and conditions of the contract!



Roadside assistance

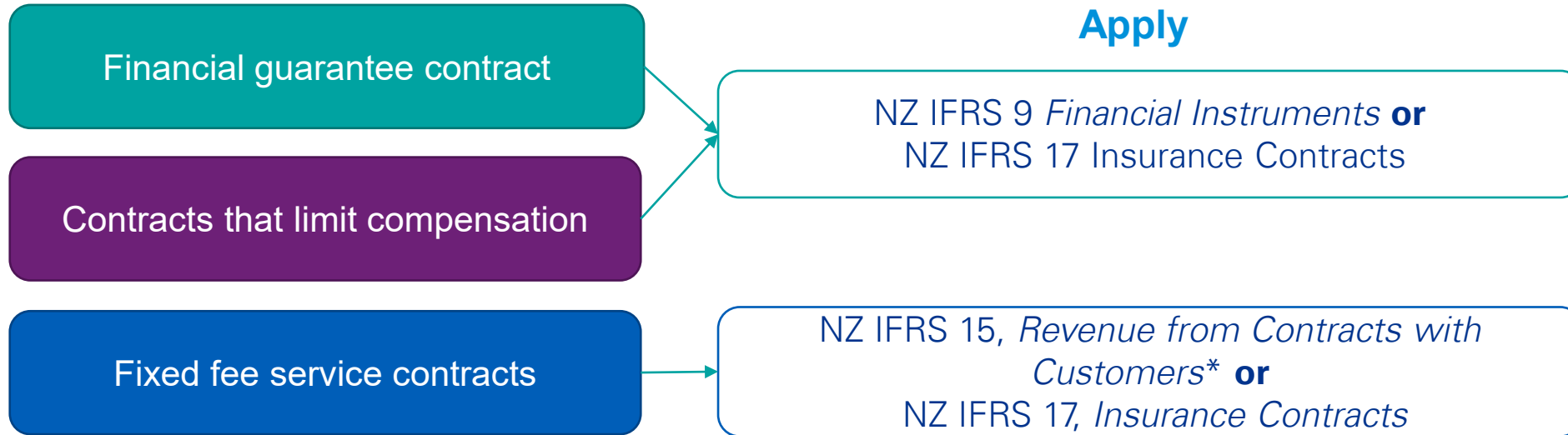


Phone screen repair



Extended warranty

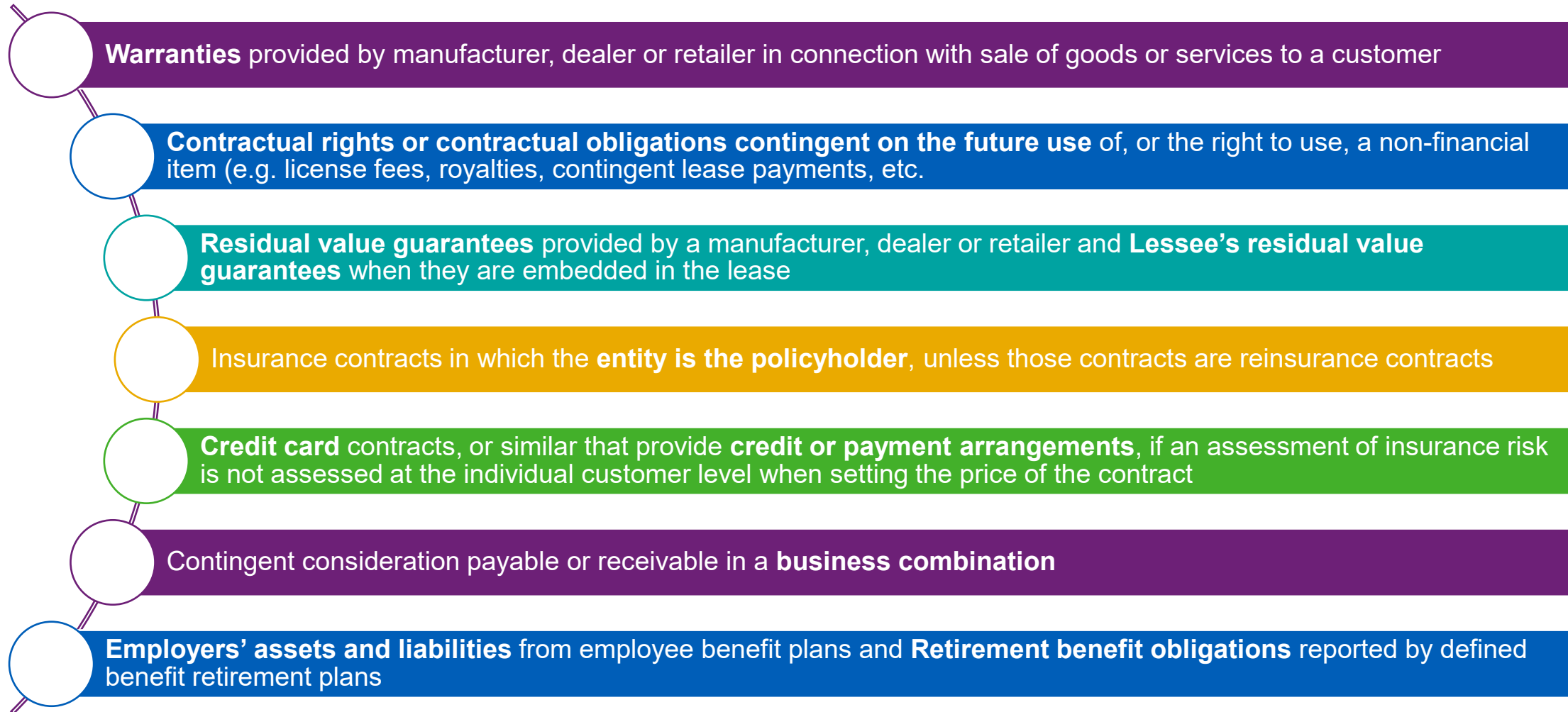
Scoping options



*Can apply NZ IFRS 15 if **all** criteria are met:

- Entity does not reflect the assessment of risk associated with an individual customer in setting the price of the contract
- Contract compensates the customer by providing services, rather than by making cash payments; **and**
- The insurance risk transferred by the contract arises primarily from the customer's use of services (e.g. roadside assistance) than from uncertainty over the cost of those services.

Out of scope



Scope - examples

Product warranty on drone issued by retailer when sold

- **Out of scope**, issued directly by retailer in connection with sale of their goods to customer. Apply NZ IFRS 15 and NZ IAS 37

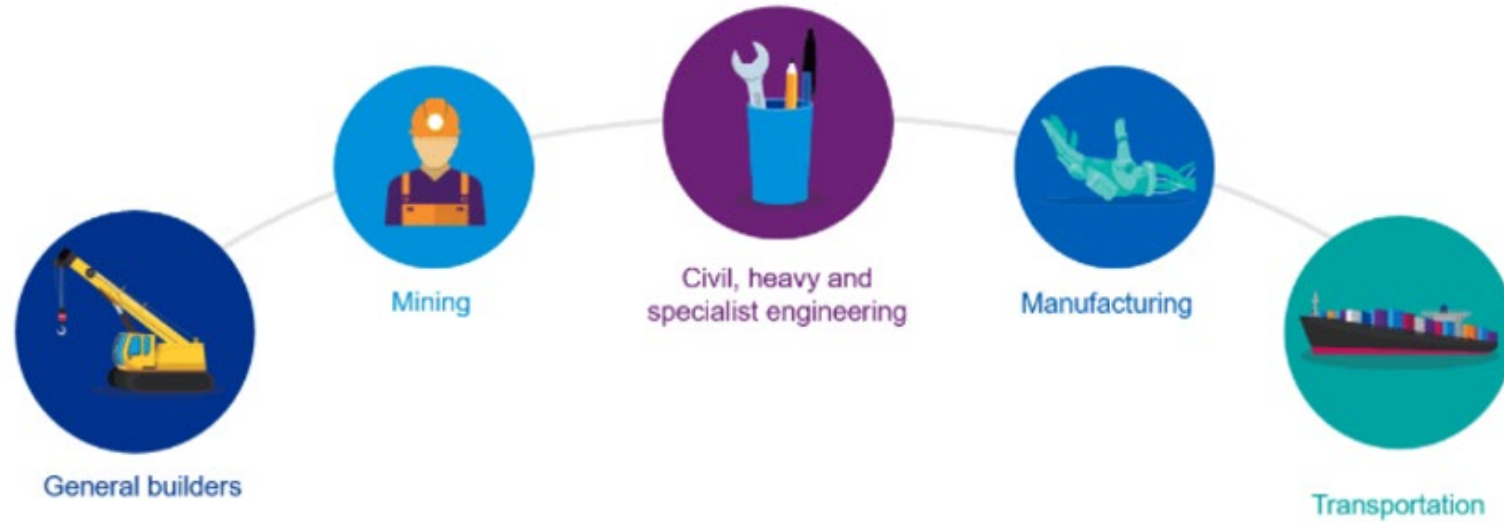
Product warranty on a camera issued by sister entity of the retailer when the camera is sold

- **In scope** for separate financial statements, warranty issued by party not connected to the sale of the goods
- Could be out of scope for consolidated financial statements if group considered a manufacturer, dealer or retailer

Parent entity provides a surety bond to its construction subsidiary that it will cover any defaults by its subcontractors on the construction of a high rise building

- **In scope**, contract provides compensation if a contractor fails to complete the construction of the building. Insurance contract in separate financial statements of parent.
- Subsidiary is holder of an insurance contract, does not apply NZ IFRS 17
- Eliminated on consolidation

Surety bonds



Surety bonds can be found in many industries and depending on terms and conditions could be insurance contracts. Examples include

- Performance bonds
- Maintenance bonds
- Bid bonds
- Retention bonds
- Advance payment bonds
- Off-site materials bonds

Questions



Thank you

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