



July
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Financial Reporting & Governance News

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Welcome to this issue of 'Financial Reporting & Governance News'.

Financial Reporting & Governance News provides you with our insight into current and emerging financial reporting, auditing and corporate governance matters on a monthly basis. This publication contains items requiring immediate consideration (**Need to Know**), whereas other items are for general information (**Nice to Know**).

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**Need to
know**

Cabcharge records \$20.7m impairment

The Australian Securities and Investments Commission has noted ASX-listed Cabcharge Australia Limited's decision of 6 February to record an impairment charge of \$20.7 million on its 49 per cent stake in UK-based CityFleet Network and \$7.9 million on

its portfolio of taxi licence plates.

AASIC had previously queried the recoverable amount of the company's intangible assets and investment in CFN for the year ended 30 June 2016.

Cabcharge's announcement indicated that the impairment made against the licence plates was required because plate income continues to adjust following regulatory reforms announced last year

by some States.

Cabcharge also said that it had increased the risk-weighted discount rate for its portfolio of plate licences to reflect the continuing uncertainty about future income levels. The impairment of its investment in CFN was said to reflect deterioration in the UK company's trading profit since August last year.

AASB clarifies materiality of certain related-party transactions

An AASB agenda decision has clarified that key management personnel related-party transactions that occur outside a public service's provider-taxpayer relationship will not always be material for disclosure in general-purpose financial statements.

The decision is expected to help not-for-profit public-sector entities in their first-time implementation of AASB 124 Related Party Disclosures, addressing also:

- The purpose of disclosures about

related parties in general-purpose financial statements, and

- The relationship between materiality and the collection of related-party information.

Shine writes down \$5m goodwill

ASIC has noted the decision by Shine Corporation Ltd to make a \$5 million impairment charge against the goodwill of its Energy & Resources Practice in its financial report for the half-year ended 31 December.

ASIC reviewed Shine's 30 June report as part of its ongoing financial-surveillance program and enquired about cashflow forecasts in the company's impairment model.





Super funds must say if they can pay members' benefits

Under a new accounting standard, superannuation funds must publish financial reports that clearly show members' benefits and whether funds are likely to be able to pay them.

The new requirements are set out in Accounting Standard AASB 1056 Superannuation Entities and apply to superannuation funds' financial reports for the first time this reporting season. AASB 1056 replaces AAS 25 Financial Reporting by Superannuation Plans.

Entities required to apply AASB 1056 are those regulated under:

- The Superannuation Industry (Supervision) Act 1993
- Similar legislative requirements in the case of exempt public-sector plans, and
- Approved deposit funds.

Australian Accounting Standards Board Chair Kris Peach said: 'With superannuation investments totalling more than \$2 trillion in Australia, it's critical that people are able to tell if their money is safe and assess the performance of superannuation funds.'

Funds' reports will now identify whether superannuation plans are fully funded and the risks to which they are exposed. Member benefits will be recognised as liabilities, and member contributions recognised as increases or decreases

in liabilities. This more closely reflects fund economics and makes funds' overall positions easier for members to understand.

'Members of superannuation funds will now be able to see how well their provider is performing overall, not just how much their individual entitlements are worth,' said Ms Peach.

'This will make it easier for employees to decide which fund they want to invest in, and will also benefit employers considering which fund they should offer as their default.'

The changes will be particularly useful to the estimated 10 per cent of Australians who have superannuation in defined benefit plans, which provide a set level of benefit, typically based on salary and years of service. As it is the fund (rather than the member) who carries the investment risk, it is important that financial reports clearly reflect risks funds are exposed to. Under AASB 1056, balance sheets will make it easier to see whether member liabilities are supported by assets.

Kris Peach said: 'I urge everyone with superannuation investments to review not just their member statements but also their plan's financial report. Make sure you really know how your entitlements are being managed.'

The AASB also issued:

- AASB Extra – AASB 1056 Superannuation Entities – A new approach, which compares and contrasts AASB 1056 and AAS 25, and
- AASB Staff FAQs on AASB 1056 which sets out responses to some common questions that have arisen as superannuation entities are preparing for AASB 1056.

This will make it easier for employees to decide which fund they want to invest in, and will also benefit employers considering which fund they should offer as their default.



APRA's prescribed provisioning

Authorised deposit-taking institutions ("ADIs") are required to apply AASB 9 Financial Instruments (AASB 9) for annual reporting periods beginning on or after 1 January next year.

Under AASB 9, the move to an expected credit-loss impairment approach for loans and other exposures is a significant change.

The Australian Prudential Regulation Authority ("APRA") confirms that ADIs using the prescribed-provisioning approach under prudential standard APS 220 Credit Quality may continue to do so for APRA-reporting purposes. The authority understands that for reporting

purposes ADIs may continue to use their current approach as a basis for determining AASB 9 provisions subject to adjustments and signoffs by external auditors.

Australian Prudential Regulation Authority's (APRA) requirements on risk management. ASIC's guidance is intended to act in unison with APRA's requirements.

There is no formal transition period for compliance with the guide.

If a responsible entity can show that it is taking steps to bring its risk management into compliance with the ASIC's guidance the commission intends to take over the next year a constructive and facilitative approach to any breaches.



ASIC releases guidance on risk management

ASIC has released Regulatory Guide 259 Risk Management systems of responsible entities, to provide more guidance on financial services licence holders' obligations to maintain adequate risk management systems under s912A(1)(h) of the Corporations Act 2001.

The guide aims to ensure that responsible entities' risk management systems, including their minimum procedures and practices, are adaptable to changing market conditions and remain effective.

It promotes early identification of risks to help to avoid adverse consequences that might affect investors. Several responsible entities have collapsed, resulting in significant losses.

The guide expects responsible entities to have:

- Overarching risk management systems
- Processes for identifying and assessing risks, and
- Processes for managing risks.

The guide also includes good-practice guidance, which is not mandatory. It outlines measures that responsible entities can adopt to enhance their risk

management systems and operate at a level above their statutory obligations.

Registrable Superannuation Entity licensees are also subject to the APRA requirements on risk management. ASIC's guidance is intended to act in unison with APRA's requirements. There is no formal transition period for compliance with the guide.

If a responsible entity can show that it is taking steps to bring its risk management into compliance with the ASIC's guidance the Commission intends to take, over the next year, a constructive and facilitative approach to any breaches.



AFSL Self-reporting position paper released

The Turnbull Government has welcomed ASIC's release of a position paper on Self-reporting of contraventions by financial services and credit licensees.

Revenue and Financial Services Minister Kelly O'Dwyer said that 'the government is committed to ensuring that ASIC has the powers and regulatory tools it needs to proactively address misconduct in the financial-services sector so as to re-build consumer trust and confidence in the financial system.'

ASIC's ability to deal appropriately with misconduct is greatly enhanced by timely reporting by licensees of significant breaches of the financial-services laws. The government included breach

reporting in the terms of reference for ASIC's enforcement review so that changes to the reporting regime – to ensure that it operates as effectively as possible – could be considered.

'The proposals outlined in this paper are aimed at improving transparency and accountability in the financial-services sector by broadening and strengthening the obligations on licensees to make timely reports to ASIC about misconduct or suspected misconduct that they become aware of,' Ms O'Dwyer said.

The paper poses reforms that would:

- Clarify when the reporting obligation is triggered – reducing compliance costs and delays in reporting, and removing uncertainty about when and whether a reporting obligation exists

- Increase accountability for licensees and their employees and representatives by expanding the class of reports that must be made, to expressly include misconduct by individual advisers and employees
- Introduce new and heightened penalties for non-reporting, giving ASIC greater flexibility to impose a range of penalties in response to a failure to report
- Require ASIC to publish data on breach reports for major licensees, and
- Introduce an equivalent reporting regime for credit licensees (who are currently subject only to annual compliance reporting).

Nice to know

Improvements to AASB 8 Operating Segments

The AASB has issued exposure draft 278 Improvements to AASB 8 Operating Segments, which proposes amendments to AASB 8 Operating Segments and AASB 134 Interim Financial Reporting.

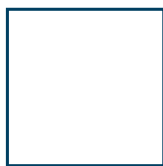
The proposed changes to AASB 8 include:

- Emphasising the nature of the function of a chief operating decision maker ("CODM") and providing additional guidance on identifying him or her
- Requiring an explanation in the notes

to the financial statements of how, and why, any reportable segments identified within the financial statements differ from segments identified in other parts of its annual reporting package, and

- Clarifying that an entity may disclose segment information in addition to that reviewed by, or regularly provided to, the CODM if that helps the entity meet the core principle in AASB 8.





ACNC update

The Australian Charities and Not-for-profits Commission ("ACNC") has:

- Revoked the status of 550 charities for failing to lodge annual information statements for two years
- Announced that the 2017 statement is set for release in July
- Stated that 1,300 double-defaulters were at risk of losing their ACNC registration
- Reminded 4,000 charities of the consequences for overdue annual reporting
- Revoked the charity status of Nest Egg Guardians
- Launched the Charity Compliance 2015 and 2016 report, and
- Published a guide to help charities consider the issues of information and data management.

Seeking views on use of unusual & infrequent items

The International Accounting Standards Board has published a discussion paper on principles that should make financial-statement disclosures more effective.

Disclosure Initiative – Principles of Disclosure could lead to amendments to IAS 1 Presentation of Financial

Statements, the Standard covering general disclosure requirements, or the development of a new general-disclosure standard.

Stakeholders have said that financial statements sometimes include too little relevant information, too much irrelevant information and information disclosed ineffectively.

The Board believes that the development of clear principles governing what, how and where information should be disclosed will improve information provided to users, help companies communicate disclosures more effectively and assist the Board in improving disclosure requirements in IFRS standards.

Governance Institute launches 'must-have' guide for aged-care directors

The Governance Institute of Australia has launched a must-have guide for directors and senior management in the aged-care sector.

Profitability, return on assets and equity are under pressure in what is soon to be the largest employer in the country, and governance challenges are immense.

Adding value to governance in aged care is a practical guide for the sector's board members on workplace arrangements,

staff roles, IT, business processes and capital expenditure.

Increasing Choice in Home Care reforms have changed the regulatory framework from 27 February, and the guide addresses a broad range of issues, including the unique challenges facing the sector, factors to consider before taking a board position, issues that boards should consider when appointing a new member, the relationship between boards and management, interaction with stakeholders, volunteer management and risk-management responsibilities.

Aged care is a significant part of the Australian economy. About 2000 providers employ about 350,000 staff.



ATO updates tax-risk guide

The Australian Taxation Office has included in the latest update of its tax-risk management guide a summary of directors' roles in overseeing an organisation's protocols.

'There are no additional responsibilities on directors. The guide really restates what [directors'] responsibilities are,' ATO assistant commissioner Jeff Stevenson said.

The update of the tax-risk management and governance review guide and the accompanying summary for directors are aimed at helping large organisations develop and improve their governance and internal controls.

'We suggest an initial gap analysis by business. They can compare and contrast their framework with the guide,' Mr Stevenson advised.

While the guide outlines best practice, it is not mandatory and organisations are not required to comply with every element of it. The ATO recommends an 'if not, why not' approach when using the guide.

'If an entity does not have a particular control in place that we've articulated in the guide, it doesn't necessarily mean a fail. It's more of a prompt for a conversation on why the control might not be there and how the risk might be managed otherwise,' Mr Stevenson said.

The guide explains that tax risk comes in two forms. The first involves paying or accounting for an incorrect amount of tax. The second derives from tax positions adopted by companies that are out of

step with what directors have authorised or believe is prudent.

The new 'Director's summary' section outlines directors' responsibilities for tax-risk management and the ATO's initial areas of focus for governance reviews. Also included in the guide for the first time is a set of self-assessment procedures for tax-governance reviews, which set out methods for examining tax-risk practices. These procedures can be used by companies, advisers and the ATO.

The guide's aim is to help organisations understand the ATO's better practices on tax governance so that they may develop and improve their own governance and internal control frameworks, test the robustness of their approaches, and demonstrate the effectiveness of internal controls.

The ATO has included the summary because directors asked for a more concise version of the guide. It provides guidance on how a board should consider tax risks.

The director's summary covers:

- Corporate governance and risk management – explaining how the existence of a strong tax governance process could stave off a more costly ATO review
- Justified trust and key controls – the process the ATO uses to assess tax risks of taxpayers, which includes gathering evidence on their governance process
- Three lines of defence as one approach to risk management

- Board-level controls – clarifying the responsibilities of the board and management
- Internal-controls testing – setting the expectation that directors will understand internal controls at the company in their oversight role
- Management-level controls – the board should oversee that managerial responsibilities are assessed and met, and
- Directorship responsibilities and liabilities – reminding directors of their legal responsibilities and personal liability concerning unpaid PAYG withholding amounts and unpaid superannuation-guarantee-charge obligations.



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