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FINANCIAL REPORTING UPDATE 2021

Ralph Martin, National Technical Director

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What we won't cover

- ~~AASB 9 Financial Instruments~~
- ~~AASB 15 Revenue~~
- ~~AASB 16 Leases~~ (mostly)
- ~~AASB 17 Insurance~~

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What we will cover

The removal of special purpose financial statements

Not-for-profit update

Upcoming changes to accounting standards

IFRIC Agenda decisions

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Reporting Deadlines

- ASIC has changed its position, and extended deadlines for 30 June 2021 by 1 month for both listed and unlisted companies
  - Listed companies must still file unaudited accounts after 2 months
  - Listed companies must make ASX announcement
- ASIC has confirmed "**no action" position** for AGMs
  - May be held virtually using appropriate technology
  - Shareholders must have ability to question Board
  - 2 month extension of deadline to hold AGMs for year-ends up to **7 July 2021**
- No change to ACNC deadlines

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SPFR TO GPFR. RDR TO SDS. ARE THESE JUST INITIALISMS?

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Background: Reporting Entity Concept

Update of Conceptual Framework prompts review of reporting entity concept.

Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.

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Current Tiers of Financial Reporting

Tier	Who does it?
General Purpose Tier 1 – Full IFRS	• Listed companies • Registered Managed Investment Schemes • Other entities with public accountability
General purpose Tier 2 – Reduced Disclosure Regime ("RDR")	• Entities with dependent users • Pty companies which are part of a Significant Global Entity • Some NFPs with dependent users
Special Purpose Financial Report ("SPFR")	• Most Large Pty companies • Some NFPs

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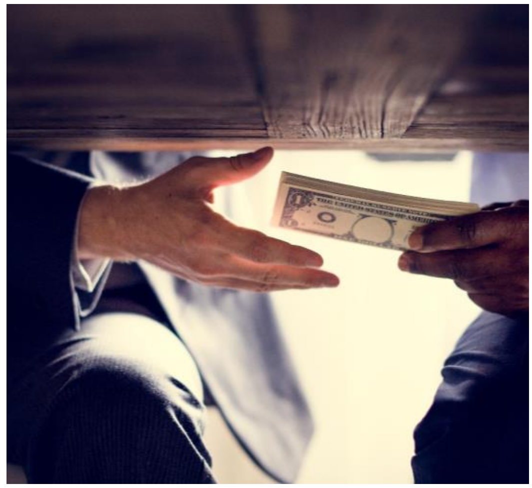
Removal of Special Purpose Financials

Only **certain for-profit entities** are in scope of this standard*



*AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.*

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AASB 2020-2 … application?

From 1 July 2021

1 Entities required by **legislation** to prepare financial statements in accordance with **Accounting Standards** or **Australian Accounting Standards**

2 Entities required by a constituting document or another document prepared or modified since 1 July 2021 to prepare financial statements in accordance with **Australian Accounting Standards**

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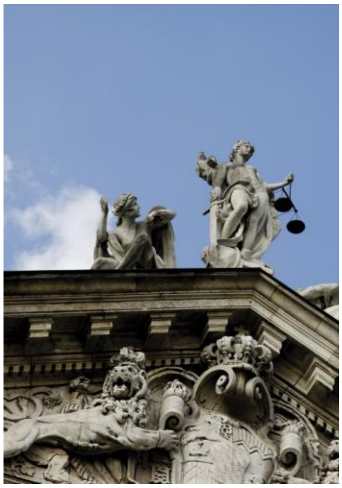
Entities with legislative requirement



Companies required to prepare financial statements under the *Corporations Act 2001*

Entities required under Federal or State/Territory legislation to prepare financial statements in accordance with Australian Accounting Standards or Accounting Standards

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Non-legislative requirement

A "constituting or other document"?

- Constitution
- Partnership agreement
- Joint Venture Agreement
- Fund Agreement
- Trust Deed
- Bank Agreement

This is not an exhaustive list.

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Non-legislative requirement

For an agreement with a clause requiring the preparation of financial statements in accordance with **Australian Accounting Standards**, created…

Before 1 July 2021 AND not modified since 1 July 2021	After 1 July 2021 OR modified since 1 July 2021
NOT IN SCOPE These entities may continue to prepare Special Purpose Financial Statements [grandfathering provisions]	IN SCOPE These entities **must** prepare General Purpose Financial Statements from 1 July 2021

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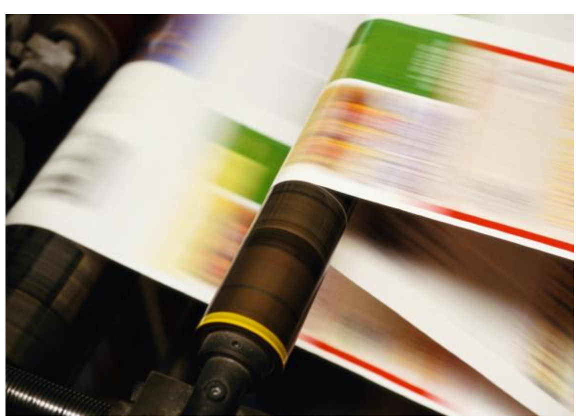
What does it mean for these entities?

General Purpose Financial Statements!



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What does it mean for these entities?

General Purpose Financial Statements: Simplified Disclosure Standard – AASB 1060

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AASB 1060: Key Facts

- Mandatory from 1 July 2021
- *Transitional relief available if early adopted*
- Replaces Tier 2 – RDR framework
- Based on IFRS for SMEs
- Changes disclosures only: full R&M
- Applies to For-Profits and NFPs

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Summary impact

Current state	Options from 1 July 2021
For-profit entity, currently preparing SPFS, able to continue doing so from 1 July 2021	SPFS, with additional disclosure: why appropriate to do so, whether R&M-compliant, and consolidation and equity accounting
Currently preparing SPFS, no longer able to from 1 July 2021	- Prepare Tier 1 GPFS, full IFRS - Prepare Tier 2 GPFS, following **AASB 1060 (SDS) requirements**
Currently preparing Tier 2 GPFS – RDR	Transition to Tier 2 GPFS – SDS
Currently preparing Tier 1 GPFS	No change
Private Sector NFPs?	Optional adoption.

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Impact on entities preparing SPFS…

… who are no longer able to under AASB 2020-2

- Recognition and Measurement requirements of all AASBs now required
  - If non-legislative requirement: consider impact on **size** of entity and audit thresholds
- Consolidation and equity accounting required!
  - AASB 10 Consolidated Financial Statements
  - AASB 128 Investments in Associates and Joint Ventures
- Related Party Disclosures

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Impact on entities preparing RDR accounts

Many disclosures removed
Revenue: - Separate disclosure of revenue from contracts with customers from other revenue and impairment losses on receivables or contract assets
Discontinued Operations: - Tax expense relating to discontinued operations; and - Cash flows of discontinued operations.
Financial assets and financial liabilities - Detailed disclosures about measurement bases (accounting policy still required); - Loss allowance recognised in relation to financial assets at fair value through other comprehensive income

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Impact on entities preparing RDR accounts

Some disclosures added
Audit Fees
Imputation Credits
Leases: - Lessees: maturity analysis of future lease payments; - Lessors with operating leases: variable lease payments recognised as income; and - Lessors with finance leases: loss allowance for lease receivables
Related Parties: - Disclosure of parent-subsidiary relationship by government-related entities

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Transitional Provisions: for-profits

First time preparation of GPFS

- Adoption at 1 July 2021:
  - Optional relief from distinguishing errors and changes in accounting policy
- Early adoption pre-1 July 2021:
  - **As above, plus additional** optional relief from:
    - Restating comparative information
    - Providing comparative information for new disclosures

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WE CAN HELP!

https://www.rsm.global/australia/insights/ifrs-news/removal-special-purpose-financial-statements-what-you-need-know

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NOT-FOR-PROFIT FRAMEWORK

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ACNC Legislation Review 2018

Financial Reporting: findings

- The current revenue thresholds for determining a registered entity's size, and the minimum reporting requirements for registered entities, are too low.
- Insufficient disclosure of related party transactions, triggering a lack of transparency of transactions that pose a higher risk to charitable assets being used for private benefit
- Lack of remuneration disclosures minimises accountability to donors, beneficiaries and public.

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ACNC Legislation Review 2018

Financial Reporting: recommendations

- Change thresholds + determine on rolling three-year revenue:

Size	Current (yearly)	Proposed (3-year rolling)
Small	< $250,000	< $1,000,000
Medium	> $250,000	< $5,000,000
Large	> $1,000,000	> $5,000,000

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ACNC Legislation Review 2018

Government's response: AASB project

- Targeted consultations with stakeholders from August 2020 for a **new financial reporting framework.**
- Ongoing deliberations on design during 2021.
- Objective: issue a Consultation Paper for public consultation in Q4 2021.
- Possible implementation towards 2023-2025. **NOT FINALISED.**

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Disclosure requirements: NFPs

AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements*

AASB 1054 *Australian Additional Disclosures*

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Disclosure requirements: NFPs

Required Disclosures in Current SPFS of NFPs:
Why the entity has prepared SPFS
If interests are held in other entities, whether AASB 10 and AASB 128 have been applied, and if not, explain why (*or that such an assessment has not been made.)*
For each material accounting policy applied and disclosed that does not comply with all the recognition and measurement requirements: **how it does not comply** *(or that the extent of non-compliance has not been assessed.)*
Whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (*or that such an assessment has not been made.)*

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Revenue and income of NFPs

Relevant accounting standards?

AASB 1058
Income of Not-For-Profit Entities

AASB 15
Revenue from Contracts with Customers

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Practical application issues with Government Grants

Main issues

1. Identifying whether there are sufficiently specific performance obligations
2. Dealing with "termination for convenience" clauses in grant agreements

AASB 120 DOES NOT APPLY TO NOT-FOR-PROFIT ENTITIES

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Practical application issues

Government Grants: impact in practice

- Grants often given for a **specific, restricted purpose.**
- **Purpose or a restriction on use is not a performance obligation.**
- The problem: entities have had to recognise income up-front more often than hoped for under new suite of standards.

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Practical application issues

Is AASB 1058 fit for purpose?

- Negative feedback received, but AASB currently showing no appetite for change
- RSM working with CAANZ and others to research and argue for a Standard which better reflects the economic substance of the transaction
- ***Watch this space!***

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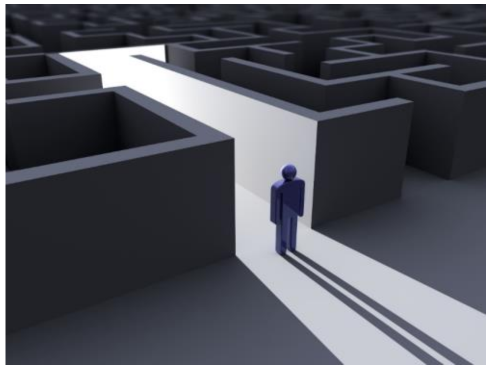
AASB 1059 Service Concession Arrangements: Grantors



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What is captured by the standard?

Public sector entities only

- Became effective for public sector entities for periods beginning on or after 1 January 2020.
- Applies to the accounting for the GRANTOR in arrangements between a private entity (the operator) and a public sector entity (the grantor), in which the following is true:

a) Have the **right of access to an asset** which either they own, or construct, develop, upgrade, or acquire from a third party; or belongs to the grantor.

b) Use the asset to provide public services *on behalf of the grantor*, for a specified period of time

c) Be responsible for **at least some of the management of the public services** provided through the asset and **does not act merely as an agent on behalf of the grantor**; and

d) Be **compensated for its services** over the period of the arrangement

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Example situations?

A university

- Public University = Grantor
- Accommodation building = Asset
- Accommodation provider = Operator

University grants Accommodation Provider the right to earn revenue from students, in exchange for running the Accommodation Building for the University.

= Grant of Right to the Operator Model.

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How does it work?

Assets and liabilities

- A **service concession asset** is recognised when the grantor controls the asset.

- The corresponding **liability** is measured initially at the same value as the SCA, adjusted for any other consideration transferred between the grantor and operator.

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UPCOMING CHANGES TO ACCOUNTING STANDARDS

Definition of a business, classification of liabilities, and other matters

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IFRS 16 – COVID Concessions

- IASB has approved amendment to treatment of rent reductions due to COVID-19
  - Exemption from determining whether a COVID-19 rent concession is a lease modification
  - Account for reduction as a variable lease payment
  - Must disclose use of exemption
- Initially Applied to reductions up to 30 June 2021 directly related to COVID-19
- Recently extended to reductions up to **30 June 2022**
- **This may require some preparers to restate their comparatives for modifications up to 30 June 2022**
- No change for lessors

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IFRS 16 – COVID Concessions

- RSM Australia article with worked examples of changes to leases!
https://www.rsm.global/sites/default/files/media/Ideas%20and%20insight/IFRS/07_06_2020_accounting_for_changes_to_lease_contacts.pdf

- Explains the practical expedient and when it can be used
- Explains lease modifications when practical expedient not used or not available
- Worked examples of both scenarios

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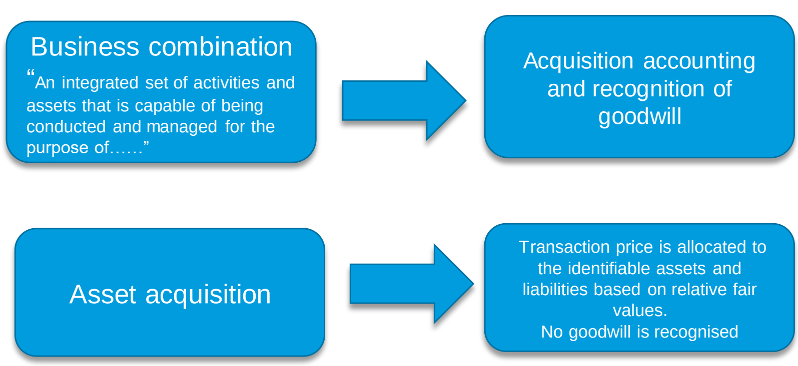
AASB 3 – Definition of a Business



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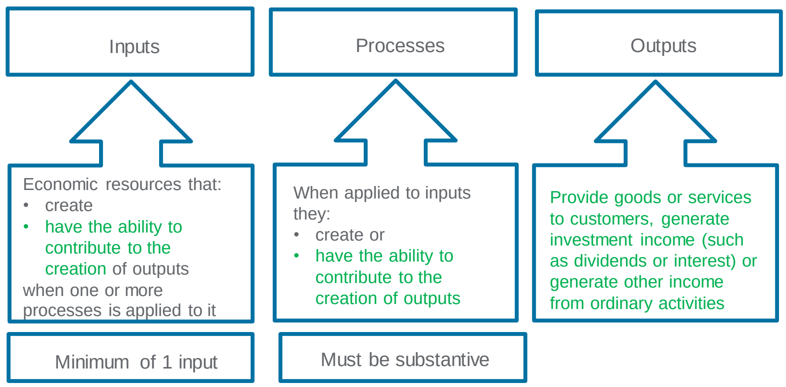
Establishing the minimum requirements for a business



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Example A – acquisition of real estate

- Entity purchases a portfolio of 10 single-family homes
- Each have an in-place lease
- Each single-family home includes the land, building and property improvements
- Each home has a different floor area and interior design
- The 10 single-family homes are located in the same area and the classes of customers (eg tenants) are similar
- The risks associated with operating in the real estate market of the homes acquired are not significantly different
- No employees, other assets, processes or other activities are transferred

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Example A – acquisition of real estate

- Entity purchases a portfolio of 10 single-family homes
- Each have an in-place lease
- Each single-family home includes the land, building and property improvements
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- The 10 single-family homes are located in the same area and the classes of customers (eg tenants) are similar
- The risks associated with operating in the real estate market of the homes acquired are not significantly different
- No employees, other assets, processes or other activities are transferred

NOT A BUSINESS

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Example B – acquisition of real estate

- Same facts as example A
- Except that the Purchaser also purchases a multi-tenant corporate office park with six 10-storey office buildings that are fully leased.
- Additional set of activities and assets acquired includes:
  - Land
  - Buildings
  - Leases
  - Contracts for outsourced cleaning, security and maintenance
  - Employees responsible for leasing, tenant management and managing all operational processes.

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Example B – acquisition of real estate

- Same facts as example A
- Except that the Purchaser also purchases a multi-tenant corporate office park with six 10-storey office buildings that are fully leased.
- Additional set of activities and assets acquired includes:
  - Land
  - Buildings
  - Leases
  - Contracts for outsourced cleaning, security and maintenance
  - Employees responsible for leasing, tenant management and managing all operational processes.

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Classification of Liabilities

- 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 IAS 8 disclosures for Standards issued not yet effective. Effects are quantifiable.
- Entities may wish to early adopt or to start applying principles now

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Key features of changes to IAS 1

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.**

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"The amendments only clarify, and therefore do not change any existing requirements, and so are not expected to affect companies' financial statements significantly."

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When could classification change?

Convertible bond which converts into a <u>variable</u> 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

<u>Current Treatment</u>

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

<u>Under IAS 1 (revised) after 2023</u>

- 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

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IFRIC AGENDA DECISIONS

What are they and why are they important?

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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 agenda decisions:

- Cloud Computing (March 2021)
- Supply Chain Financing – reverse factoring (Dec 2020)
- Players' Transfer Payments (Nov 2020)
- Sale and Leaseback with Variable Consideration (June 2020)
- Deferred Tax on Investment in Subsidiary (June 2020)

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IFRIC - Cloud Computing

What is the issue?
Software as a Service arrangement hosted in the Cloud, with no underlying software asset

How should configuration or customisation costs be treated?

Can an intangible asset be recognised under IAS 38?

How was it resolved?

- The supplier controls the application software itself, so customer **cannot** recognise an intangible asset
- But what about a prepayment
  - If configuration services are "distinct" then expense should be recognised when the supplier does the customisation/configuration
  - If services are not "distinct" then expense is recognised over the software contract term
- "distinct" guidance taken from IFRS 15

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IFRIC - Reverse Factoring

What is the issue?

- Bank agrees to pay an entity's outstanding debts to suppliers
- Entity agrees to pay bank at later date

Should the supply chain finance be presented together with trade payables or separately? What disclosures are required?

How was it resolved?

- IAS 1 requires trade payables to be presented separately from other liabilities
- Trade payables are liabilities to pay for goods or services that have been invoiced or formally agreed with a supplier
- Reverse factoring may require derecognition if a liability is extinguished or substantially modified
- Entity needs to consider IFRS 7 requirements re liquidity risk, as now have exposure to one institution rather than diverse suppliers

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IFRIC – Deferred Tax on subsidiary's undistributed profits

What is the issue?

- Entity has a subsidiary in a jurisdiction which taxes profits only on distribution, not on earnings (Jurisdictions include Estonia, Latvia, Georgia, Macedonia)
- Distributions taxed at different rate to other forms of divestment (e.g. capital gain)
- No dividend declared as at balance date

Should a deferred tax liability be recognised?

How was it resolved?

- IAS 12 requires deferred tax to be measured based on the manner in which the entity expects to recover the carrying value of its investment
- Entity expected to recover its investment through distribution of dividends
- Recognise a deferred tax liability based on the tax rate for distributions

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IFRIC – Sale and Leaseback with Variable Payments

What is the issue?

- An entity enters into a sale and leaseback transaction
- Transaction meets the criteria to derecognise owned asset
- Lease payments are variable amounts which depend on the revenue of the lessee

What RoU asset should be recognised?

How was it resolved?

- IFRS 16.100(a) requires recognition of *"right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller/lessee"*
- Initial RoU asset and lease liability calculated as:

Previous Carrying Amount x Value of RoU / FV of asset

- Lease liability recognised even though payments are variable

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IFRIC – Football transfer payments

How was it resolved?

- When acquiring players, transfer fees and associated contract costs are capitalised as intangible assets
- Asset must be derecognised under IAS 38 when player is sold
- Sale of player *cannot* be recognised as revenue
- Transfer fee receipt should be shown as investing activity in cash flow statement

What is the issue?

Soccer club sells a player

Should this be treated as
- Revenue; or
- Gain on disposal of intangibles

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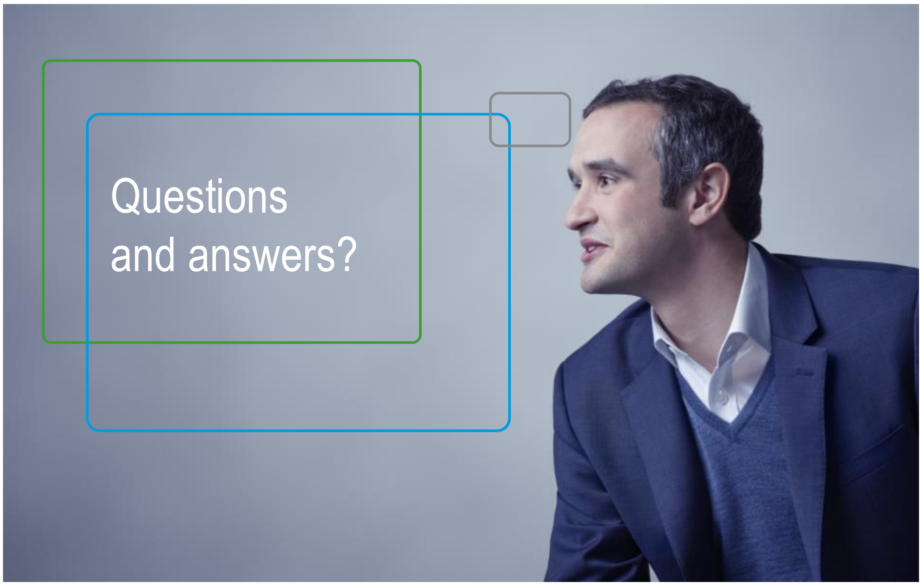

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and attention

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