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HALL CHADWICK

Fourteen crucial topics to think about

In this issue of *Corporate Advisor,* we explain 12 financial-reporting, regulatory, and corporate-governance topics of crucial importance to CFOs and directors.

We're focusing mainly on regulatory issues that affect the preparation of 31 December reports – ASIC targets and lessons from reviews.

AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* are operative for not-for-profit entities, and AASB *Leases* for all from 1 January. Preparers should not under-estimate the complexity of these standards and be well advanced with plans to implement them.

30 June marks the application of AASB 15 *Revenue from Contracts with Customers* for for-profit entities for the first time. Also, both profit and not-for-profit entities need to apply AASB 9 *Financial Instruments* and related AASB 7 *Financial Instruments* amendments.

Three horizon issues need to be planned for: the new code of ethics, climate-change reporting, and an increase in size thresholds for proprietary-company reporting.

The Hall Chadwick team looks forward to working with you on the challenges ahead.

ASIC focuses for 31 December 2018 reporting

Contributed by: Drew Townsend, Partner at Hall Chadwick Sydney

Introduction

The Australian Securities & Investments Commission is calling on companies to focus on new requirements that can materially affect reported assets, liabilities and profits.

Both full-year and half-year reports at 31 December must comply with new accounting standards on revenue recognition and financial-instrument values (including hedge accounting and loan-loss provisioning).

Reports must also disclose expected impacts of new lease-accounting requirements. New standards cover accounting by insurers and the definition and recognition criteria for assets, liabilities, income and expenses.

ASIC commissioner John Price said: 'We are concerned that some companies may not have adequately prepared for the impact of new accounting standards that can significantly affect results reported to the market by companies, require changes to systems and processes, and affect businesses. We will monitor these areas closely and will take action where required.'

Directors and management should ensure that companies are prepared for the new standards and inform investors and other financial-report users of their effects on reported results.

ASIC will be reviewing more than 85 full-year financial reports at 31 December and selected half-year reports.

The commission reminds directors that they are primarily responsible for the quality of financial reports. This includes ensuring that management produces quality financial information on a timely basis. Companies must have appropriate processes, records and analyses to support reports.

They need to apply appropriate experience and expertise, particularly in more difficult and complex areas such as accounting estimates (including impairment of non-financial assets), accounting policies (such as revenue recognition) and taxation.

Further information can be found in ASIC information sheets:

- INFO 183 *Directors and financial reporting,* and
- INFO 203 *Impairment of non-financial assets: Materials for directors.*

Effects of new standards

New accounting standards that will significantly affect reported results of many companies include:

- AASB 9 *Financial Instruments* (applies from years commencing 1 January 2018)
- AASB 15 *Revenue from Contracts with Customers* (applies from years commencing 1 January 2018)
- AASB 16 *Leases* (applies from years commencing 1 January 2019)
- AASB 17 *Insurance Contracts* (applies from years commencing 1 January 2021), and
- Amendments to standards to apply the new definition and recognition criteria in the *Conceptual Framework for Financial Reporting* (applies from years commencing 1 January 2020).

The International Accounting Standards Board has proposed to change the application date for the standard on which AASB 17 is based to years commencing 1 January 2022.

New accounting standards may significantly affect:

- How and when revenue can be recognised
- The values of financial instruments (including loan provisioning and hedge accounting)
- Reported assets and liabilities relating to leases
- Accounting by insurance companies, and
- General identification and recognition of assets, liabilities, income and expenses.

The standards also introduce new substantial disclosure requirements.

Given the extent of the changes to financial reporting, companies that have not already done so should determine the extent of any impacts. The new standards can have major effects, for example, on compliance with debt covenants and regulatory financial-condition requirements, tax liabilities, dividend-paying capacity, and remuneration schemes. They should also see if new systems are needed.

Public disclosure on the impact of the standards and their timely implementation is important for investors and market confidence. Information that there will be no material impact may also be important for the market.

Directors and preparers should consider any continuous-disclosure obligations and the need to keep the market informed, as well as the impact on fundraising and other transaction documents.

Further information can be found in ASIC media release. *Companies need to respond to major new accounting standards* (refer: 16-442MR).

Half-year reports

New revenue and financial-instrument standards apply to years commencing 1 January last year, directly affecting reported results of companies with half-year reports at 31 December 2018. Reports must disclose the nature and effects of changes in accounting policies by applying the new standards.

ASIC will review selected half-year reports, focusing on compliance with the new standards.

New lease accounting and other requirements

Directors and auditors should ensure that notes to 31 December financial statements disclose the impact on future financial positions and results of new requirements for accounting for leases, accounting for insurance businesses, and new definition and recognition criteria for assets, liabilities, income and expenses.

ASIC says that 'it is reasonable for the market to expect that companies will be able to quantify the impact of the new standards, particularly for the lease standard'.

Companies with 31 December year-ends will be reporting to the market part way into the 2019-20 year, for which the new lease standard will first apply. Any results forecast for the 2019-20 year disclosed to the market should be consistent with the accounting basis required by the new standards.

The new leases standard will bring all leases onto the balance sheet and apply a new measurement basis. Where companies choose to apply the new requirements in comparative information in their 30 June 2020 financial report, new lease balances will be needed as at 30 June 2018.

New conceptual framework

In March, the IASB released a new conceptual framework. Amendments were made to international standards to apply new definition and recognition criteria for assets, liabilities, income and expenses. They will apply for years commencing 1 January 2020 where the criteria are not inconsistent with a specific standard's requirement.

While the Australian equivalent standards have not yet been amended, companies that must make an explicit unreserved statement of compliance with International Financial Reporting Standards will need to make note disclosure at 31 December of the expected impact of the criteria in the new framework to make that statement.

The AASB is expected to issue in January an exposure draft on the framework for for-profit entities.

Specific areas of ASIC focus

The specific areas of ASIC focus are:

- Impairment testing and asset values
- Revenue recognition
- Expense deferral
- Off-balance sheet arrangements

- Tax accounting
- Operating and financial review
- Non-IFRS financial information, and
- Estimates and accounting policy judgements.

See appendix *Specific areas of ASIC focus for 31 December 2018* for the detail.

Don't forget new AASB 15 and AASB 7 disclosures

Contributed by: Graham Webb, Partner at Hall Chadwick Sydney

Having finished with the recognition and measurement requirements of AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments,* one could be almost forgiven for thinking that the heavy lifting is over.

Not so. The new standards contain extensive disclosure requirements. For example, the old AASB 18 *Revenue* contained three high-level disclosures. Its new counterpart contains about 20 detailed disclosures.

AASB 15 also specifies significant judgement disclosures, and those where practical expedients and a modified approach for comparatives are used. Do not overlook them.

The disclosure requirements for AASB 9 are found in the revised AASB 7 *Financial Instruments: Disclosure.* There are 14 credit-risk disclosures alone. All are new, and many are based on internal policies. And, not to be forgotten, there are extensive disclosures required on initial application of AASB 9.

Disclosures must be entity-specific, so short-cuts such as cutting and pasting aren't going to work.

Just consider for a moment two disclosure requirements of AASB 15:

- Provide an explanation of the significant changes in contract-asset and contract-liability balances during the reporting period and explanation needs to include qualitative and quantitative information, and

- Information on performance obligations (how such obligations are satisfied, significant payment terms, nature of goods and services the entity has promised to transfer, return obligations and warranties).

Detailed disclosures are aimed at meeting an explicit general-disclosure principle. So after having considered specific disclosures, preparers need to reflect on whether the general principle has been met. If not, provide the information to meet the principle.

Disclosures apply only where they are material, the latter defined in AASB 101 *Presentation of Financial Statements.* It's linked to users and user-decisions as described in the Framework. Making materiality assessments has challenged many preparers and auditors and will continue to do so with the new standards.

Standard-setters have tried to help with guidance *Making Materiality Judgements*, a practice statement issued late last year. Many are still ignorant of it. Use it; it will help.

Preparers will have to make judgements about the levels of aggregation and disaggregation information. The challenge is to get the balance right.

The new standards require changes in accounting policies. These must be disclosed under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Also, the transition to the new standards may throw up errors in the application of superseded standards. Errors need to be disclosed under AASB 108.

While on the subject of accounting policies, remember AASB 101 requires disclosure of significant accounting policies and the judgements management has made in applying them.

Finally, don't forget third-balance-sheet disclosures. Entities applying the reduced-disclosure regime do not need to make this one.

Take disclosures seriously – they will require much time and effort. You need to document how you do it and the decisions you make.

Prepare your financial-reporting template using the new disclosures well in advance of the end of reporting periods. Brief your board on the revised template. You really don't want to be doing it in the heat of the reporting period.

Bigger *is* better for proprietary companies

Contributed by: David Lissauer, Partner at Hall Chadwick Melbourne

The federal government proposes to reduce the reporting 'burden' for small and medium businesses by raising financial-reporting thresholds, saving them $300 million over four years. The increased thresholds apply from 1 July 2019.

Around a third of large proprietary companies (2,200 out of about 6,600) will no longer be classified as large and will no longer be required to comply with financial-reporting and audit requirements.

An estimated reduction of their regulatory costs is $81.3 million annually. The average cost of preparing and auditing financial reports is about $36,950 a company each year.

The thresholds have not been adjusted since 2007.

Proprietary companies are considered to be 'large', for the purposes of ASIC reporting requirements, if they meet at least two of the following three thresholds in a financial year.

Test	Current	Proposed
Consolidated revenue	$25 million or more	$50 million or more
Consolidated gross assets	$12.5 million or more	$25 million or more
Employees	50 or more	100 or more

'Large' companies are required to prepare and lodge a financial report, a director's report and an auditor's report with ASIC each financial year.

Small proprietary companies will still be required by law to keep written financial records and may be required to prepare or audit financial reports if directed by ASIC or five per cent or more of their shareholders to do so. All other corporate obligations that apply to propriety companies will continue to apply.

Chair of the Australian Accounting Standards Board Kris Peach said: 'The [board] welcomes the minister's announcement of proposals to increase the […] thresholds. The timing of the review […] is particularly important given the consultation proposals the AASB is […] considering to simplify the Australian financial-reporting framework and improve the trust in and transparency of financial reporting.

'We encourage users and preparers […] to consider the small/large proprietary companies' threshold […] proposals to remove the ability for corporate preparers to self-assess their financial-reporting requirements. The threshold identifies companies of Australian economic significance, which is a criterion that helps determine who prepares general-purpose financial statements under […] Australian [standards] and is also important to the AASB's deliberations on the appropriate future financial-reporting requirements for such companies.

'We look forward to continued collaboration with Treasury as the proposals are further considered.'

ASIC asks 17 entities to explain treatments

Contributed by: Nikki Shen, Partner at Hall Chadwick Perth

The ASIC has asked 17 entities to explain the accounting treatments of 20 matters.

This follows a review of the 31 December 2017 financial reports of 90 listed and other public-interest entities.

ASIC commissioner John Price said: 'The number of companies that quantified the impact of coming new requirements for reporting revenue and financial instruments was disappointing.

'Directors and preparers should ensure that they understand the impact of new accounting standards and have systems and processes in place to support reporting under these new standards.'

ASIC's queries were as follows:

Matter	Number of Inquiries
Revenue recognition	7
Asset values and impairment testing	3
Tax accounting	2
Amortisation of intangible assets	2
Classification of liabilities as non-current	2
Business combination	2
Other matters	2
Total	20

Three matters have been resolved with no changes to reporting.

Following its enquiries, ASIC announces when a company makes material changes to information previously provided to the market. Market transparency is improved, and directors and auditors of other companies are made more aware of the commission's concerns.

Since its counterpart report in December, the commission has issued media releases on changes by Genworth Mortgage Insurance Australia Limited, Medusa Mining Limited, Intrepid Mines Limited, Sequoia Financial Group Limited, Pacific Current Group Limited, Myer Holdings Limited, and Orica Limited. The total adjustments to profits because of the changes exceeded $750 million.

Preparers and auditors can learn many lessons from ASIC's surveillance. In summary, they are:

Topic	Findings
New accounting standards	Most entities that were likely to show material changes to revenue recognition and financial-instrument valuation for the financial year starting 1 January had not quantified the impact of these standards in notes to their 31 December financial statements. This appears to indicate a lack of preparedness for reporting under new standards. Directors and preparers of financial reports also need to focus on the impact of upcoming new requirements for lease accounting and accounting for insurance activities, and a new conceptual framework.
Revenue recognition	ASIC is following up seven matters concerning the recognition of revenue, including fee-income recognition by a fund manager, and cases where revenue appears to have been recognised before the provision of relevant goods or services.
Asset values and impairment testing – general	ASIC continues to identify concerns regarding assessments of the recoverability of the carrying values of assets, including goodwill, exploration and evaluation expenditure, and property, plant and equipment.
Asset values and impairment testing – determining the carrying amount of CGUs	There are cases where entities appear to have identified cash-generating units (CGUs) at too high a level despite cash inflows being largely independent, resulting in cash flows from one asset or part of the business being incorrectly used to support the carrying values of other assets.
Asset values and impairment testing – reasonableness of cash flows and assumptions	Some cash flows and assumptions used by entities in determining recoverable amounts are not reasonable or supportable having regard to matters such as historical cash flows, economic and market conditions, and funding costs. Instances were found where an entity's forecast cash flows had exceeded actual cash flows for several reporting periods.
Asset values and impairment testing – use of fair value	Entities are still using discounted cash-flow techniques to estimate fair value where calculations are dependent on many management inputs. Where it is not possible to estimate reliably the value that would be received to sell an asset in an orderly transaction between market participants, the entity may need to use the asset's value in use as its recoverable amount
Asset values and impairment testing – impairment indicators	Some entities are neglecting impairment indicators such as significant adverse changes in market conditions, reported net assets exceeding market capitalisation, and discontinuing exploration and mining activities.

Asset values and impairment testing – disclosures	Several businesses failed to make necessary disclosures of key assumptions and, for fair values, the valuation techniques and inputs used.
Tax accounting	ASIC queried two entities about their tax accounting, including the correct application of legislation, the timing of entering into certain commercial arrangements, and recoverability of a deferred tax asset. Enquiries were also made two entities concerning the possible lack of disclosure of disputes with the Australian Taxation Office for 30 June 2017 year-ends.
Amortisation of intangibles	Two businesses are being queried over the amortisation of intangibles. One entity amortises assets over an estimated useful life that is significantly longer than the period of contractual rights and renewal options.
Classification of liabilities as non-current	Enquiries were made of two entities concerning the classification of liabilities as non-current where it appeared that the liabilities may have been payable in less than 12 months from year-end.
Business combinations	Enquiries were made of two entities on accounting for business combinations, including the determination of the amount of consideration given.
Estimates and accounting policy judgements	ASIC continues to find entities that need to improve the quality and completeness of disclosures on estimation uncertainties and inadequate significant judgments in applying accounting policies. Disclosures should include information necessary for investors and others to understand the judgements made and their effects. This may include key assumptions, reasons for judgements, alternative treatments, and appropriate quantification.

The commission continued to find that some key audit matters were described in general terms rather than being specific to an entity's circumstances. In some cases, audit procedures were not clearly described.

AASB clarifies definitions of a business and materiality

Contributed by: Geoff Stephens, Partner at Hall Chadwick Brisbane

The AASB has clarified the definition of a business and the definition of 'material' through two new amending standards.

They are:

- AASB 2018-6 clarifies the definition of a business in AASB 3 *Business Combinations*, to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition, and

- AASB 2018-7 clarifies the definition of 'material' and its application across AASB standards and other pronouncements. The principal amendments are to AASB 101 *Presentation of Financial Statements*.

Both standards are effective for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

The business combination will help companies determine whether an acquisition is of a business or a group of assets.

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs and other economic benefits to investors and others.

Previous definition of a business	New definition of a business
An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing *a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.*	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing *goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.*

Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring the former.

Companies are required to apply the amended definition to acquisitions on or after 1 January 2020. Earlier application is permitted. Entities thinking about a possible business combination should examine the amendments and consider whether there is a benefit in early adoption.

The AASB issued amendments to its definition of material to make it easier for companies to make materiality judgements.

The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in their financial statements. The updated definition amends IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (they are AASB 101 and AASB 108 respectively).

The amendments are a response to findings that some companies experienced difficulties using the old definition when judging whether information was material for inclusion in the financial statements.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in accounting standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all accounting Standards.

Previous definition	New definition
Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity

Flexibility on fair-valuing 'peppercorn leases'

Contributed by: Clive Massingham, Partner at Hall Chadwick Brisbane

The Australian Accounting Standards Board has issued amending standard AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-profit Entities.*

AASB 2018-8 provides a temporary option for NFP lessees to elect to measure a class (or classes) of right-of-use assets arising under 'concessionary leases' at initial recognition, either:

- At cost, in accordance with AASB 16 Leases paragraphs 23–25, which incorporates the amount of the initial measurement of the lease liability, or
- At fair value (under AASB 13 *Fair value Measurement*), in accordance with AASB 16 paragraph Aus25.1 (as amended).

In this context, concessionary leases have significantly below-market terms and conditions principally to enable an entity to further its objectives.

Entities choosing the temporary relief would value the right-of-use asset at the present value of payments required.

An entity applying the temporary option must include *specific disclosures* in financial statements to ensure that users understand the effects on financial positions and performances as well as cash-flows.

The temporary option allows NFPs to continue their work on fair-valuing right-of-use assets under peppercorn leases if they intend to measure the right-of-use assets at initial recognition at fair value.

Reasons for the temporary option are:

- Given the prevalence of restrictions on ROU assets in the NFP sector, the AASB prefers the interpretative issues arising from fair-valuing such leases to be resolved as part of the fair-value measurement project, and
- Financial-reporting thresholds of NFP private-sector entities are likely to be revised as a result of the ACNC legislative-review recommendations, and entities at lower levels of the reporting threshold might not be required in future to apply the requirements of AASB 16 and AASB 1058.

The optional relief is expected to remain in place until:

- Further guidance has been developed to assist NFP entities in fair-valuing ROU assets, and
- Financial-reporting requirements for private-sector NFPs have been finalised.

The AASB has set no firm date for removing the option, but it is unlikely to be removed in the next three to five years.

When the temporary relief is removed, the AASB will consider whether to provide transitional relief for leases with significantly below-market terms and conditions.

The board will reassess optional measurement when further guidance has been released to assist NFPs entities to fair-value ROU assets and financial-reporting requirements for private-sector NFPs have been finalised.

Issued but not yet operative standards - not a shopping list

Contributed by: Sandeep Kumar, Partner at Hall Chadwick Sydney

Preparers need only disclose issued-but-not-yet-operating standards that are relevant.

Under *Accounting Policies, Changes in Accounting Estimates and Errors*, when you elect not to apply an accounting standard that has been issued but is not yet effective you should disclose:

- That you are not applying it, and
- Known or reasonably estimable information relevant to assessing the possible impact that application of the new standard will have on your business's financial statements at first application.

In complying with the above, *consider* disclosing:

- The standard's title
- The nature of the impending change or changes in accounting policy
- The date at which application is required, and
- The date you plan to apply the standard initially. Add either a discussion of the application's expected impact on financial statements or, a statement saying that the impact is unknown or can't be reasonably estimated. (Colin, Is this correct? I've made the assumption that the sentence should read that you CANNOT reasonably estimate the effect.)

These disclosures apply only when the standard is material for the entity. Entities applying the RDR framework, do not need to apply disclosures.

The list below should help preparers to identify which issued-but-not-yet-operative standards might warrant disclosure.

Topic area	Standard/Interpretation	Operative from
Annual Improvements	AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015 – 2017 Cycle*	1 Jan 2019
Annual Improvements	AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments* [AASB 1, AASB 128, AASB 140]	1 Jan 2019 for NFPs

Associates and JVs	AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*	1 Jan 2019
Associates and JVs	AASB 2014 – 10 *Sale or contribution of Assets between an Investor and its Associate or Joint Venture,* AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128, AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*	1 Jan 2022
Business Combinations	AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* [AASB 3]	1 Jan 2020
Employee benefits	AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* [AASB 119]	1 Jan 2019
Framework	IASB Conceptual Framework for Financial Reporting	1 Jan 2020
Financial instruments	AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*	1 Jan 2019
Income taxes	Interpretation 23 *Uncertainty over Income Tax Treatments* and AASB 2017 – 4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*	1 Jan 2019
Insurance	AASB 17 *Insurance Contracts*	1 Jan 2021
Leases	AASB 16 *Leases*	1 Jan 2019
Materiality	AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* [AASB 2, AASB 101, AASB 108, AASB 110, AASB 134, AASB 137, the Framework and AASB Practice Statement 2]	1 Jan 2020
Public sector	AASB 1059 *Service Concession Arrangements: Grantors* and AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors –*	1 Jan 2020
RDR	AASB 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements* (AASB 16 *Leases and AASB 1058 Income of Not-for-Profit Entities*)	1 Jan 2019
Revenue (NFP)	AASB 15 *Revenue from contracts with customers,* AASB 2014-5 *Amendments to Australian Accounting Standards arising from* AASB 15, AASB 2015–8 *Amendments to Australian Accounting Standards – Effective date of* AASB 15, AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15, AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for NFP entities, AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for NFP entities and AASB 1058 Income of NFP Entities – NFP entities*	1 Jan 2019

Progressing the end of SPFSs

Contributed by: Graham Webb, Partner at Hall Chadwick Sydney

The ASIC Commission supports consultation to remove special-purpose financial statements for entities it regulates.

The commission stated: '*ASIC fully supports the consultation to remove special-purpose financia statements for entities regulated by ASIC and remove the subjective "reporting entity" test under SAC1, facilitating a comparable, consistent and transparent framework for preparation of financial statements in Australia.'*

The Australian Taxation Office has also supported the move. It commented: *'The ATO is supportive of the AASB's proposed approach to consulting on a series of principles or concepts for enhancing the transparency of entities [preparing special-purpose statements] as part of adopting the revise conceptual framework issued by the International Accounting Standards Board and for inclusion in Australian [standards] by 2021.'*

The AASB said that it would continue to work with the ATO and other regulators to improve the consistency, comparability and transparency of financial reports prepared in accordance with Australian standards.

AASB staff have released an updated FAQ on *Replacing the reporting entity concept and removing the option for Special Purpose Financial Statements*. It answers 15 often-asked questions.

The next step towards removing SPFSs is a forthcoming exposure draft of limited scope to implement the first phase of ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems.*

The draft will most likely match proposals in ITC 39. Phase one will be limited to for-profit private- sector entities that have public accountability and are required by legislation to comply with Australian standards. Existing requirements will continue for entities that are required by constitutional documents (rather than legislation) to comply with the standards.

Climate-risk disclosures need to be more consistent

Contributed by: Geoff Stephens, Partner at Hall Chadwick Brisbane

An ASIC report on climate-risk disclosure by Australia's listed companies has found that more could be done to improve consistency in disclosure practices. There was very limited climate risk disclosure outside of the top-200 companies.

Report 593 *Climate risk disclosure by Australia's listed companies* sets out ASIC's findings and recommendations for listed companies.

It reviewed:

- 60 listed companies in the ASX 300
- 25 recent initial public offering prospectuses, and
- 15,000 annual reports.

Of the 60 listed companies, 17 per cent identified climate risk as material to their business. While most companies of the reviewed ASX 100 entities had considered climate risk to some extent, disclosure practices were considerably fragmented. Information provided to the market differed in form.

The review found that climate-risk disclosures were not specific enough and of limited use to investors. Listed companies not in the ASX 200 performed very limited climate-risk disclosure.

ASIC encouraged listed companies and their directors and advisors to:

- Adopt a probative and proactive approach to emerging risks, including climate risk
- Develop and maintain strong and effective corporate governance, which helps in identifying, assessing and managing risk
- Consider how best to comply with the law where it requires disclosure of material risks, and
- Disclose to investors meaningful and useful climate-risk-related information – the voluntary framework developed by the Taskforce on Climate-related Financial Disclosures can assist.
- ASIC commissioner John Price said: 'Climate change is a foreseeable risk facing many listed companies in […] a range of different industries. Directors and officers of listed companies need to understand and continually reassess existing and emerging risks (including climate risk) that may affect the company's business – for better or for worse.

'Climate-risk disclosure [is] still evolving, not only in Australia but [...] globally. We intend to monitor market practice as it continues to evolve and develop [...].'

ASIC is encouraging companies to consider the risks of climate change and its impact on their prospects.

The commission has also reminded companies of their disclosure obligations in this area. The law requires listed companies to disclose material business risks (for example, in an operating and financial review under s299A(1)). Many listed companies disclose climate risks on a voluntary basis.

ASIC encourages companies making climate risk disclosures to consider the recommendations of the Task Force on Climate-Related Financial Disclosures. These recommendations are designed to help companies produce information that is useful for investors.

Over the next six months, ASIC will:

- Finalise a review of its relevant regulatory guidance to ensure that it continues to provide appropriate principles and high-level guidance that stakeholders can apply in meeting disclosure obligations
- Continue its focus on impairment testing and asset values in its review of 30 June financial reports, and undertake a review of climate-risk disclosures across the ASX 300 to understand better market practices.

Restructured ethics code - 2019's challenge

Contributed by: Colin Parker, Principal, GAAP Consulting and former AASB member

The Accounting Professional and Ethical Standards Board has re-issued APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*. The revised code affects all accountants and auditors.

Code improvements are multifaceted, spanning structure and applicability, conceptual underpinnings, formatting, language, and clarity. The new ethics emphasise three key messages. They are:

- Comply with fundamental principles
- Be independent when required, and
- Apply the conceptual framework to identify, evaluate, and address threats to compliance with fundamental principles.

Five substantially unchanged fundamental ethical principles are:

Integrity	To be straightforward and honest in all professional and business relationships
Objectivity	Not to compromise professional or business judgements because of bias, conflcts of interest or undue influence of others
Professional competence and due care	To attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional activities based on current technical and professional standards and relevant legislation, and To act diligently and in accordance with applicable technical and professional standards
Confidentiality	To respect the confidentiality of information acquired as a result of professional and business relationships
Professional behaviour	To comply with relevant laws and regulations and avoid any conduct that the member knows or should know might discredit the profession

Part 2, which specifically applies to accountants in business addresses issues such as:

- Conflicts of interest
- Preparation and presentation of information
- Acting with sufficient expertise
- Financial interests, compensation and incentives linked to financial reporting and decision-making
- Inducements, including gifts and hospitality

- Responding to non-compliance with laws and regulations, and
- Pressure to breach the fundamental principles.

Major revisions have been made to the conceptual framework – the approach applied by professional accountants to identify, evaluate and address threats to compliance with fundamental principles and, where applicable, independence.

Other key changes include:

- Revised 'safeguards' that better align to threats to compliance with the principles
- New and revised sections dedicated to accountants in business on preparing and presenting information and pressure to breach fundamental principles
- Clear guidance for public-practice accountants about showing that business provisions apply to them
- New guidance to emphasise the importance of understanding facts and circumstances when exercising professional judgment
- Stronger independence provisions on long associations of personnel with audit clients
- New guidance to explain how compliance with principles supports the exercise of professional scepticism in an audit or other assurance engagements
- An enhanced structure, tighter language, and more precise, clearer guidance.
- The code also brings together key ethics advances over the past four years in non-compliance with laws and regulations (NOCLAR), inducements and audit-partner rotation.
- The new code is easier to read and understand. It clearly distinguishes 'requirements' from application material in each topic.
- Requirements are general and specific obligations imposed on the professional accountant to comply with the fundamental principles in that subject matter; they generally use the term 'shall'. The word 'shall' obliges a member or firm to comply with the specific provision in which the word is used.
- Application material puts requirements in context and provides factors, explanations, suggested actions, illustrations, and other guidance that helps you to comply.
- The restructured code operates from 1 January 2020. There is little time to understand and implement its more than 200 pages.

Crowd-sourced funding extended

Contributed by: Drew Townsend, Partner at Hall Chadwick, Sydney

Federal parliament has passed the *Corporations Amendment (Crowd-sourced Funding for Proprietary Companies)* Act 2018 (CSF Pty Act), which extends the CSF regime to proprietary limited companies.

In summary, the CSF Pty Act:

- Extends the CSF framework to include eligible proprietary companies as well as public companies
- Introduces new corporate-governance and reporting requirements for proprietary companies with CSF shareholders and increases the threshold for requiring an audit from $1 million to $3 million
- Introduces an exception from the takeovers rules in Chapter 6 of the Corporations Act for proprietary companies with CSF shareholders, and
- Removes the temporary corporate-governance concessions for proprietary companies that convert to or register as public companies to access CSF.

ASIC has released updated regulatory guidance to coincide with the extension on 19 October of crowd-sourced funding to eligible proprietary companies.

The commission has also updated requirements for public companies.

Regulatory guide 261 *Crowd-sourced* funding*: Guide for companies* helps public and eligible proprietary companies to understand and comply with extra reporting requirements and accountability standards when raising crowd-sourced funds.

Regulatory guide 262 *Crowd-sourced funding: Guide for intermediaries* advises intermediaries seeking to provide CSF to public and eligible proprietary companies. It explains intermediaries' unique gatekeeper obligations as operators of platforms for crowd-sourced offers and investments.

ASIC to take aim at corporate governance

Contributed by: Sandeep Kumar, Partner at Hall Chadwick, Sydney

A new $70.1 million federal-government funding package will expand ASIC's enforcement and supervisory work.

The money will fund the creation of a corporate-governance taskforce to identify and pursue failings in large listed companies.

The royal commission into financial misconduct has uncovered serious governance failures within financial services. ASIC has indicated its concern that disclosures in governance statements can be unhelpful and, in some cases, meaningless – entities often disclose only governance policies, rather than how an entity implements them.

'Boilerplate' disclosures of governance policies do not greatly assist investors' understanding of a company's practices: the focus should be on how effective those policies are at ensuring that entities engage in good governance.

ASIC has made a submission to the ASX Corporate Governance Council's recent consultation on the proposed fourth edition of its *Principles and Recommendations*. The commission has proposed an alternative disclosure model involving a document describing an entity's corporate-governance framework and an annual statement setting out how it implements it.

We expect revised *Principles and Recommendations* to be released early in the new year.

Appendix Specific areas of ASIC focus for 31 December 2018

Area	Focus
Impairment testing and asset values	The recoverability of the carrying amounts of assets such as goodwill, other intangibles and property, plant and equipment continues to be an important area of focus It is important for directors and auditors to ensure that: • Cash flows and assumptions are reasonable having regard to matters such as historical cash flows, economic and market conditions, and funding costs. Where prior period cash flow projections have not been met, careful consideration should be given to whether current assumptions are reasonable and supportable • Discounted cash flows are not used to determine fair value less costs of disposal where forecasts and assumptions are not reliable • Fair value less costs to sell should not be viewed as a means to use unreliable estimates that could not be used under a value in use model • Value in use calculations: Do not use increasing cash flows after five years that exceed long-term average growth rates, and without taking into account offsetting impacts on discount rates, and do not include cash flows from restructures and improving or enhancing asset performance • Cash flows used are matched to carrying values of all assets that generate those cash flows, including inventories, receivables and tax balances • Discount rates and other key assumptions are reasonable and supportable • CGUs are not identified at too high a level, including where cash inflows for individual assets are not largely independent, and • CGUs for testing goodwill are not grouped at a higher level than the operating segments or the level at which results are monitored for internal management purposes. Further information can be found in ASIC information sheet 203 *Impairment of non-financial assets: Materials for directors (INFO 203)*

Appendix Specific areas of ASIC focus for 31 December 2018

Area	Focus
Other areas of focus on asset values	• Companies affected by market changes, digital disruption, technological change, climate change or Brexit. • The pricing, valuation and accounting for inventories, including the net realisable value of inventories, possible technical or commercial obsolescence, and the substance of pricing and rebate arrangements. • The valuation of financial instruments, particularly where values are not based on quoted prices or observable market data. Fair values should be based on appropriate models, assumptions and inputs.
Revenue recognition	In applying the new revenue accounting standard, directors and auditors should review an entity's revenue-recognition policies to ensure that revenue is recognised in accordance with the substance of the underlying transactions. The new revenue standard is considerably more detailed than the previous standard and focuses on performance obligations.
Expense deferral	Directors and auditors should ensure that expenses are only deferred where: • There is an asset as defined in the accounting standards • It is probable that future economic benefits will arise, and • The requirements of the intangibles accounting standard are met, including expensing start-up, training, relocation and research costs, ensuring that any amounts deferred meet the requirements concerning reliable measurement, and development costs meet the six strict tests for deferral.
Off-balance sheet arrangements	Directors and auditors should carefully review the treatment of off-balance sheet arrangements, whether other entities are controlled and should be consolidated, the accounting for joint arrangements and disclosures relating to structured entities.
Tax accounting	Preparers of financial reports should ensure that: • There is a proper understanding of both the tax and accounting treatments and how differences between the two affect tax assets, liabilities and expenses • The impact of any recent changes in legislation are considered, and • The recoverability of any deferred tax asset is appropriately reviewed.

Area	Focus
Operating and financial review (OFR)	• Listed companies should provide useful and meaningful information in the OFR about underlying drivers of the results and financial position, as well as *business strategies* and *prospects* for *future financial* years. • *Risks and other matters* that may have a material impact on the future financial position or performance of the entity should *be disclosed.* • These could include: • Matters relating to digital disruption • New technologies • Climate change • Brexit or cyber-security. For more information see ASIC regulatory guide 247 *Effective disclosure in an operating and financial review.* • Directors may also consider whether it would be worthwhile to disclose additional information that would be relevant under *integrated reporting, sustainability reporting* or the *recommendations of the Task Force on Climate-related Financial Disclosures* where that information is not already required for the OFRs.
Non-IFRS financial information	Directors should also consider whether any non-IFRS financial information in the OFR or other documents outside the financial report is potentially misleading and is presented in accordance with ASIC regulatory guide RG 230 Disclosing non-IFRS financial information. RG 230 also covers limitations on the use of non-IFRS measures in the financial report
Estimates and accounting policy judgements	Disclosures regarding sources of estimation uncertainty and significant judgements in applying accounting policies are important to allow users of the financial report to assess the reported financial position and performance of an entity. Directors and auditors should ensure disclosures are *made* and are *specific* to the assets, liabilities, income and expenses of the entity. Disclosure of *key assumptions* and a *sensitivity analysis* are important. These enable users of the financial report to make their own assessments about the carrying values of the entity’s assets and risk of impairment given the estimation uncertainty associated with many asset valuations.

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