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# Financial Reporting & Governance News

## Prospectuses and the new revenue accounting standard - a lot of extra work!



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**Many prospectuses for IPOs and other public offerings include financial information for a number of years; for instance a prospectus issued now might include "actual" balance sheets and profit and loss accounts for the years ended 31 December 2016, 2017 and 2018, and maybe forecasts for the year ending 31 December 2019.**

Australian Accounting Standard AASB 15: Revenue applies for years ending 31 December 2018 and later.

This means that the new Revenue Standard will be used to determine the financial information for the year ending 31 December 2018, and the year ending 31 December 2019.

ASIC has advised a number of organisations that the financial information for all of the periods included in a prospectus must be done on the same basis - this obviously enhances comparability.

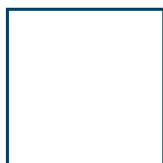
This means that the information for e.g. 31 December 2016 and 2017 must be recalculated to apply the new AASB 15 for those years.

If the new Revenue Standard is going to result in changes to revenue recognition policies, amending the 2016 and 2017 financial year information might be a significant task, and might require significant time and resources.

If you are planning a prospectus that will include financial information prepared both under the "old" revenue standards and the new AASB 15, you should include in your planning the time and resources necessary to restate any financial information prepared under the "old" standards.

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**Need to know**

## ASIC to take aim at corporate governance

**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.

## ASIC tackles climate-change risk

**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.

## ASIC asks 17 entities to explain treatments

**The Australian Securities & Investments Commission 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.'

Three matters have been resolved with no changes to reporting. **ASIC's queries were as follows:**

ASIC announces when a company makes material changes to information previously provided to the market as a result of ASIC enquiries. 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.

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>



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

Topic	Findings
<b>New accounting standards</b>	Most entities that were likely to show material changes to revenue recognition and financial-instrument valuation for the financial year starting 1 January 2017 had not quantified the impact of these standards in notes to their 31 December 2017 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.
<b>Revenue recognition</b>	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.
<b>Asset values and impairment testing – general</b>	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.
<b>Asset values and impairment testing – determining the carrying amount of CGUs</b>	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.
<b>Asset values and impairment testing – reasonableness of cash flows and assumptions</b>	Some cash flows and assumptions used by entities in determining recoverable amounts were considered by ASIC as 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.
<b>Asset values and impairment testing – use of fair value</b>	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.
<b>Asset values and impairment testing – impairment indicators</b>	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.
<b>Asset values and impairment testing – disclosures</b>	Several businesses failed to make necessary disclosures of key assumptions and, for fair values, the valuation techniques and inputs used.
<b>Tax accounting</b>	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.
<b>Amortisation of intangibles</b>	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.
<b>Classification of liabilities as non-current</b>	Enquiries were also made of two entities concerning the possible lack of disclosure of disputes with the Australian Taxation Office for 30 June 2017 year-ends.
<b>Business combinations</b>	Enquiries were made of two entities on accounting for business combinations, including the determination of the amount of consideration given.
<b>Estimates and accounting policy judgements</b>	ASIC continues to find entities that need to improve the quality and completeness of disclosures on estimation uncertainties and 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.



## Consumer-law penalties to increase

**The Australian Competition & Consumer Commission has welcomed federal legislation to increase maximum financial penalties for breaches of consumer law.**

In a report on a review of consumer law, Consumer Affairs Australia and New Zealand has recommended penalties be raised from \$1.1 million for companies to the greater of \$10 million, three times the value of the benefit received, or, where the benefit cannot be calculated, 10 per cent of annual turnover in the preceding 12 months.

Penalties against individuals will increase from \$220,000 to \$500,000 per breach.

'Companies will now face more serious financial consequences for breaching consumer law that align with competition-law breaches,' ACCC Chair Rod Sims said.

'We have strongly advocated for higher maximum penalties to enable courts to impose more substantial penalties. Penalties need to hit the bottom line so they are not simply seen as the cost of doing business. Perhaps more important, penalties need to be high enough to be noticed by boards and senior managers so that compliance with the law is a higher priority.'

'Increased penalties will help to deter large companies from breaching consumer laws. This is a profound change that I believe will improve corporate behaviour significantly and so improve the Australian economy and how it works for consumers.'

The highest penalty the Federal Court has ordered for breaches of Australian consumer law is \$10 million (ACCC actions against Coles and Ford). The highest penalty the Court has ordered for breaches of competition law is \$46 million (in an ACCC action against Yazaki).

## Federal government expands ASIC's armoury

**As reported above, the federal government is injecting a further \$70.1 million into ASIC to ensure that the corporate regulator has the resources and powers it needs to combat misconduct in financial services and other industries.**

The money will bolster ASIC's enforcement capabilities and enable it to undertake new regulatory activities and investigations.

The new funding follows a decision by the Commission's new Chairman James Shipton to re-focus ASIC on enforcement and increased onsite supervision.

It also builds on the Turnbull government's commitment to ensuring that ASIC is fit for purpose and can pursue and prosecute those who do the wrong thing.

The government has also appointed new ASIC Deputy Chairman Daniel Crennan QC, who will focus on enforcement.

A package of measures includes:

- \$26.2 million to accelerate and increase the intensity of ASIC's enforcement and enhance its capacity to pursue actions for serious misconduct against well-funded litigants, through a special account
- \$9.4 million to boost supervision of the superannuation sector by strengthening audit and enforcement action to improve transparency and outcomes for superannuation members
- \$8 million to implement new supervision of Australia's five largest financial institutions (the big-four banks and AMP) by, for the first time, embedding staff within these

institutions to monitor governance and compliance actions

- \$6.8 million to establish a taskforce that will review corporate governance to identify and pursue failings in large listed companies, including deploying staff to conduct new on-site surveillance and investigations
- \$6.6 million to implement the government's reforms to whistleblower protection laws so that ASIC can better receive, assess, sort and address whistleblower disclosures about misconduct, and
- \$6 million to promote Australia as a world leader in the development and adoption of regulatory technology solutions for the financial-services industry.





## ASIC's short-term priorities

ASIC will focus over the next six months on:

- Poor financial reporting by listed companies and other public-interest entities
- The quality of audits of listed companies and other public-interest entities
- Responsible lending practices requiring credit licensees to make reasonable inquiries about a customer's financial situation
- The responsibility of financial services licensees to monitor and supervise the advice given by their representatives, and
- Financial benchmark integrity to ensure the adequacy and robustness of the systems and controls in bank-bill trading and foreign exchange businesses.

The Commission will continue to focus on the conduct of gatekeepers – company directors and officers, auditors, insolvency practitioners and business advisers – to ensure that they meet the standards of conduct required by law. Where necessary, ASIC will act against those who fail to meet them.

ASIC will have a particular focus on:

- Companies with poor corporate governance
- Undisclosed associations and substantial holdings in shares in public companies (including beneficial-ownership tracing and corporate fraud)
- Related party transactions involving public companies
- Debenture issuers and other companies exposed to risk as a result of a declining property market, and
- Company directors and officers who fail to stop their companies making illegal payments to officials of overseas governments.

Finally, ASIC will investigate the independence of experts, including geologists and technical specialists.

The Commission has outlined considerations for companies to ensure the independence of their experts. They are:

- Start with the engagement. Consider any limitations on providing a genuine opinion during the engagement stages and ensure that any actual and perceived risks are managed

- Consider self-review issues. Will an expert's ability to be objective be compromised by their previous work on the same asset or transaction?
- Experts should engage technical specialists directly, so that the expert has a measure of control over the specialist's work, and
- Experts should make inquiries about specialists and consultants engaged for an independent expert report to ensure the existence and application of procedures that comply with the expert's licensing obligations. (For more information, see Regulatory Guide 112 Independence of experts.)

## Reduced-disclosure amendments released

**AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements has been released. It is effective for annual periods beginning on or after 1 January 2019.**

The standard amends AASB 16 *Leases* (February 2016) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016), setting up reduced-disclosure requirements for entities preparing general-purpose financial statements.





## ACNC update

The Australian Charities and Not-for-profits Commission has:

- Welcomed the publication of the ACNC Legislative Review report and also public consultation on deductible-gift-recipient reforms
- Noted that Treasury will be hosting face-to-face consultation sessions with interested parties to obtain feedback on draft external conduct standards
- Revoked the registration of The Genevieve Audrey Foundation and of Breaking Through Transitional Services Limited, and
- Concluded an investigation into 350.org and provided the charity with regulatory advice.

The Senate has established a select committee on charity fundraising to inquire and report on fundraising regulations for charities and options for reform. The Committee is to report on the second Tuesday sitting in February.

## Invitation to comment on characteristics of equity

**Nice to know**

The International Accounting Standards Board has recently published discussion paper DP/2018/1 *Financial Instruments with Characteristics of Equity*.

Submissions direct to the IASB are due by 7 January 2019.

## Minister offers to SMSFs to cut red tape

**The federal government is offering to cut red tape and reduce the compliance burden for SMSFs that have a history of good record-keeping and compliance.**

Minister for Revenue and Financial Services Kelly O'Dwyer has released for

public consultation a paper on the 2018-19 budget measure to change the annual audit cycle for some SMSFs to three years.

'This change will reduce the compliance burden for funds that have a history of good behaviour and have relatively simple

affairs,' said Ms O'Dwyer.

'The objective is to incentivise good SMSF record-keeping and compliance by alleviating the regulatory burden whilst maintaining optimal system oversight and integrity.'

## Proposed revisions to inducements

**The Accounting Professional & Ethical Standards Board has invited comment on an exposure draft of proposed revisions to the inducements provisions of the Code.**

Key revisions include a new definition of inducement, a new requirement clarifying the responsibility of members to comply with relevant laws and regulations, and revision of professional obligations that generally prohibit the offering and

acceptance of inducements.

APESB Chair Nicola Roxon says: 'Members will benefit from clarification around the Code's conceptual framework and how to apply [it] to evaluate and address threats to compliance with the fundamental principles created by inducements.'

The exposure draft provides examples of inducements, such as gifts, hospitality, entertainment, political and charitable

donations, employment and other commercial opportunities and preferential treatment, rights and privileges.

The revised provisions in the international equivalent are effective from June 2019.

# ASIC updates guidance for funds management industry

## ASIC has released a suite of seven new and updated regulatory guides for the funds management industry.

Guidance has been updated to include changes arising from the Asia Region Funds Passport and brings all of ASIC's funds management policies up to date to help promote industry wide consistency.

The updates are designed to help funds managers access the Asia Region Funds Passport, which is designed to provide investors with access to funds from participating economies throughout Asia.

The new and updated guides are:

- Regulatory guide 131 *Funds management: Establishing and registering a fund*
- Regulatory guide 132 *Funds management: Compliance and oversight*
- Regulatory guide 133 *Funds management and custodial services: Holding assets*
- Regulatory guide 134 *Funds*

*management: Constitutions*

- Regulatory guide 136 *Funds management: Discretionary powers*
- Regulatory guide 137 *Constitution requirements for schemes registered before 1 October 2013, and*
- Regulatory guide 138 *Foreign passport funds.*

The updates are comprehensive. Inclusions that may be particularly helpful to fund managers are:

- Information on ASIC's decision-making process for registering a managed-investment scheme or passport fund, and
- Good-practice examples and case studies on a range of compliance issues, including previous ASIC decisions on relief.

RG 132 advises on compliance management consistent with Australian Standard AS ISO 19600:2015: *Compliance management systems—Guidelines* (AS ISO 19600:2015). This

guidance is not mandatory, although the industry generally complies with the standard.

Legal requirements for the contents of a registered scheme's compliance and its audit are unchanged. RG 132 sets out ASIC's view of them. The updates do not include changes arising from corporate collective investment vehicles ("CCIVs") as legislation is yet to pass parliament.

ASIC will revise the guides to include material for the new CCIV regime.



## TNR FRG News

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### Queries

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