



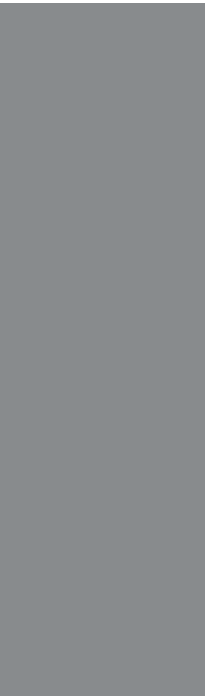
# FINANCIAL REPORTING UPDATE 2023

# Today's agenda

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- Changes to Accounting Standards
- IFRIC Agenda Decisions
- ASIC Focus Areas
- NFP Financial Reporting Framework Update
- Greenwashing
- Sustainability and ESG - Environmental, social, and corporate governance
- Financial Reporting in uncertain times





WHAT'S NEW

# What's New? – Change to ASX Lodgement Dates

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## No more last minute lodgements!

- Previously entities could lodge annual and half year reports up to 10am on the next trading day after the relevant deadline
- Now they must be lodged before the market announcements office closes on the deadline day
  - 8.30pm Sydney time during DST and 7.30pm rest of year (always 5.30pm in Perth)
- 30 June year-ends must lodge annual reports by Friday 29<sup>th</sup> September 2023 (not Monday 2<sup>nd</sup> October)
- Any late lodgers will be suspended, even if they lodge prior to market opening

# What's New? – End of “Grandfathering”

## Change to Corporations Act removes exemption

- Previously entities which held an exemption dating to 1994 did not have to lodge financial statements regardless of size
- For 30 June 2023 and subsequent years they are treated like any other Proprietary Company
- Around 1,100 companies affected
- See article:

<https://www.rsm.global/australia/insights/ifrs-news/end-grandfathered-exemptions-asic-financial-reporting>



## What's New? – No more SPFS for AFSL Holders

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### All AFSL Holders must prepare General Purpose Financial Statements

- ASIC has confirmed that all AFSL Holders must lodge GPFS
- Form FS70 has been updated to reflect this
- For 2022, any entities reporting under Chapter 2M (e.g. large Ptys) had to prepare GPFS, while those reporting only under Chapter 7 had a 1-year exemption to prepare SPFS which has now expired
- AFSL Holders should refer to Form FS70 to determine whether they are required to prepare Tier 1 (full IFRS) or Tier 2 (SDS)



# NEW STANDARDS AND INTERPRETATIONS

# New pronouncements

Applicable for 30 June 2023 year-ends	Effective Date
AASB 137 amendments regarding onerous contracts “Onerous Contracts – Cost of Fulfilling a Contract (Amendments to AASB 137)”	1 January 2022
AASB 116 amendments regarding proceeds before intended used “Property, Plant and Equipment – Proceeds before Intended Use (Amendments to AASB 16)”	1 January 2022

Applicable for future periods	Effective Date
AASB 17 Insurance Contracts	1 January 2023
AASB 108 amendments on accounting estimates “Definition of Accounting Estimates (Amendments to AASB 108)”	1 January 2023
Amendments on disclosure of accounting policies “Disclosure of Accounting Policies (Amendments to AASB 101)”	1 January 2023
AASB 101 amendments on classification “Classification of Liabilities as Current or Non-current (Amendments to AASB 1)”	1 January 2023



# AASB 137 – Costs of Fulfilling a Contract

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## Changes to AASB 137 effective periods beginning on or after 1 January 2022

- Applies to all contracts open at date of initial adoption
- No requirement to restate comparatives – adjustment to opening retained earnings

Likely to increase extent of provisioning for onerous contracts in some entities

# AASB 137 – Costs of Fulfilling a Contract

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## So what was the issue?

AASB 137 required provision when unavoidable costs of fulfilling a contract exceeded the economic benefit

## But which costs?

- All costs?
- Direct costs?
- Incremental costs only?

**Diversity in Practice!**

# AASB 137 – Costs of Fulfilling a Contract

## Updated guidance in AASB 137 – direct costs include

“the incremental costs of fulfilling the contract”

- Materials
- Direct Labour
- Contractors and contract tools
- Penalty clauses

“An allocation of the other costs that related directly to fulfilling contracts ”

- Depreciation on PPE used
- Permanent staff costs
- Equipment hire
- Allocation of direct overheads

Be alert for low-margin or potentially unprofitable contracts, given cost increases

# AASB 116 – Proceeds prior to intended use

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Effective for periods beginning on or after 1 January 2022. Early adoption is permitted.

Restatement required but only to PPE made available after start of comparative period.

Previous diversity in practice about what to do with proceeds from testing, and other pre-operating activities

***Clarifies that proceeds should be recognised in the income statement***

# AASB 116 – Proceeds before intended use

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## So what was the issue?

- AASB 116 permits capitalization of costs involved in testing whether an asset is functioning properly, as these are costs “*directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.*”
- Net proceeds from outputs of testing activities should be deducted from cost (AASB 116.16)

## How was this interpreted?

- Proceeds from testing activities only?
- All activities prior to completion of capitalization?
- Can proceeds exceed costs of testing?
- Sales to customers deducted from asset costs?

**Diversity in Practice!**

# AASB 116 – Proceeds before intended use

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## What is changing?

- Sale proceeds no longer deducted from cost of PPE
- Proceeds will be revenue if they are ordinary activities and have a contract with a customer. They may be “other income” if they are not part of the entity’s “ordinary activities.”
- Items produced which meet definition of inventory must be recognised at cost
- Effectively the “location and condition” test is a technical and physical test – it does not require the asset to be meeting financial performance requirements

# AASB 17 Insurance Contracts

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AASB 17 Insurance Contracts – One accounting model for all insurance contracts in all IFRS jurisdictions!

- AASB 17 replaces AASB 4 Insurance Contracts (Interim Standard, introduced in 2004)
- AASB 4 allows insurers to use different accounting policies to measure similar insurance contracts that are written in different countries – in many cases, features of the accounting models are inconsistent with the IFRS Standards.
- **The new standards improve the quality and comparability of accounting for insurance contracts.**
- AASB 17 affects any company that writes insurance contracts. (IFRS applies to insurance contracts)
- Effective date of the Standard has been deferred to annual reporting periods, beginning on or after **1 January 2023**

# AASB 17 Insurance Contracts

## Key Changes

The Standard requires a company to recognise profits as it delivers insurance services, rather than when it receives premium, and to provide information about insurance contract profits the company expects to recognise in the future

AASB 4	AASB 17
Accounting for insurance contracts varies significantly	Apply consistent accounting for all insurance contracts.
Consolidate the subsidiaries using different accounting policies for the same type of insurance contracts written in different countries	All insurance contracts will be measured consistently within the group, making it easier to compare results by product and geographical area.
Some companies present cash or deposits received as revenue.	Revenue will reflect the insurance coverage provided, excluding deposit components
Measure insurance contracts using out-of-date information	Measure insurance contracts at current value
Do not consider the time value of money when measuring liabilities for claims	Reflect the time value of money in estimated payments to settle incurred claims.



# Accounting Policies and Accounting Estimates

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## AASB 108 amendments on accounting estimates “Definition of Accounting Estimates

- Effective for annual reporting periods beginning on or after **1 January 2023**
- Clarify the definition of an accounting estimate
- *“Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.”*
- Prospectively effective
- Earlier application is permitted
- The amendments did not change the existing treatment

## AASB 101 amendments on accounting policies

- *“Material”* rather than *“Significant”*

# Deferred Tax Assets and Liabilities

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## AASB 112 amendments on deferred tax

### “Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to AASB 112)”

Require entities to recognise deferred tax for all temporary differences related to **leases, decommissioning, restoration and similar liabilities** at the beginning of the earliest comparative period presented.

Effective for annual reporting periods beginning on or after **1 January 2023**

Earlier application of the amendments is permitted.

# Classification of Liabilities

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- Aim to address current uncertainty and diversity in practice in this area
- No change to key principle – must have unconditional right to defer settlement for 12 months
- **Applies to periods beginning on or after 1 January 2023**
- Retrospectively effective. Also need to consider AASB 108 disclosures for Standards issued not yet effective. Effects are quantifiable.
- Entities may wish to early adopt or to start applying principles now

# Key features of changes to AASB 101

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## RIGHT TO DEFER SETTLEMENT

Right to defer settlement must exist **at the end of the reporting period** to classify as current

Intention to settle does not affect classification



## DEFINITION OF SETTLEMENT

Settlement has now been defined to include

- cash settlement
- Settlement through delivery of other goods or services
- Settlement through equity instruments, **unless conversion option is classified as equity**



## ASSESSING COMPLIANCE WITH CONDITIONS

Where covenants or other conditions exist, they must be met at the period-end, **even if compliance is only tested at a later date.**

# When could classification change?

## Convertible bond which converts into a variable number of shares

- 5 year term
- Conversion at the option of the holder, can be exercised at any time
- Bond in foreign currency
- Repayable if not converted

### Current Treatment

- Not explicitly specified under IFRS
- Diversity in practice but many preparers would classify as non-current

### Under AASB 101 (revised) after 2023

- Transfer of equity instruments is a form of settlement
- Issuer does not have right to defer this form of settlement for at least 12 months
- Classify as current



## IFRIC AGENDA DECISIONS

# IFRIC Agenda Decisions – What are they?

Interpretations Committee supports the work of the IASB by responding to issues submitted to it by:

Interpretation

Recommend improvement or amendment to IFRS Standard

Recommend a new standard setting project to the IASB; or

Agenda Decision

## Recent IFRIC Agenda Decisions

IFRIC agenda decision	Approval date
Negative Low Emission Vehicle Credits (AASB 37 Provisions, Contingent Liabilities and Contingent Assets)	July 2022
Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (AASB 32 Financial Instruments: Presentation)	July 2022
Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)	September 2022
Definition of a Lease—Substitution Rights (IFRS 16 Leases)	April 2023



# Negative Low Emission Vehicle Credits

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## What is the issue?

- Vehicle Manufacturers produce vehicles that have higher emissions than government's target
- Receives negative credits, which it can mitigate by producing lower emission vehicles next year, or purchasing from another entity
- Government can impose sanctions if negative credits not eliminated
- sanctions would not require payment of fines or penalties, but could deny the entity opportunities in the future

## How was it resolved?

- Arrangement does give rise to a provision under AASB 137
- Estimate future provision to either purchase credits to meet requirements, or the potential impact of sanctions

# Special Purpose Acquisition Companies (SPAC)

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## What is the issue?

- SPAC that issues two classes of shares: founder shares (Class A) and public shares (Class B).
- The Class B shareholders:
  - individually have the contractual right to demand a reimbursement of their shares if the SPAC's shareholders approve the acquisition of a target entity.
  - are reimbursed if the SPAC is liquidated. The SPAC is liquidated if no target entity is acquired within a specified period.
  - along with the Class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired.

Debt or Equity?

# IFRIC – Lessor Forgiveness

## What is the issue?

- A lessor has an operating lease on a rental property
- It agrees to forgive the tenant for both
  - Previous arrears
  - Future rent due
- No other changes to the lease contract
- How should this transaction be reflected?

## How was it resolved?

- For already-due rental payments, the lessor would apply the expected credit loss model in AASB 9
- Any remaining rent receivable is then derecognised
- AASB 16 is applied to future payments. Payments over the remaining term of the lease are straight-lined

# Definition of a Lease—Substitution Rights (IFRS 16 Leases)

## Scenario

- 10-year contract for 100 similar new assets—batteries used in the customer’s electric buses.
  - the supplier has the practical ability to substitute alternative assets throughout the contract term
  - if a battery were to be substituted, the supplier would be required to compensate the customer for any revenue lost or costs incurred while the substitution takes place.
  - Whether substitution is economically beneficial for the supplier at a point in time depends on both the amount of compensation payable to the customer and the condition of the battery.
  - At inception of the contract, it is expected that the supplier would not benefit economically from substituting a battery that has been used for less than three years but could benefit economically from substituting a battery that has been used for three years or more.
- 
- **Evaluate each asset separately, or all together?**
    - **Is this a lease?**

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- 
- **Evaluate each asset separately, or all together? Each asset**
    - **Is this a lease? Yes – substitution right is not substantive**



# EFFECT OF CURRENT ECONOMIC CONDITIONS ON FINANCIAL REPORTING

# Economic Challenges

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- War in Ukraine - increase in prices of grain and of hydrocarbons and other energy
- Ongoing supply chain issues
- COVID impacts remain, especially in China
- Inflation – see next slide
- Interest Rate and Exchange Rate volatility
- US Bank Failures / Credit Suisse

# How does this affect financial reports?

Financial Reporting and Auditing becomes harder

- Asset Values
  - Potential falls and impairments
  - Difficulty in determining fair value
- Effect of rapid change
  - Huge increase in estimation uncertainty
  - Rapid obsolescence of information
- Disclosures
  - Increased importance of narrative around how risks are managed
  - Disclosure of key assumptions in estimates





# Impairment Considerations

Test for impairment where **impairment indicators** exist, or indefinite life:

Don't forget other types of asset

- Investments in associates and JVs
- Right of Use Assets
- Assets not yet in use

May need to reconsider useful life and residual value of assets

Assumptions in VIU or FVLCS assessment must be reasonable and supportable

- Current economic conditions and inflation assumptions
- Effect of supply shortages or labour constraints

# Discount Rates – are you using the right rate?

Standard	Rate to Use
AASB 136 Impairment of Assets	Pre-tax rate that reflects time value of money and risks specific to the asset or CGU
AASB 119 Employee Benefits	Market yields on high quality corporate bonds, or where there is no deep market in the above, government bonds
AASB 16 Leases	Incremental Borrowing Rate, where implicit rate cannot be readily determined
AASB 137 Provisions, Contingent Liabilities	Pre-tax rate that reflects time value of money; will usually be risk free rate
AASB 2 Share Based Payments	Risk free rate used in Black Scholes and other option pricing models

# Insurance Receivables

- Businesses may hold insurance for loss of profits or disruption of operations
  - Likely to be dispute, particularly over *force majeure* clauses
- “***virtually certain***” test for recognition of claim receivable
  - Acceptance of claim
  - Ability of insurer to pay
- Likely to be recognised on acceptance of claim or on receipt
  - Timing of income may not match to costs
- Consider disclosure of any contingent assets

# Loans Payable – covenant breaches

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## Breaches of Loan Covenants

- If in breach must be disclosed as current
- Any waiver must be obtained before reporting date
- Waiver must waive contractual rights – not merely “intention” to take no action
- Beware “review” clauses

## Renegotiation of Loan Terms

- Substantial: Treat as extinguishment and re-issue
- Non-substantial modification?
- Apply IFRIC 19 if settling debt with equity



## ASIC FOCUS AREAS

# ASIC Financial Reporting Surveillance



Review of financial reports filed with ASIC



Linked with audit inspection programme



Review of compliance with AIFRS in accounting policies, and adequacy of disclosures



200 to 300 sets reviewed each year, both listed and unlisted



Inquiry made to directors where there are queries or concerns



4% of financial statements inspected resulted in restatements



Findings usually result in media release

# ASIC Areas of Focus

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ASIC suggests preparers and directors pay particular attention to:

- Disclosures of key judgments and uncertainties, in the financial report and OFR, including around material business risks and climate change
- Fair values and impairment of non-financial assets
- Solvency and going concern assessments
- Provisions for onerous contracts, rehabilitation, make-good, restructuring and similar

## Other Areas of Focus

- (a) Disclosure of government assistance and support
- (b) Non-IFRS financial information
- (c) Treatment of cloud computing costs (covered earlier)

# Financial Reporting Surveillance Findings

Company	Issue	Effect
<b>Southern Cross Media</b>	Non-IFRS profit measures – use of “Profit before depreciation, amortisation, interest, impairment, fair value movements and tax”	Issue of re-presented income statement to ASX
<b>IDP Education</b>	Disclosure of contingent liability in relation to Indian GST only included amounts where a formal tax review had commenced	Potential contingent liability increased from \$23m to \$35m
<b>Emeco</b>	Valuation of trade receivable related to a specific debtor	Provision for ECL increased from \$0.2m to \$25.6m



# Financial Reporting Surveillance Findings

Company	Issue	Effect
<b>Mr N1 Holdings</b>	Revenue Recognition – loan establishment fees were recognised on receipt	Loan establishment fees incorporated into the effective interest rate calculations. Effect was to reduce profit from \$1.1m to \$0.7m
<b>Adslot</b>	Company relied on market capitalisation rather than impairment test to justify carrying value of assets	Write off goodwill of \$5.2m
<b>Tasman Resources</b>	Entity carried out no impairment testing on its intangibles on the basis that there were no indicators of impairment. However, market capitalisation was significantly below carrying value.	Write off of \$9.3m of intellectual property assets
<b>MR Atomos</b>	Recognition of trade receivable and revenue where no past event supported recognition	Derecognition of \$8.7m of revenue and trade receivables



# NFP FINANCIAL REPORTING FRAMEWORK UPDATE

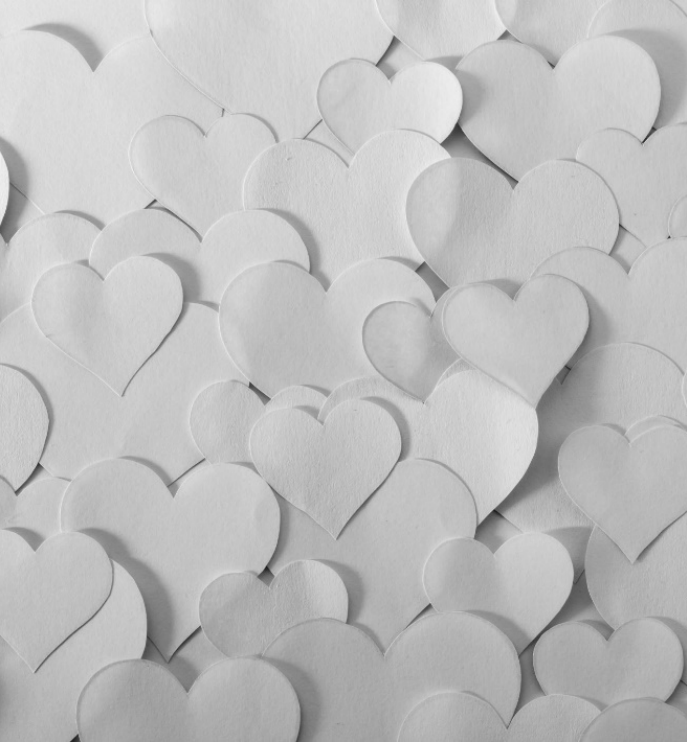
# NFP Financial Reporting Framework Update

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## Not-for profit AASB project 2022 - 2023

- The AASB is consulting on a new reporting framework for not-for-profit entities. This potentially involves the creation of a “Tier 3” reporting with simplified requirements when compared with Tier 1 (full IFRS) and Tier 2 (SDR).
- Aim is to remove SPFS, to bring into line with for-profit entities
- Further reduction in the disclosures within financial statements
- Tier 3 will also have some level of relief from recognition and measurement requirements of AIFRS
- Discussion paper and associated materials published and open for comment

# NFP Financial Reporting Framework Update



## *Not-for profit AASB project 2022 – 2023 Objectives*

- A single set of reporting thresholds for all Australian NFP private sector entities
- Simplified recognition and measurement accounting frameworks
- Development of standards – address matters of financial reporting in the NFP sector

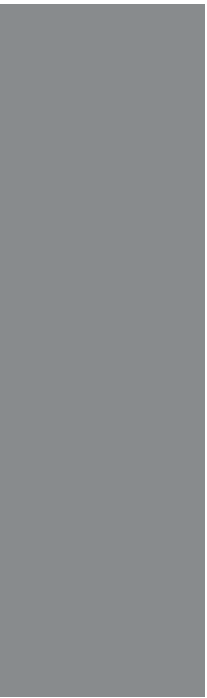
# Bed Licences



The Federal Budget of the Government's decision to discontinue aged care bed licences, effective from 1 July 2024.

## Potential accounting implications

- Change of the amortisation period
- Impairment
- Disclosure



GREENWASHING

# Why greenwashing matters?

Greenwashing distorts relevant information that a current or prospective investor might require in order to make informed investment decisions. It can erode investor confidence in the market for sustainability-related products and poses a threat to a fair and efficient financial system.

## greenwashing [grəən-wash-ing] /verb

1. Is a term used to describe the marketing tactics used by big-name, fast-fashion companies to advertise their new supposed sustainable lines of clothing.
2. The process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound.

# The current regulatory setting for communications about sustainability-related products

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There has been an increase in investor demand for, and the availability of, sustainability-related financial products in the Australian market. With this comes a growing risk of greenwashing and, as a result, investors being confused or misled.

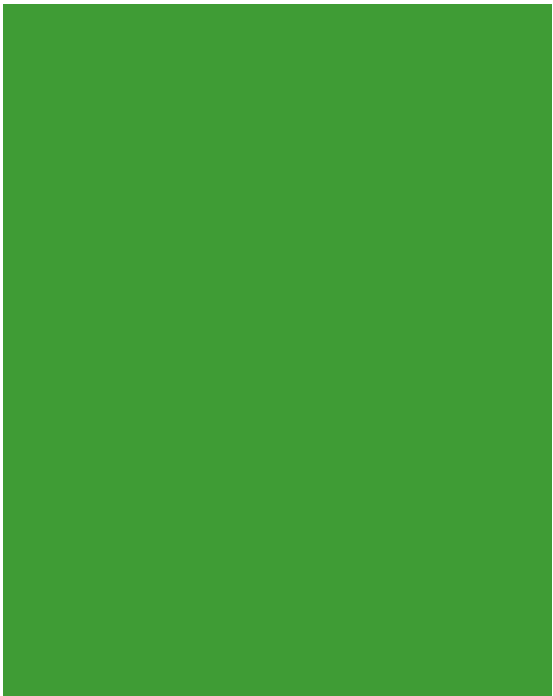
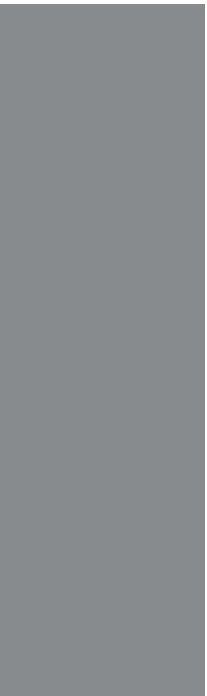


It is therefore important that issuers comply with existing requirements when promoting or offering sustainability-related products. Such requirements include the prohibitions against misleading and deceptive statements and conduct, as well as disclosure obligations.



# ASIC – Greenwashing activity

Company	Issue	Effect
<b>Vanguard Investments</b>	Overstated investment screen about not investing in tobacco	Infringement notice for \$39,960
<b>Diversa Trustees</b>	Superannuation fund made misleading statements about not investing in “polluting and carbon intensive activities”, “financing or support of activities which cause environmental and social harm” and “poor corporate governance”.	Infringement notice for \$13,320
<b>Black Mountain Energy</b>	Claimed natural gas project was “net-zero carbon emissions”	Infringement notice for \$39,960
<b>Mercer Superannuation</b>	Allegedly falsely marketed certain funds as excluding investments in fossil fuels, alcohol, and gambling,	Civil penalty proceedings in Federal Court



ESG

# Future of Climate Reporting

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- COP26 Glasgow Announcement 3 November 2021
- The IFRS established the International Sustainability Standards Board (ISSB) in response to increased calls for transparent, reliable, and comparable reporting by companies on ESG matters.
- ISSB is seeking feedback on the proposals of Climate-related disclosures and General sustainability-related disclosures, closing on 29 July 2022.
- AASB – likely have custody and responsibility for ISSB equivalents in Australia

# Future of Climate Reporting

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Two ISSB exposure drafts of IFRS Sustainability Disclosure Standards:

- **IFRS S1 General Requirements for Disclosure of Substantiality-Related Financial Information**

- Propose to disclose material information about the significant sustainability-related risks and opportunities.

- **IFRS S2 Climate-Related Disclosures**

Disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value

Up to 7 more Standards expected over next 2 years

# Future of Climate Reporting

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The RSM ESG Services team is supporting clients navigate this future by:



Performing readiness/gap assessments against the pending reporting S1 and S2 requirements



Developing Sustainability and Climate Governance Frameworks (e.g. policies, procedures and risk registers)



Climate risk assessments



Supply/value chain risks assessments



Greenhouse Gas (GHG) Inventory Measurement (Scope 1, 2 and 3)

# Future of Climate Reporting

RSM's "**Sustainability Matters**" video series, explores the latest and most pressing sustainability topics, and also provides thought leadership tips and insights on the future of sustainability reporting. New episodes bimonthly.

## Episode 1 – Greenwashing

- Tips on how to avoid false and misleading claims

## Episode 2.1 – Understanding IFRS S1 and S2

- Discuss the background of the ISSB and IFRS S1 and S2

## Episode 2.2 – What does IFRS S1 and S2 mean for you?

- Why acting now is important and tips on how you can be best prepared for IFRS S1 and S2

**Beware of Greenwashing:  
Navigating Misleading  
Environmental Claims**

**SUSTAINABILITY MATTERS**

Watch **NEW** episode

**Web Link:** <https://www.rsm.global/australia/sustainability-matters-series>



Questions  
and answers?

# Your Presenter

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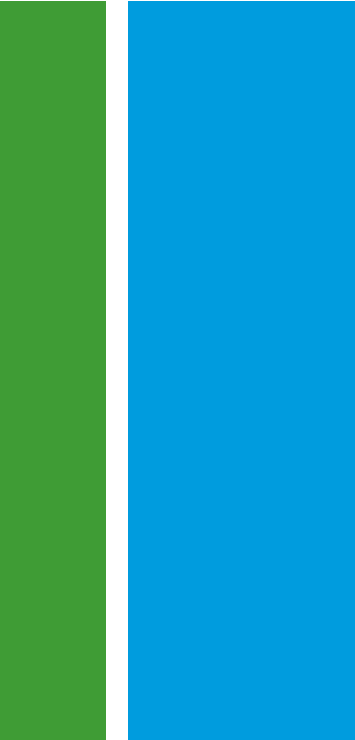
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Thank you  
for your time  
and attention

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