FRA NEWS

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Welcome to this issue of 'TNR FRA News'.

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

FRA News is prepared by Colin Parker, Principal, GAAP Consulting, and former member of the Australian Accounting Standards Board (2006-2009) with the input of staff of GAAP.com.au Pty Ltd.

In this FRA News, your attention is drawn to the following developments:

Need to know:

- AASB September meeting highlights
- Impairment charge welcomed by ASIC
- Expense deferral, ASIC focus area
- Auditor registration technical defect
- AFS licences cancelled
- ACNC revokes 240 lost charities

Nice to know:

- Recognition of Deferred Tax Assets for Unrealised Losses, ED 253
- Auditor independence strengthened
- ACNC continues to monitor charities obligations
- Corporate finance issues report by ASIC
- Company Directors propose an honest and reasonable defence

AASB September meeting highlights

The highlights of the AASB September meeting included:

Borrowing costs of NFP Public Sector Entities: Decided to retain the option in AASB 123 Borrowing Costs for not-for-profit (NFP) public sector entities to recognise borrowing costs as an expense in the period in which they are incurred regardless of how the borrowings are applied.

Fair value disclosures for NFP public sector entities: Decided to undertake a project to review whether the disclosure requirements of AASB 13 Fair Value Measurement should be modified for NFP public sector entities, and to issue a due process document to propose clarification of AASB 136 Impairment of Assets in relation to depreciated replacement cost as the value in use of an asset.

Income from Transactions of NFP Entities: In light of the issuance of IFRS 15 Revenue from Contracts with Customers, the Board reviewed the NFP modifications. Development of the draft AASB ED had paused while the Board awaited the finalisation of IFRS 15.

Other key items discussed: included:

- **Property, Plant & Equipment – Residual Value**
- **Cross-referencing in Australian Accounting Standards**
- **Accounting for Dynamic Risk Management**
- **Service performance reporting**
- **Service concession arrangements**

Impairment charge welcomed by ASIC

ASIC welcomed the announcement of a $4.6 million impairment charge by ASX-listed, iProperty Group Limited relating to its Singapore business in its results for the half-year ended 30 June 2014. ASIC reviewed the iProperty Group financial report for the year ended 31 December 2013 as part of its ongoing financial reporting surveillance program.

Following inquiries of the company to understand its impairment testing methodology, ASIC questioned the recoverable amount of the Singapore business, and in particular, the iProperty Group's use of fair value as a basis for estimating the recoverable value.

iProperty Group had applied AASB 13 Fair Value Measurement for the first time for the reporting period ended 31 December 2013. By estimating fair value, iProperty Group was required to apply that standard's definition of fair value which requires entities to maximise the use of market-based inputs and assumptions.

The $4.6 million impairment charge in the half-year results reflects iProperty Group's conclusion that the comparable transactions it had previously relied upon to estimate fair value as at 31 December 2013 are less relevant as at 30 June 2014. As a result, the other basis under the accounting standards for estimating the recoverable amount of the Singapore business was applied (a value in use calculation).

As outlined in ASIC media release findings from 31 December 2013 financial reports, impairment testing and asset values remain a focus area by ASIC.

Expense deferral, ASIC focus area

Expense deferral remains a focus area of ASIC's financial reporting surveillance. The announcement of a $3.8 million prior period write-off by ASX-listed, Terramin Australia Limited in its half-year financial report (ending 30 June 2014), relating to the exploration and evaluation assets of its Oued Amizour projects was welcomed by ASIC.

ASIC reviewed the company's 31 December 2013 financial report as part of its ongoing financial reporting surveillance program. As the company's exploration licence for the projects expired in August 2011, ASIC made inquiries as to the appropriateness of the company's subsequent recognition of $3.8 million of exploration and evaluation assets.

Accounting standard AASB 6 Exploration for and Evaluation of Mineral Resources (AASB 6) requires a company to have a current right to tenure of a mining area of interest in order to recognise an exploration and evaluation asset. The company has written off the $3.8 million as a prior period error because it was not able to demonstrate that all of the recognition requirements of AASB 6 were met.

Auditor registration technical defect

ASIC announced that it has provided relief to deal with a potential technical defect in the registration of some auditors since December 2005. The relief enables, to the maximum extent possible, affected auditors and their clients to conduct their affairs despite the potential defect.

ASIC recently become aware that the instrument by which it approved the auditing competency standard was never lodged for registration. It is therefore possible that it was taken to have been repealed by the Legislative Instruments Act on 1 December 2005. ASIC has been registering auditors in reliance on the standard since 1 December 2005. ASIC Class Order [CO 14/757] Relief in relation to the registration of auditors gives prospective relief to the maximum extent possible. The relevant audit competency standard has been reapproved. This ensures that it can be applied prospectively to applications for registration as an auditor.

The Australian Government will be supporting ASIC's measures by introducing remedial legislation to ensure that the past registration of people as auditors will be legally effective from the time that ASIC purported to effect the registration. The Australian Parliament has previously enacted retrospective legislation to deal with the possible consequences of the failure to register legislative instruments.

AFS licences cancelled

Licensees need to ensure they are up-to-date with and complying with current obligations to avoid ASIC taking further regulatory action which may result in the cancellation of the AFS licence.

ASIC completed a proactive review of AFS licensees resulting in the cancellation of seven AFS licences. The review targeted licensees which had not requested a release of a security bond that was required to be lodged with ASIC under a previous licensing regime. ASIC was concerned some licensees may not have requested the return of their security bond as they did not have an adequate professional indemnity insurance policy.

ASIC identified 98 financial advice licensees that still maintained a security bond with ASIC and contacted them to remind them to apply for its release. As part of the conditions of release, each licensee had to provide ASIC with evidence of their professional indemnity insurance arrangements. Even if licensees were not prepared to apply for the return of their security bond, they were still required to provide evidence to ASIC that they had in place necessary insurance arrangements to comply with Corporations Act requirements.

As a result of these enquiries and related actions, ASIC:

- cancelled seven AFS licences
- referred three licensees for further action for failure to have adequate compensation arrangements
- released, or is in the process of releasing, 54 security bonds
- prompted 17 entities to voluntarily cancel their AFS licences as they were no longer operating a financial services business, and
- confirmed the professional indemnity insurance arrangements of the remaining licensees.

The review assisted ASIC to remove licensees which are failing to meet their professional indemnity obligations and that are no longer active.

ACNC revokes 240 lost charities

The Australian Charities and Not-for-Profits Commission, the national charity regulator, has revoked the charity status of 246 Australian charities it has not been able to locate. The 246 charities include religious organisations, preschool and parent clubs, trusts and foundations, as well as health related organisations.

The charities are the first group of an estimated 4,000 to have their registration progressively removed and noted on the national Charity Register by the ACNC. Their revocation will also result in the loss of access to Commonwealth charity tax concessions, in the event they are still operating. The Australian Tax Office (ATO) will be notified of the revocations.

Charities that have had their charity status revoked by the ACNC, but are still operating are encouraged to contact the ACNC immediately, and provide the necessary information to help the ACNC restore their registration promptly. The next list of charities to be revoked will be published by the ACNC in October.

Recognition of Deferred Tax Assets for Unrealised Losses, ED 253

The AASB has issued ED 253 Recognition of Deferred Tax Assets for Unrealised Losses. The AASB ED (which incorporates the IASB ED of the same name) seeks comments on the proposals to amend AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value when the entity reports tax losses. Comments to the AASB are requested by 20 November 2014.

Auditor independence strengthened

The International Ethics Standards Board for Accountants (IESBA) issued for public comment the exposure draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Auditor Assurance Client. The exposure draft proposes changes to the Code of Ethics for Professional Accountants to strengthen auditor independence through addressing threats created by the long association of audit firm personnel with an audit client.

Among the proposed changes are:

- **Strengthened general provisions applicable to all audit engagements regarding the threats created by long association;**
- **With respect to partner rotation, an increase in the mandatory "cooling-off" period, from two to five years, for the engagement partner on the audit of a public interest entity;**
- **Strengthened restrictions on the type of activities that can be undertaken with respect to the audit client and audit engagement by any former key audit partner during the cooling-off period; and**
- **A requirement to obtain the concurrence of those charged with governance regarding the application of certain exceptions to the rotation requirements**

The IESBA welcomes comments to the exposure draft by 12 November 2014.

ACNC continues to monitor charities obligations

The ACNC has provided an overview of the role taken by the Compliance Team to respond to concerns about charities meeting their obligations under the ACNC Act. More information can be found on the ACNC website, areas of concern for charity regulation.

The ACNC are alerted to concerns about charities from the public, from referrals from other agencies (including agencies of states and territories) and through regular reporting by charities to the ACNC.

The Compliance team is responsible for ensuring that charities meet their obligations under the ACNC Act and the governance standards.

The compliance team considers whether any intervention is necessary and in serious cases, intervenes and conduct's either a compliance review (to review a charity's general level of compliance with the ACNC Act and address any risks identified), or an investigation (for higher risk or more complex cases).

Corporate finance issues report, issued by ASIC

ASIC recently published the first of a series of regular reports it intends issuing on the regulation of corporate finance issues in Australia.

The report, covers the period January to June 2014 and is intended to provide companies and their advisers with insights into ASIC's regulatory approach in the corporate finance sector and assist them with their associated legal and compliance obligations.

Report 406 ASIC regulation of corporate finance: January to June 2014 (REP 406), provides statistical data, highlights key focus areas, and includes relevant guidance about ASIC's regulation of:

- **fundraising transactions**
- mergers and acquisitions
- **corporate governance issues**
- **financial reporting, and**
- **share buy-backs.**

Of assistance to practitioners in the corporate finance sector, REP 406 also details the approach ASIC takes in these areas, including the types of issues that have caused ASIC to intervene. Further, the report provides an overview of ASIC's current policy initiatives in this space and where we expect to undertake further consultation.

Internet

Copies of 'FRA NEWS' are available on the internet at www.tnr.com.au

Queries

For further information or assistance, please contact your TNR Audit & Assurance Partner or Manager.

Company Directors propose an honest and reasonable defence

The Australian Institute of Company Directors (AICD) has issued a proposal for an Honest & Reasonable Director Defence into the Corporations Act ("Defence"). The proposed Defence, would be available in circumstances where a director conducts him or herself honestly, for a proper purpose and with the degree of care and diligence that the director rationally believes to be reasonable in the circumstances. The Defence would apply to all directors of companies regulated by the Corporations Act (from small business owners through to directors of publicly listed entities).

Concern about the extent of the personal liability of directors has been under discussion for some time, as has concern with the narrow protection offered by the business judgment rule. The concern with the limits of the current business judgment rule has propelled the release of two different proposals for a broad-based defence for directors to be introduced to the Corporations Act.

Read the AICD proposal for an honest and reasonable defence and consider whether it addresses the concerns in an increasingly complex and compliance focused regulatory environment.

The information provided in this publication was provided by Colin Parker FCA, former member of the AASB.