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# Financial Reporting & Governance News

## New Leasing Standard (AASB 16) Brings Significant Impacts



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The Australian Accounting Standards Board ("AASB") has made substantial changes to lease accounting with AASB 16: Leases, with the headline change being the removal of the distinction between operating and finance leases for lessees, and the requirement that most leases are now to be recorded on balance sheets.

AASB 16 will potentially have significant impacts on entities, with the new leasing Standard likely to affect almost every business to some extent – it's important to be proactive and to be prepared.

Under the current accounting standard, the obligation to make future payments under an operating lease arrangement is not included on the balance sheet even though the lessee is committed to those future expenditures. The concern of many stakeholders was that this did not reflect the lessee's true financial position.

The changes to the Accounting Standard (which apply to reporting periods

beginning on or after 1 January 2019, i.e. 31 December 2019 or 30 June 2020 year ends) will result in the inclusion of;

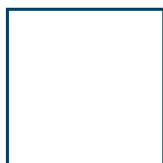
- a lease liability and
- a right of use asset
- on the balance sheet.

The AASB 16 changes are thought by the standard letter to give a more accurate representation of the financial position of a business by reflecting all of its liabilities, and to provide more useful information for investors and shareholders. The changes will substantially increase the level of commercial and financial reporting risk, given the increase in complexity and the hidden issues which may arise on implementing the new Standard.

The new Standard will change the profile of the expense. Rather than being a straight line rental expense, there will be more expensed (interest and depreciation) in early years and less in later years, impacting earnings profiles. It will also cause potentially large increases in metrics such as EBITDA. Rather than an operating rental expense, there will now be a movement of expenses below the EBITDA line, which has a range of associated issues.

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Rental expense was included in EBITDA but interest and depreciation are not, therefore EBITDA will be higher.

In addition to the possible financial reporting anomalies, the "right of use" asset will be non-current whereas the lease liability will be split between current and non-current.

This mismatch could cause issues with working capital, with a partly current liability funding a non-current asset. There may also be substantial impacts on bank covenants, which could lead to breaches

if lessees are not proactive about approaching their financiers.

Another impact could be that more lessees will now qualify as large proprietary companies, following the inclusion of "right of use" assets on their balance sheet, increasing total assets, and potentially requiring audited financial statements to be prepared, audited and lodged with ASIC.

HLB Mann Judd advises lessees to seek expert advice to understand how the changes will affect their businesses, by

identifying the types and extent of lease contracts and assessing which ones will be impacted.

Lessees will potentially have large balance sheet changes which will need to be explained to investors, financiers and shareholders and agreements might have to change.

Further, there will now need to be more integration between departments of the business entering into lease agreements and the financial reporting function.

## ASIC announced its findings from review of 31 December 2017 financial reports



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ASIC has announced the results of its review of 31 December 2017 financial reports. This review is regularly conducted by ASIC, and covered 90 listed and other public interest entities.

Following the review, ASIC has made inquiries of 17 entities, seeking explanations of accounting treatments in 20 areas:

Matter	Number of Enquiries
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 combinations	2
Other matters	2
<b>Total</b>	<b>20</b>

The matters identified by ASIC from its review included the following areas:

- **Disclosures in relation to changes from the revenue recognition and financial instrument Standards not adequate**

ASIC's review found that most entities that were likely to show material changes had not quantified the expected impact of these Standards. In ASIC's view, this indicates a lack of preparedness for reporting on the new Standards.

- **Identification of cash generating units**

There were cases where entities appear to have identified CGUs at too high a level, with cash flows from one asset been incorrectly used to support carrying values of other assets.

- **Reasonableness of cash flows and other assumptions**

ASIC continues to find cases

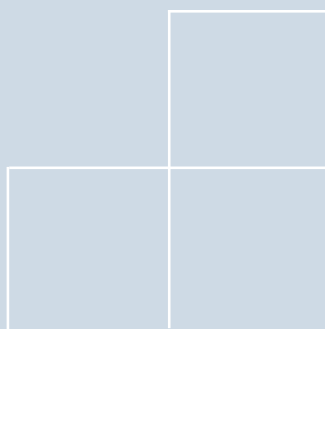
where cash flows and assumptions in determining recoverable amounts are not reasonable or supportable, including one case where forecast cash flows exceeded actual cash flows for a number of periods.

- **Use of fair value based on market value rather than value in use**

Some entities had used discounted cash flow techniques to estimate fair value, where the calculations were dependent on a large number of management inputs. In such cases where it is not possible to reliably estimate value, an entity should use a "value in use" calculation of recoverable amount.

- **Impairment indicators not considered**

Accounting Standards require Directors to consider whether any impairment indicators exist, and if they exist, then determine the fair value. ASIC found that some entities had not done this, despite impairment indicators existing.



#### ■ Taxation matters

The matters noted by ASIC include recoverability of deferred tax assets, and a lack of disclosure of disputes with the ATO.

#### ■ Estimates and accounting policy judgements

ASIC considers that some entities need to improve the quality and depth of disclosures in relation to estimation uncertainties and significant judgements.

#### ■ Key Audit Matters

Auditors of listed entities are required to describe key audit matters in the auditor's report. ASIC found some KAM that were described in general terms, rather than specific, and found others where audit procedures performed had not been clearly described.

We encourage all Directors and others involved in the preparation of financial reports to consider these ASIC findings, and ensure that your financial reports can't be criticised along the lines of the abovementioned findings.

If you have any questions in relation to any of these financial reporting matters please speak with your HLB contact.

## IASB issues revised framework

**The International Accounting Standards Board ("IASB") has issued a revised *Conceptual Framework for Financial Reporting*.**

The framework guides the Australian Accounting Standards Board in its standard setting and also helps entities to determine their accounting policies in the rare instances when no international financial reporting standard covers a particular transaction or event. The framework should help stakeholders generally to better understand and interpret AASB Standards.

Main changes to the new framework compared with the 2010 version are:

- A new chapter on measurement
- Improved definitions of and guidance on assets, liabilities, equity, income and expenses, and
- Clarifications of important concepts such as stewardship, prudence and measurement uncertainty.

The AASB will shortly release the framework.



## Issued but not yet operative disclosures ineffective

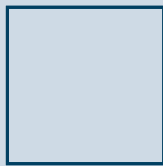
**ASIC Commissioner John Price and ASIC's Senior Executive Leader (Accountants and Auditors) Doug Niven have updated the AASB on the Commission's financial-reporting activities, including findings from a surveillance program targeting accounting standards that might need modification.**

They noted that requirements in AASB 108 *Accounting Policies, Changes in*

*Accounting Estimates and Errors* on the disclosure of the effect of new Standards are not effective in practice, and that disclosures on the impact of Standards becoming effective for most entities at 1 July (AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*) are still not being made despite implementation efforts.

The AASB noted ASIC's recommendation that requiring disclosure of the stage

of implementation of new Standards might elicit more useful information, and will discuss this with the International Accounting Standards Board in the context of its principles-of-disclosure project. ASIC and the AASB will consider how to promote jointly the requirements of AASB 108.



## Charities to be exempted from ASIC Industry Funding Levy

Mr Tony Stewart, Chair of the ACNC Advisory Board, announced today that Mr Scott Morrison, Treasurer of the Commonwealth government, has agreed

that charities are to be exempted from the ASIC industry funding levy to be imposed on companies. Should you have any questions in relation to ASIC's

industry funding levies, please do not hesitate to speak with your HLB contact.

## Ethics code revamped

**The International Ethics Standards Board for Accountants ("IESBA") has released a rewritten code of ethics that is easier to navigate, use and enforce.**

Renamed the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the new code comes into effect in June 2019.

It brings together key ethics advances over the past four years and is clearer about how accountants should deal with ethics and independence issues.

While the fundamental principles of ethics are unchanged, major revisions have been made to the unifying conceptual framework – the approach used by professional accountants to identify, evaluate and address threats to compliance with the fundamental

principles and, where applicable, independence.

New code highlights include:

- Revised 'safeguards' provisions better aligned with threats to compliance with fundamental principles
- Stronger independence provisions on long association of personnel with audit clients
- New and revised sections dedicated to professional accountants in business (PAIBs) that concern preparing and presenting information and pressure to breach fundamental principles
- Clear guidance for accountants in public practice that relevant PAIB provisions are applicable to them
- Guidance to emphasise the

importance of understanding facts and circumstances when exercising professional judgment, and

- Guidance to explain how compliance with fundamental principles supports the exercise of professional scepticism in an audit and other assurance engagements.

'This is a ground-breaking moment in the public interest,' said IESBA Chairman Stavros Thomadakis.

'The code is now a significantly strengthened platform, re-engineered for greater usability while maintaining global applicability. It underscores the importance of the fundamental principles for all professional accountants.'

The APESB will release shortly a counterpart Australian code.

## Guidance note 8 *Continuous Disclosure* updated

**The Australian Securities Exchange has updated guidance note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. The changes included:**

- Additional guidance in section 4.15 on ASX's disclosure expectations for material contracts
- Removing a reference in section 4.20

to disclosing the impact of material contracts on revenue, costs and profits

- Expanding the guidance in section 5.10 to address the new insolvent trading safe harbour for directors in s588GA of the Corporations Act and what should be disclosed when an entity in financial difficulties requests

a voluntary suspension to complete a transaction necessary for its survival, and

- Clarifying aspects of example D in Annexure A.





## Government boosts penalties for corporate misconduct

**The federal government is strengthening criminal and civil penalties for corporate misconduct and boosting ASIC's powers to protect consumers from corporate and financial misconduct.**

The reforms include the biggest increases to maximum civil penalties in more than 20 years. They bring Australia's penalties closer to those of leading international jurisdictions. The government believes that they are credible deterrents to unacceptable misconduct.

The federal government will increase penalties for the most serious criminal offences under the Corporations Act to a maximum of:

- For individuals: (i) 10 years' imprisonment and/or (ii) the larger of \$945,000 or three times the benefits, and
- For corporations: (i) the larger of \$9.45 million or (ii) three times the benefits

or 10 per cent of annual turnover.

The government will expand the range of contraventions subject to civil penalties and also increase the maximum civil penalty amounts that can be imposed by courts.

The latter will be to the maximum of the greater of \$1.05 million (for individuals, from \$200,000) and \$10.5 million (for corporations, from \$1 million) or three times the benefit gained or loss avoided or 10 per cent of the annual turnover (for corporations).

ASIC will be able to seek additional remedies to strip wrongdoers of profits illegally obtained or losses avoided from contraventions resulting in civil-penalty proceedings.

The Commission's powers will also be significantly increased through:

- Expanding its ability to ban individuals from performing any role in a financial services company if they are found to

be unfit, improper, or incompetent

- Strengthening its power to refuse, revoke or cancel financial services and credit licences where the licensee is not fit or proper, and
- Boosting ASIC's tools to investigate and prosecute serious offences by providing greater flexibility to use seized materials and granting the commission access to intercepted telecommunications material.



## Amendments to AASB 119 Employee Benefits

Amendments to AASB 119 *Employee Benefits* through AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* will affect

entities with defined benefit plans that modify their requirements, and will clarify how to measure net defined benefit liability (asset) and related amounts such as the current service costs when the

modification occurs during a reporting period.

AASB 2018-2 will be effective for annual reporting periods beginning on or after 1 January 2019.

## Evidence of good fame needed

ASX Guidance note 12 *Significant Changes to Activities* has been revised to reflect a change in policy for back-door listings requiring directors or proposed directors to provide evidence of their

good fame and character, including those who have been elected by shareholders to the board, and clarifying the accounts that need to be disclosed in an announcement under annexure A to the

guidance note. The note is immediately effective.



## ASIC releases updated guidance on client money

**ASIC has released updated guidance for Australian financial services licensees that hold client money for trading in over-the-counter ("OTC") derivatives.**

The guidance coincides with the start of ASIC's *Client Money Reporting Rules 2017* and other client money reforms enacted under the *Treasury Laws Amendment (2016 Measures No. 1) Act 2017* and the *Corporations Amendment (Client Money) Regulations 2017*.

ASIC's regulatory guide 212 *Client money relating to dealing in OTC derivatives* has been updated to reflect the changes to the law as a result of these reforms.

Circumstances in which an AFS licensee may use 'derivative retail client money', within the meaning of the Corporations

Act 2001 have been significantly restricted. In particular, AFS licensees can no longer withdraw derivative retail client money from client money accounts and use it for a wide range of purposes, including as a licensee's own working capital.

The reforms also impose new record keeping, reconciliation and reporting requirements on AFS licensees that hold derivative retail client money (unless the client money relates to a derivative that is traded on a fully licensed domestic market, such as ASX 24).

ASIC Commissioner Cathie Armour said: 'The amendments to the client-money regime enacted by parliament have strengthened the protection of derivative retail client money and will help to increase investor confidence in the

Australian financial system.

'ASIC's client-money reporting rules will also ensure greater transparency in relation to an AFS licensee's receipt and use of derivative retail client money and will ensure any discrepancies in an AFS licensee's client money account are notified to ASIC in a timely manner and enable ASIC to take appropriate action.

'ASIC has engaged with industry and there has been a sufficient transition period to ensure that AFS licensees that hold derivative retail client money are aware of the new regime and understand the obligations it imposes. [...] we expect licensees to know and comply with the new [...] regime.'

## ASX warns on contract disclosures

**The ASX has noted that several recent disclosures by listed entities about contractual arrangements with customers have fallen short of required standards.**

Examples include entities':

- Announcing a contract with a major global customer without providing details of the contract's nature or substance or significance to the entity (that is, seeking to benefit from the association with the customer without providing proper disclosure)
- Announcing what appears to be a material customer contract without disclosing that it is subject to a trial period or other conditions and therefore may not proceed
- Disclosing revenue projections for customer contracts that do not have a proper basis or that do not state the material assumptions or qualifications underpinning them
- Not disclosing when a previously announced material customer contract is terminated or does not proceed (that is, disclosing good news but not bad), and
- Misrepresenting customer contracts as 'material' and other superlatives when plainly they are not (one of the more notable examples being a listed entity that disclosed a 'material commercial agreement with a leading financial entity' under which it was to receive less than \$1,000 in revenue).

The ASX emphasised that whenever it detects this sort of behaviour it will not hesitate to suspend the entity, query it and require it to correct any inadequate or misleading disclosures. It will also refer the business to ASIC for possible regulatory action.

ASX has also drawn attention to a new passage in section 4.15 of guidance note 8 dealing with market-sensitive customer contracts and the summary in the note's annexure B of the significant criminal and civil consequences that can follow when a market announcement does not meet the requirements of listing rule 3.1 or is misleading or deceptive.



## ASIC focuses on new Standards

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

The introduction of major new Accounting Standards will have the biggest impact on many companies' financial reporting since the adoption of IFRS in 2005.

Full-year reports at 30 June 2018 must disclose the new Standards' impacts. Half-year reports at 30 June 2018 must comply with new requirements for revenue recognition and financial instrument classification and measurement.

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.'

'So far, surprisingly few companies have made disclosures [on] the impact of these Standards. This may indicate that some companies need to give urgent attention to [their effects on] reported results, systems, processes and their

businesses'.

The new Standards cover;

- revenue recognition
- financial instrument valuation (including hedge accounting and loan-loss provisioning)
- lease accounting
- accounting by insurers, and
- the definition and recognition criteria for assets, liabilities, income and expenses.

'It is important that directors and management ensure that companies are prepared for these new standards and inform investors and other financial report users of the impact on reported results. ASIC will be reviewing more than 200 full-year financial reports at 30 June [...] and selected half-year reports,' said Mr Price.

'Directors are primarily responsible for the quality of the financial report. This includes ensuring that management produces quality financial information on a timely basis. Companies must

have appropriate processes, records and analysis to support information in the financial report rather than simply relying on the independent auditor.'

'Companies should 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.'

The commission continues to review financial reports of proprietary companies and unlisted public companies based on complaints and other intelligence. It has written to more than 1000 proprietary companies that are probably large and have no reporting exemptions but have failed to lodge. ASIC will be writing to several hundred more companies later this year.

## AASB explores introducing the framework

**The Australian Accounting Standards Board is exploring how to introduce its international counterpart's revised Conceptual Framework for Financial Reporting.**

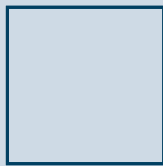
The Board's consultation paper *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* addresses two key issues:

- A concept clash on the notion of 'reporting entity', and
- A lack of trust and transparency caused by Australia's unique use of special-purpose financial statements.

The paper explores options that the Board is considering to address the problems, including a preferred option, which would end using special purpose

statements by entities required by legislation or otherwise to prepare financial statements.

Comments on the proposed approaches are sought by 9 August 2018 (for a phase-one short-term approach) and 9 November 2018 (for a phase-two medium-term approach).



## Prudential standard aims to tackle growing cyber threat

**APRA has responded to a growing threat of cyber attacks by proposing its first prudential standard on information security.**

The Authority has released a package of measures entitled *Information Security Management: A new cross-industry prudential standard* for consultation.

A proposed new standard, CPS 234, would require regulated entities to:

- Clearly define the security related roles and responsibilities of the board, senior management, governing bodies and individuals
- Maintain information security in line with the size and extent of threats to information assets and that enables the sound operation of the entity

- Implement information security controls to protect information assets and undertake systematic testing and assurance on the controls' effectiveness
- Have robust mechanisms to detect and respond to information security incidents in a timely manner, and
- Notify APRA of material information security incidents.

Executive board member Geoff Summerhayes said: 'Implementing legally binding minimum standards on information security is aimed at increasing the safety of the data Australians entrust to their financial institutions and enhance overall system stability.'

APRA intends to finalise the proposed standard towards the end of the year with a view to implementing CPS 234 from 1 July 2019.

**Implementing legally binding minimum standards on information security is aimed at increasing the safety of the data Australians entrust to their financial institutions and enhance overall system stability.**

## ASX consults on governance update

**The ASX's Corporate Governance Council is consulting on proposals to update and issue a fourth edition of its *Corporate Governance Principles and Recommendations*.**

While the standards of corporate governance in Australia remain high by international standards, the Council recognises the need to assess regularly and evolve the principles and recommendations to address emerging domestic and global issues in corporate governance.

In May 2017, the Council resolved to begin work on a fourth edition to address several issues, including:

- A social licence to operate
- Corporate values and culture
- Whistleblower policies

- Anti-bribery and corruption policies
- An apparent slowing in the rate of progress in achieving gender diversity at board level
- A recommendation from the Senate Economic References Committee for increased guidance around carbon risk, and
- Cyber risks.

The consultation draft retains the same eight core principles as the third edition, although the Council is proposing to make significant changes to principle 3 (a listed entity should act ethically and responsibly) to address emerging issues around corporate values and culture and social licence to operate.

It is proposed to re-word the principle as 'a listed entity should instil and

continually reinforce a culture across the organisation of acting lawfully, ethically and in a socially responsible manner'.

The Council proposes to expand the number of recommendations from 29 in the third edition to 38 in the fourth.

The Council expects to release the final version of the fourth edition early 2019. It is expected to come into effect for an entity's first full financial year commencing on or after 1 July 2019.

Entities with a 30 June balance date will be expected to align their governance practices with the fourth edition, beginning with the financial year ending 30 June 2020, and entities with a 31 December balance date will be expected to do the same, beginning with the financial year ending 31 December 2020.



A close-up photograph of a person's hand interacting with a tablet device. A white grid is overlaid on the image, with one square highlighted in red. The background is a soft-focus office setting.

## Tackling non-payment of workers' superannuation

**The federal government has introduced legislation to complement a sweeping superannuation guarantee integrity package before parliament by introducing a one off, 12-month amnesty for historical underpayments of guarantees.**

The bill incentivises employers to come forward and do the right thing by their employees by paying any unpaid super in full.

Employers are not being let off the hook – to use the amnesty they must pay all that is owing to their employees, including a high rate of nominal interest.

The amnesty will make it easier to secure outstanding employee entitlements by setting aside penalties for late payments.

Employers that fail to take advantage of the amnesty will face higher penalties if they are subsequently caught – in general, a minimum 50 per cent on top of what they owe. Throughout the amnesty the Australian Taxation Office will continue its usual enforcement activities.

'The ATO estimates that in 2014-15, around \$2.85 billion in SG payments went unpaid,' Financial Services Minister Kelly O'Dwyer said.

'While this represents a 95 per cent compliance rate, any level of non-compliance is unacceptable, which is why the Turnbull Government is giving the ATO the tools it needs to enforce compliance [...]

'We are introducing this one-off amnesty to allow employers to wipe the slate clean and pay their workers what they're owed.'

The amnesty will run for 12 months from 24 May 2018.

The announcement builds on the government's package of reforms to protect workers' superannuation by:

- Giving the ATO the ability to seek court-ordered penalties in cases where employers defy directions to pay their superannuation guarantee liabilities, including up to 12 months' gaol in the most egregious cases of non-payment
- Requiring superannuation funds to report contributions received more frequently, at least monthly, to the ATO. This will enable the ATO to identify non-compliance and take prompt action
- Bringing payroll reporting into the 21st century through the rollout of single-touch payroll ("STP"). Employers with 20 or more employees will transition to STP from 1 July 2018, smaller employers coming on board from 1 July 2019. This will reduce the regulatory burden on business and transform compliance by aligning payroll functions with regular reporting of taxation and superannuation obligations, and
- Improving the effectiveness of the ATO's recovery powers, including strengthening director penalty notices and use of security bonds for high-risk employers to ensure that unpaid superannuation is better collected by the ATO and paid to employees' super accounts.





## Financial Reporting

### New standards effective at 30 June 2018

While financial reporting changes for 30 June 2018 have been minimal, a storm of changes a next wave of Standards is close.

AASB 9 and AASB 7 are operative for 31 December year-ends, and AASB 15, AASB 1058 and AASB 16 are operative from 1 January 2019 for 31 December 2019 year-ends.

You should be well advanced in understanding the new Standards, having prepared detailed accounting policies, revised systems and internal controls, and involved governance and your auditors.

The list of Accounting Standards effective for the *first time* at 30 June 2018 is short;

we do not expect the changes to have an impact for many entities.

### AASB releases materiality guidance

The Australian Accounting Standards Board's Practice Statement 2 *Making Materiality Judgements* aims to help management solve problem disclosures – they arise when an entity provides too much irrelevant information and not enough of the opposite.

The goal for preparers is to exercise judgement by reviewing them through the eyes of their stakeholders. The aim is to give a clear and accurate picture of financial transactions and their associated risks.

The steps identified are:

- Identify information that has the potential to be material

- Assess whether the information identified is, in fact, material
- Organise the information within draft financial statements in a way that communicates the information clearly and concisely to primary users, and
- Review draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate on the basis of the complete set of financial statements.

The statement provides non-mandatory guidance and does not change or introduce new requirements in standards.

### Standards issued but not yet effective

Several standards soon come into force. The effects of some of them are substantial.

■ AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 <i>Income of Not-for-Profit Entities</i>
■ AASB 9 <i>Financial Instruments</i>
■ AASB 16 <i>Leases</i>
■ AASB 17 <i>Insurance Contracts</i> and associated amending standards
■ AASB 1059 <i>Service Concession Arrangements: Grantors</i>
■ Interpretation 22 <i>Foreign Currency Transactions</i> and <i>Advance Consideration</i>
■ Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> and associated amending standards
■ AASB 2014 – 10 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
■ AASB 2016-5 <i>Classification and Measurement of SBP transactions</i>
■ AASB 2017-1 <i>Amendments to Australian Accounting Standards – Transfers of Investment Property Annual Improvements 2014-2016 and Other Amendments [AASB 1, AASB 128, AASB 140]</i>
■ AASB 2017-6 <i>Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensations</i>
■ AASB 2017-7 <i>Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i>
■ AASB 2018-1 <i>Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015-2017</i>
■ AASB 2018-2 <i>Amendments to Australian Accounting Standards – Plan Amendments, Curtailment or Settlement</i>



## Let's focus on what will affect most entities

### Financial Instruments

AASB 9 Financial Instruments is applicable for annual reporting periods beginning on or after 1 January 2018 (that is, 31 December 2018 and 30 June 2019 year-ends) and contains several significant changes from present financial instrument accounting.

AASB 9 introduces new models for classifying financial assets. An entity's business model for managing financial assets and their contractual cash flow characteristics drive classification and measurement.

The models are 'hold and collect' and 'hold and sell' and include the condition that a financial asset – to qualify for amortised cost or fair value through other comprehensive income ("FVOCI") – needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding (referred to as a *basic lending arrangement*). Financial assets falling outside these parameters default to fair value through profit or loss ("FVTPL").

Equity instruments are measured at fair value, with changes in FVTPL unless a choice is made on an instrument-by-instrument basis on initial recognition, to present fair value changes in Other Comprehensive Income. This option is irrevocable and applies only to equity instruments that are neither held for trading nor are a contingent consideration in a business combination.

Dividends received on these investments are recognised in profit or loss unless the distribution clearly represents a recovery of part of the cost of the investment (for example, a return of capital).

An entity may irrevocably designate a debt instrument as FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Only an accounting mismatch permits the fair value option for financial assets. The FVTPL option is generally only relevant to financial assets and financial liabilities that would be otherwise measured at amortised cost.

There is no longer an *available for sale* classification for financial assets. As a result, there is no need for significant or prolonged decline assessment, nor recycling of gains and losses upon derecognition to profit and loss.

AASB 9 requires investments in equity instruments (other than those in subsidiaries, associates and joint ventures) to be measured at fair value in accordance with AASB 13 *Fair Value Measurement*. AASB 139 allowed an entity to measure investments in equity instruments at cost if they failed to have a quoted price in an active market and their fair value could not be reliably measured. Many entities used the latter condition as a reason for not "fair valuing investments" – they remained at cost.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to financial instruments that are subject to impairment accounting.

AASB 9 must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

AASB 7 contains significant and numerous disclosure requirements in the first year of adoption of AASB 9. There are also new disclosures that reflect the Standard's revised requirements.

***For NFP entities, the impact of AASB 9 should be low to medium. We expect that the biggest change will be the treatment of available-for-sale investments.***

For many entities the impact of AASB 9 should be low to medium, however for some it will have substantial impact. We expect that the biggest change is likely to be the treatment of available-for-sale investments (that is, shares in listed entities held on a long-term basis as part of an investment strategy). They are no longer required to be tested for impairment and movements in fair value will remain in Other Comprehensive Income as well as any gains or losses on sale.

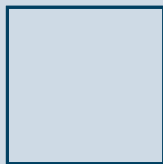
The change should reduce the time and effort spent on analysing whether an instrument has been subject to a significant or prolonged decline in value.

Entities will need to decide whether to designate instruments as Other Comprehensive Income. If the designation is declined, then instruments will be measured at FVTPL which will result in all unrealised gains and losses being taken to the result for the year.

Entities that have more complex financial instruments should review AASB 9 to assess its impact.

Don't forget that revised disclosures in AASB 7 *Financial Instruments: Disclosures* affect new classification and





measurement rules in AASB 9.

### Revenue for NFP entities

For NFPs the new revenue standard AASB 15 *Revenue from Customer Contracts* becomes effective for annual reporting periods beginning on or after 1 January 2018 (that is, 31 December 2018 or 30 June 2019 year ends), at the same time as AASB 1058 *Income of Not-for-Profit Entities*.

Entities should not delay in looking at their impact.

AASB 15 *Revenue from Customer Contracts* applies to goods and services under a contract with a customer where there are sufficiently specific performance obligations and enforceable rights.

AASB 15 requires deferral of revenue related to the transfer of control of promises to customers.

We encourage entities to review their revenue streams before AASB 15 and

AASB 1058 apply and to begin the process of determining its impact on relevant revenue streams.

### Can you implement the new standards?

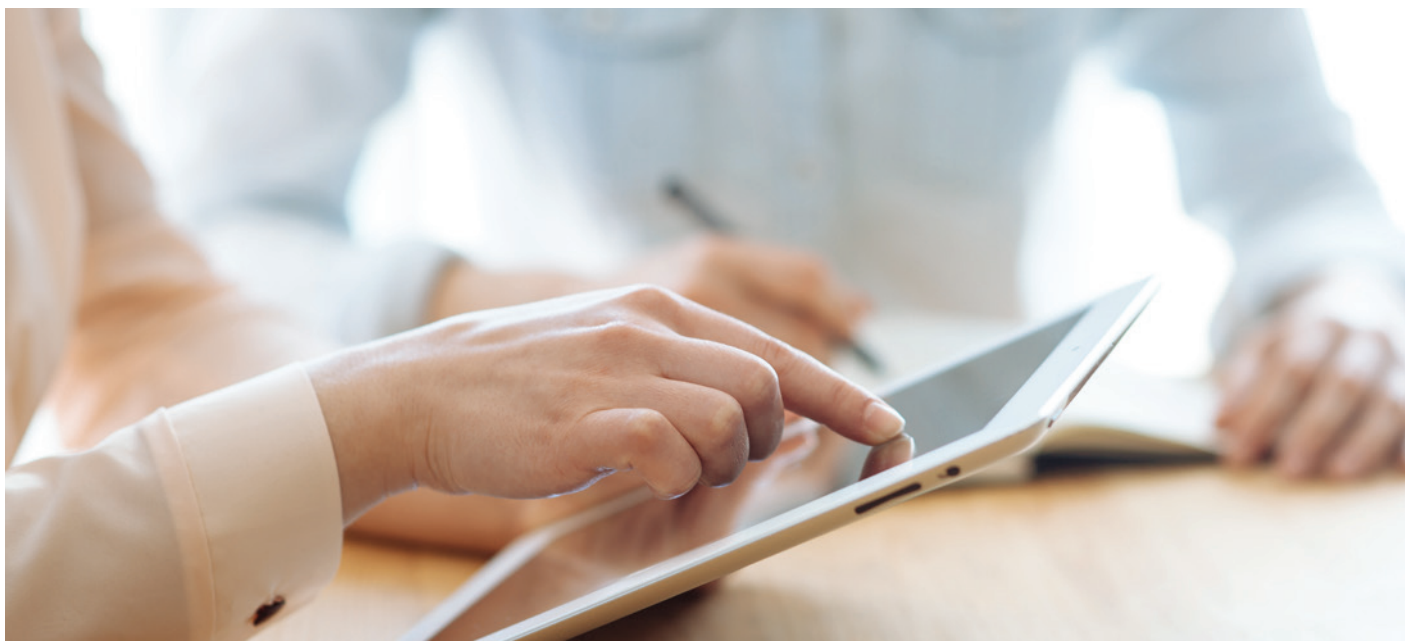
How are your implementation plans for the new Standards going? We suggest the following:

- Governance and management should ensure that progress is monitored against plans, and action taken where milestones are not met
- Identify systems, processes, and any associated internal control changes needed to produce information required under the new Standards, including related disclosures, and
- Determine the impact of financial condition requirements on compliance, including thresholds for regulatory reporting.

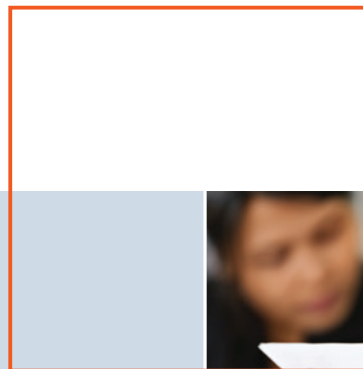
All entities need to consider transitional arrangements for these Standards to obtain the most favourable outcomes – the assessment needs to be undertaken now. The standards are complex. You will need to consider whether you have the resources to implement them.

You can talk about it with your HLB contact.

Remember that each of these Standards requires comparatives (and transitional provisions apply) and that a third statement of financial position is required for the start of comparative periods.







## TNR FRG News

SEPTEMBER 2018

## ACNC update

The ACNC has:

- Stated that RSL Queensland has committed to rectify serious governance failures
- Released *Australia's Grant-making Charities in 2016 and The Charity Compliance Report 2017*
- Started contacting 600 charities that have made errors in their 2017 annual information statements, and
- Deregistered 109 double defaulters and revoked the charity status of St Pauls Prevention Rehabilitation and of Pets Haven Foundation Limited.
- Taken compliance action against two RSL charities
- Extended transitional reporting arrangements
- Published new research on *Growth and change in Australia's charities: 2014 to 2016*, and
- Announced that the burden of red tape will be significantly reduced for thousands of Victorian charities after the Victorian State government signed an exemption order to remove duplicate-reporting requirements for incorporated associations.

## Queries

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