EXTREME WEATHER EVENTS 2023

BDO Financial Reporting Checklist

Our hearts go out to everyone who has been affected by Cyclone Gabrielle and the recent flooding events in January and February 2023.

As with the recent COVID outbreak, these recent events have occurred in a particularly busy period of financial reporting, with 31 December 2022 annual and 30 June 2023 half-year reporting periods in the process of being finalised, and the 31 March 2023 annual and September 2023 half-year reporting periods very much upon us.

While many entities' first priorities will be (as they should be) surveying the damage, assisting the need, and attempting to resume and restore some semblance of business-as-usual, these events will create (as they have in the past for COVID, and other natural disaster events such as the Christchurch earthquakes) specific financial reporting considerations that will need to be addressed.

The below is a high-level checklist of some of the financial reporting areas that need to be considered.

If you require specific assistance with navigating these consequential financial reporting areas, BDO's IFRS Advisory service line is available to assist.

1. POST-REPORTING DATE EVENTS

If the extreme weather events have impacted after your reporting date, but before authorisation of your financial statements, you will need to consider whether or not these are adjusting or non-adjusting events.

Item *[NZ IFRS]*	Comments	Relevant to my entity?
Post reporting date events *[NZ IAS 10]*	Have (any of) the extreme weather events occurred post reporting date, but prior to the financial statements being authorised for issue?	YES / NO / ?
Adjusting post-reporting date event: Going Concern *[NZ IAS 1, FRS-44, NZ IAS 10]*	Have the extreme weather events had such an impact that the entity is unlikely to continue as a going concern? If yes, refer section **2. The going concern assumption**. Note, an entity must not prepare its financial statements on a going concern basis if management determines after the reporting period either that: (i) it intends to liquidate the entity (ii) It intends to cease trading, or (iii) that it has no realistic alternative but to do so.	YES / NO / ?
Non-adjusting post-reporting date event *[NZ IAS 10]*	Have the extreme weather events had a material impact on operations post reporting date only, however the going concern assumption is not in doubt? Ensure adequate disclosure of the post-reporting date event has been provided. Disclose the following for each material category of non-adjusting event after the reporting period: (i) the nature of the event; and (ii) an estimate of its financial effect, or a statement that such an estimate cannot be made	YES / NO / ?

2. THE GOING CONCERN ASSUMPTION

This is by far the most important area that **ALL** entities (and their auditors) will need to consider at the outset.

Item [NZ IFRS]	Comments	Relevant to my entity?
Going concern *[NZ IAS 1]* *[NZ IAS 10]* *[FRS 44]*	At a minimum, going concern is assessed looking out 12 months from reporting date (or, if the entity is subject to audit in New Zealand, 12 months from the date the audit report is signed). The assessment is not just made at reporting date, but must also be (re)considered at all points in time during the period between reporting date and when the financial statements are ultimately signed (i.e. if the management determine that the entity is not a going concern during this period, the financial statements for the reporting period just ended are not prepared on a going concern basis). When an entity is not a going concern, the financial statements are essentially presented on a "liquidation basis", with: • All assets and liabilities being presented as current. • Assets remeasured to their realisable values. • Write-downs of carried forward tax losses and other deferred tax asset balances. • Recognition of provisions. Accordingly, the look, feel, and measurement of assets and liabilities in the financial statements is significantly different to that when financial statements are presented on *business-as-usual*, going concern basis. These areas (particularly the remeasurement of assets and recognition of provisions) may take time for an entity to address and are not normally something that can be resolved on short notice if the going concern assumption changes just before the accounts are due to be signed. For certain entities, determination of the going concern assumption is almost certainly going to be an area of **significant management judgement**. Accordingly, these entities will need to provide full, transparent, and entity-specific disclosures regarding the entities ability to continue as a going concern, and any judgements and assumptions that management have used in coming to this decision (i.e., being able to service debt facilities, shareholder support, government assistance, on-going trading etc.). Where there are material uncertainties related to events or conditions that may cast doubt on the ability of an entity to continue as a going concern, but where the financial statements are prepared on a going concern basis, additional disclosures are required, including: • That material uncertainties exists, and their nature. • Information on the principal events or conditions that give rise to these material uncertainties. • Information on Management's plan to mitigate the effect of those events or conditions. • Whether an entity will be able to realise its assets and discharge its liabilities in the normal course of business as a result of the material uncertainties.	**YES** (no choice, relevant to **ALL** entities)

3. ASSET IMPAIRMENT (AND WRITE OFF), FAIR VALUES, AND RECOGNITION

The consequences from the recent extreme weather events will potentially: **(i)** diminish an entity's ability to generate cash; and, **(ii)** exacerbate an entity's obligations to pay out cash.

In such situations, the recoverability of an entity's assets (and cash generating units (CGUs)) is jeopardised.

Item *[NZ IFRS]*	Comments	Relevant to my entity?
Trade and other debtors **Contract assets** **Lessor receivables** **Related party receivables** **Loans advanced** *[NZ IFRS 9]*	The ability of an entity's customers/counterparty to repay their outstanding balances owed to the entity is directly related to that customer's/ counterparty's own ability to generate cash inflows- i.e., from their own future sales and/or settlement of their own receivable balances. The consequences from the recent extreme weather events may put significant economic barriers with respect to this ability, in particular for certain directly impacted sectors and/or regions. Accordingly, it should be expected that a broad range of entities (not just banks and financial institutions) will need to revise (and downgrade) their expected future recovery of these receivables, even if counterparties **(a)** have a good credit history with the entity, and/or **(b)** have no overdue balances at reporting date. Accordingly, where the "general" impairment model is applied, entities should expect a greater level of receivable balances moving into *Stage 2* and/or *Stage 3* classification, requiring full expected credit losses to be recognised. For those most directly impacted entities, where the "simplified" impairment model is applied (i.e., for *Trade debtors*) it is highly unlikely an assumption that provisions for bad debts will remain stable for upcoming reporting date(s) will remain appropriate.	YES / NO / ?
Inventory *[NZ IAS 2]*	Inventory that has been significantly damaged or lost as a result of the recent extreme weather events will need to be written off. For remaining inventory items, these must be measured at the lower of cost or *net-realisable value*. The consequences from the recent extreme weather events may push the sales prices of certain inventory items below their cost, and/or certain inventory product markets may dry up completely. Entities will need to monitor the sales price values and inventory turnover in the months subsequent to reporting date, and make adjustments to the carrying amount of inventory at reporting date if necessary.	YES / NO / ?
Non-current assets **Property, plant & equipment** **Intangibles** **Goodwill** **Lease *right-of-use asset*** **Cash-generating-units** *[NZ IAS 36]*	Non-current assets that have been significantly damaged or lost as a result of the recent extreme weather events will need to be written off. For remaining non-current assets, these assets are either tested for impairment annually, or are required to be tested when indicators of impairment exist. The consequences from the recent extreme weather events may result in indicators of impairment becoming present for some entities. Impairment exists when an asset's *recoverable amount* is lower than it's carrying amount, with the *recoverable amount* is the higher of either the assets: **(i)** **Value in use:** Typically determined using discounted cash flow models **(ii)** **Fair value less cost to sell**: Typically determined as the market price to sell the asset (less any sale costs) The consequences from the recent extreme weather events will likely have various detrimental impacts to the parameters that underpin both of the above measures of *recoverable value* for certain entities. For lease *right-of-use assets*, this is a similar assessment to the onerous lease assessments that have historically been undertaken for operating leases (prior to the adoption of NZ IFRS 16). Refer to BDO's comprehensive *IFRS in Practice: Impairment of Assets* publication for more details (click here).	YES / NO / ?
Equity accounted investees (EAIs) Associates, Joint Ventures *[NZ IAS 28]*	There are a number of areas to consider with respect to the equity accounted carrying amount of an entity's EAIs: **(iii)** Any long-term loans that the entity includes as part of the *net investment* in the EAI must first be considered for impairment as a receivable balance under NZ IFRS 9 (refer above), then **(iv)** The equity accounted carrying amount of an EAI is impaired (further) where there is objective evidence that the future cash flows of the EAI are jeopardised (which may be the case as a consequence from the recent extreme weather events), and finally **(v)** The carrying amount of an EAI can become a liability (i.e., "go negative") if, and only if, the entity has a legal (or constructive) obligation to make payments on behalf of the EAI (i.e., the entity (investor) has to make-good on the EAI's losses).	YES / NO / ?

Exploration and evaluation assets (extractive industry) *[NZ IFRS 6]*	NZ IFRS 6 allows entities the option of either capitalising or expensing costs related to exploration and evaluation activities. The measurement and impairment requirements are similar to those for non-current assets subject to NZ IAS 36 (above). The consequences from the recent extreme weather events may have various detrimental impacts to the recoverable amounts of previously capitalised costs from exploration and evaluation activities.	**YES / NO / ?**
Deferred tax assets *[NZ IAS 12]*	NZ IAS 12 has strict recoverability criteria that must be met before an entity is permitted to recognise deferred tax assets (for both carried forward tax losses, and deductible temporary differences). The considerations are similar to those looked at when assessing the going concern assumption. However even if an entity is a going concern, this is not in and of itself determinative that it is probable future taxable profits will be generated in the short-term to which the deferred tax assets can be utilised.	**YES / NO / ?**
Fair value assets **Investment property** **Share holdings** *(both "passive", and investment portfolios)* **Defined benefit plan assets** *[NZ IFRS 13]*	The fair value of assets represents the price that would be received to sell an asset in an orderly transaction between market participants, at a specific point in time (i.e., reporting date). The consequences from the recent extreme weather events: • May negatively impact the market selling prices for these assets as at the upcoming reporting dates, and/or • May make it challenging to estimate these market selling prices due to highly volatile markets, distressed sale prevalence, and/or a lack of an active market existing, and/or • Is not in and of itself determinative that an "active market" is not present and that a market price has become unobservable – even if there is a significant decline in activity on that market.	**YES / NO / ?**
Insurance receivables *[NZ IAS 37]*	Entities may have various insurance policies in place that relate to the consequences from the recent extreme weather events (e.g., Property, Contents, Business interruption, and/or Bad debtor insurances. The mere existence of an insurance policy against these losses is not in and of itself determinative that a receivable (and corresponding credit to profit or loss) can be recognised at reporting date. For such a receivable to be recognised it must be "virtually certain", which in practice has come to mean that the insurance company underwriting the policy has formally, both: (i) Accepted the claim, and (ii) Confirmed the amount and timing of the claim settlement. **This may mean that the (loss) impacts from the recent extreme weather events are recorded in a reporting period earlier that the reporting period that the insurance proceeds (income) is permitted to be recognised.**	**YES / NO / ?**

4. PROVISIONS AND LIABILITY RECOGNITION

In situations like the recent extreme weather events, NZ IFRS may require certain liability balances to be recognised, as well as providing specific criteria that must be met before these liabilities can be recognised.

Item *[NZ IFRS]*	Comments	Relevant to my entity
Onerous revenue and supplier contracts *[NZ IAS 37]*	Where the unavoidable costs of a contract exceed the economic benefits to be derived from the contract, the contract is deemed "onerous". In these situations, from the point the contract becomes "onerous", entities must recognise the full value of the expected deficit (as a provision, and corresponding expense). The consequences from the recent extreme weather events may see entities: • Having to receive contractually pre-agreed prices for revenue contracts where the cost to fulfil is higher. • Having to pay contractually pre-agreed prices for supplier contracts where the on-sale price of the goods is lower.	YES / NO / ?
Restructuring costs **Employee termination costs** *[NZ IAS 37]* *[NZ IAS 19]*	The consequences from the recent extreme weather events may see entities having to restructure their organisations, and in doing so, incurring restructuring costs and/or paying out termination benefits to employees. A provision for these costs is recognised when, and only when, there is a firm legal or constructive obligation from a past obligating event. Accordingly, a provision for these items is recognised when, and only when, the decision to restructure the entity that has been **(i)** approved by the board, **and** **(ii)** communicated to affected parties (i.e., employees, customers etc.).	YES / NO / ?
Financial guarantee contracts *[NZ IFRS 9]*	The consequences from the recent extreme weather events may see entities who have provided guarantees to other third parties or related parties (i.e., loans and leases), now expecting to ultimately have to make-good on these guarantees. Where this is the case, liabilities for the financial guarantee contracts will need to be remeasured.	YES / NO / ?

5. OTHER AREAS OF RECOGNITION AND MEASUREMENT

The wider facts and circumstances surrounding the consequences from the recent extreme weather events may highlight additional recognition and measurement areas to be navigated through with respect to other NZ IFRS'.

Item [NZ IFRS]	Comments	Relevant to my entity
Variable consideration *[NZ IFRS 15]*	The consequences from the recent extreme weather events may result in *variable consideration* in contracts with customers needing to be revisited, including refunds, concessions, success-based fees, bonus payments etc. This may introduce additional scenarios into an entity's *expected value* measurement determinations, and/or more aggressive negative side weightings. At all times, NZ IFRS 15's constraint conditions for recognising variable revenue need to be adhered to.	YES / NO / ?
Lease renewal and termination options **Rent relief provided by lessors** *[NZ IFRS 16]*	*Lessees* The consequences from the recent extreme weather events may see entities having to reassess and change their decisions regarding the use (or non-use) of renewal and termination options. Such updates represent "lease modifications", and will require remeasurement of the lease liability and right-of-use assets (using updated, **current discount rates**). Also, entities may be unable to physically access and utilise lease property (and equipment), lessors may provide various rent relief to lessees. Where rent-relief is provided in accordance with contractual clauses in the lease agreement (such as "No access in emergency" clauses, and the like) the rent relief is accounted for as a *variable lease payment*, with any reduction in the lease liability recognised in profit or loss. For **lessees**, where rent-relief is not provided in accordance with contractual clauses in the lease agreement (i.e.: as a gesture of "goodwill" from lessors) the rent relief is accounted for as a "lease modifications", and will require remeasurement of the lease liability and right-of-use assets (using updated, **current discount rates**) (that is, the COVID rent relief simplifications that we added to NZ IFRS 16 do not apply in this situation). *Lessors* For **lessors**, the treatment of any rent relief provided to lessees with depend on the type of lease provided (i.e.: *operating lease*, or, *finance lease*), and other of specific facts and circumstances. Further details and worked examples of different types of rent relief for **lessors** are the same as those that applied when similar COVID relief was provided, accordingly further information can be found in BDO's previous *IFR Bulletin* (click here).	YES / NO / ? YES / NO / ? YES / NO / ?
Share-based payment vesting *[NZ IFRS 2]*	The consequences from the recent extreme weather events will likely impact a broad range of vesting conditions associated with share-based payments (commonly those with employees). Where the outlook of satisfying these conditions has diminished, this may result in "forfeiture accounting" being required for changes in the assessments of service conditions and other (non-market) performance conditions (i.e., reversing previous period's expense back through profit and loss as gains in the current year). Where vesting conditions are modified in response to the consequences from the recent extreme weather events, the accounting treatment will depend on whether the modification is beneficial to the employee (revised accounting treatment required) or not (previous accounting treatment remains unchanged).	YES / NO / ?
Modified loan agreements *[NZ IFRS 9]*	As with lease contracts, the consequences from the recent extreme weather events may see entities modifying the terms and conditions of loans they have received (liabilities), as well as loans they have advanced (assets) For loan liabilities, modifications that result in a 10% greater change in the present value of payments are treated as *de-recognition and immediate re-recognition* event (with any difference recognised in profit or loss). For loan assets, NZ IFRS does not provide a "fixed" % change threshold and entities must also consider the qualitative nature of the modification (i.e., does the modification provide temporary (long-term) relief such that the net economic value of the loan is not (is) significantly affected). As such entities (and their auditors) will need to consider the appropriate thresholds and/or relevant qualitative factors present, and apply the same *de-recognition and immediate re-recognition* treatment when the threshold is crossed. Refer to BDO's June 2021 *Accounting Alert* article for more details (click here).	YES / NO / ?
Hedge ineffectiveness **Hedge disqualification** *[NZ IFRS 9]*	The COVID-19 environment may result in decrease in hedge effectiveness, or even full disqualification from continuance of hedge accounting (i.e., if the hedged item e.g. (forecasted transactions) is no longer highly probable).	YES / NO / ?

Government support measures *[NZ IAS 12]* *[NZ IAS 20]*	In response to the consequences from the recent extreme weather events, the New Zealand government (and/or their agencies) may extend various support measures to business, and individuals through businesses (i.e., wage subsidies). Entities will need to consider the specific nature and features of these support measures, to determine their appropriate accounting treatment (i.e., as income tax reductions, as government grants received, or as other mechanisms (leases, financial instruments etc.). Where support measures come in the form of income tax rate reductions, entities will need to consider whether the relevant law has been substantively enacted as at reporting date.	**YES / NO / ?**
Business acquisitions **Contingent consideration** *[NZ IFRS 3]*	*Fire sales – "moth balled" operations* The consequences from the recent extreme weather events may see certain entities never able to re-establish their operations, and therefore be acquired (in part, or in full) by other parties. Where the entity (or group of assets) being sold is not generating outputs at the time of purchase, there are different criteria to be applied to determine whether in fact a "business" (as defined for accounting purposes) has been acquired. If the criteria are met, *acquisition accounting* is applied. If the criteria are not met, then the transaction is accounted as an *asset purchase* (which different in various aspects from *acquisition accounting*). Accordingly, entities will need to ensure that they make this determination, and then apply the necessary accounting treatment, correctly. *Gain on bargain purchase* The nature of the facts and circumstances surrounding business acquisitions in the wake of the recent extreme weather events may see purchasers able to make acquisitions at lower than usual prices. In some cases, this may even result in the value of the net assets of the business being acquired being greater than the price paid, resulting in a *Gain on bargain purchase* (in profit or loss). While the accounting standards acknowledge that such *Gain on bargain purchase* is possible, it is expected to be rare in practice, and accordingly requires an entity to double-check that a *Gain on bargain purchase* has actually arisen, for example: • Has the purchase price been (fair) valued correctly, • Have all the potential liabilities (including contingent liabilities, and deferred tax liabilities) been identified and (fair) valued correctly. • Do all the assets identified actually exists and/or meet the recognition requirements, and if so, have they been (fair) valued correctly). Where a *Gain on bargain purchase* still appears to be present, the purchaser should ensure there is a logical commercial rationale and explanation as to why this has occurred. *Contingent consideration* The consequences from the recent extreme weather events may mean that targets set in the contingent consideration payments for past business combinations are now not expected to be met. Where this is the case, the (fair) value of these payables will decrease, resulting in a (fair value) gain being recognised in profit or loss.	**YES / NO / ?**

6. PRESENTATION AREAS

The wider facts and circumstances surrounding the consequences from the recent extreme weather events may require entities to (re)consider how their financial statements may need to be presented in order to comply with various aspects of NZ IFRS.

Item [NZ IFRS]	Comments	Relevant to my entity
Current versus non-current *[NZ IAS 1]*	The consequences from the recent extreme weather events may see: (i) Certain assets no longer being able to be consumed or settled in an entity's "normal operating cycle" - meaning they would fail "current" classification. (ii) Certain assets now being expected to be realised in the 12 months following reporting date (i.e., liquidation, asset sell offs) - meaning they would meet "current" classification. (iii) Liabilities no longer being able to be deferred unconditionally for a period of 12 months or more (i.e., breaches in bank covenants) - meaning they would fail "non-current" classification.	YES / NO / ?
Non-current assets held for sale *[NZ IFRS 5]*	As above, the consequences from the recent extreme weather events may see entities expecting to realise certain non-current assets in the 12 months following reporting date. However, this fact in and of itself is not determinative to present and classify a non-current asset as "Held for sale" in the financial statements. NZ IFRS 5 has a number of other, strict criteria that must be met before this treatment is applied, including (but not limited to) that as at reporting date: (i) Management have **committed to a plan** to sell the asset; and (ii) Management are **actively** looking to locate a potential; buyer(s). Note that assets to be abandoned are not treated as "held for sale".	YES / NO / ?
Discontinued operations *[NZ IFRS 5]*	The consequences from the recent extreme weather events may see entities reduce operations, components that are disposed of or cease operations. Where these meet the definition of a *discontinued operation*, they will require separate, and specific presentation and disclosure in an entity's balance sheet and profit or loss statement.	YES / NO / ?

7. DISCLOSURE AREAS

The wider facts and circumstances surrounding COVID-19 may require entities to provide updated, specific disclosures with respect to those areas that are consequentially impacted.

Item *[NZ IFRS]*	Comments	Relevant to my entity
Financial risk management *[NZ IFRS 7]*	NZ IFRS 7 requires entities to may full, transparent, and entity-specific quantitative and qualitative disclosures regarding the nature and extent of risks arising from financial instruments The consequences from the recent extreme weather events with have wide ranging, but entity-specific impacts to an entities credit risk, liquidity risks, and market risk exposures. Accordingly, certain entities will need to revisit their financial risk management notes and update these so as to include consequential impacts from the consequences from the recent extreme weather events. In addition, certain entities may need to consider whether details climate-related risks that impact an entities financial risk (and management thereof) also need to feature in the financial risk management disclosures (i.e., as “Other risks”). Entities that will need to take particular note of this would include: (i) Those that have been directly impacted by the recent extreme weather events, and (ii) Those with operations in other areas that are similar in nature to those that have been directly impacted by the recent extreme weather events (i.e., past severe flooding and/or cyclone events).	YES / NO / ?
Fair value *[NZ IFRS 7]*	Fair value hierarchy disclosures may “shift down” into lower tiers as more fair values may need to be determined using a greater number of unobservable inputs.	YES / NO / ?
Events after reporting period *[NZ IAS 10]*	NZ IAS 10 requires entities to disclosure information about significant **non-adjusting** events (refer A(i) above) that have occurred after reporting date, and before the financial statements are signed (i.e. **(i)** the nature of the event; and, **(ii)** an estimate of the financial effect, or that no such estimate can be made). In some cases, entities may have included these disclosures within other notes to the financial statements (i.e.: *Going concern* note, or a specific *2023 extreme weather events impact* note). Refer to section **1. Post-reporting date events** (above.)	YES / NO / ?
Going concern *[NZ IAS 1]* *[FRS 44]*	Refer to section **2. The going concern assumption** (above).	YES / NO / ?