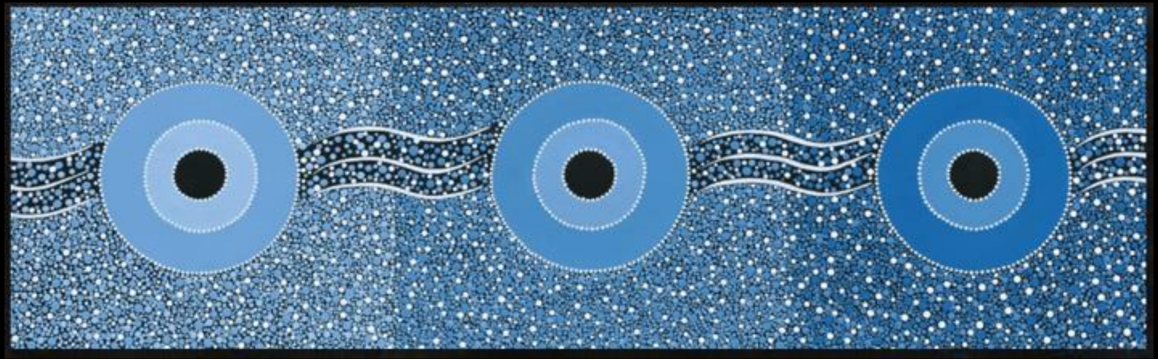
Client financial reporting update – November 2022

Completing the puzzle

November 2022

Acknowledgement of Country

"We acknowledge the traditional custodians of the land on which we meet, and their continuing connection to the land and community



We pay respect to them and their culture, and the elders past, present and emerging"

Artwork: Nyiirun Gathay Yayn.Giliyn ("Walking Together") by Birrbay artist Angela Marr-Grogan

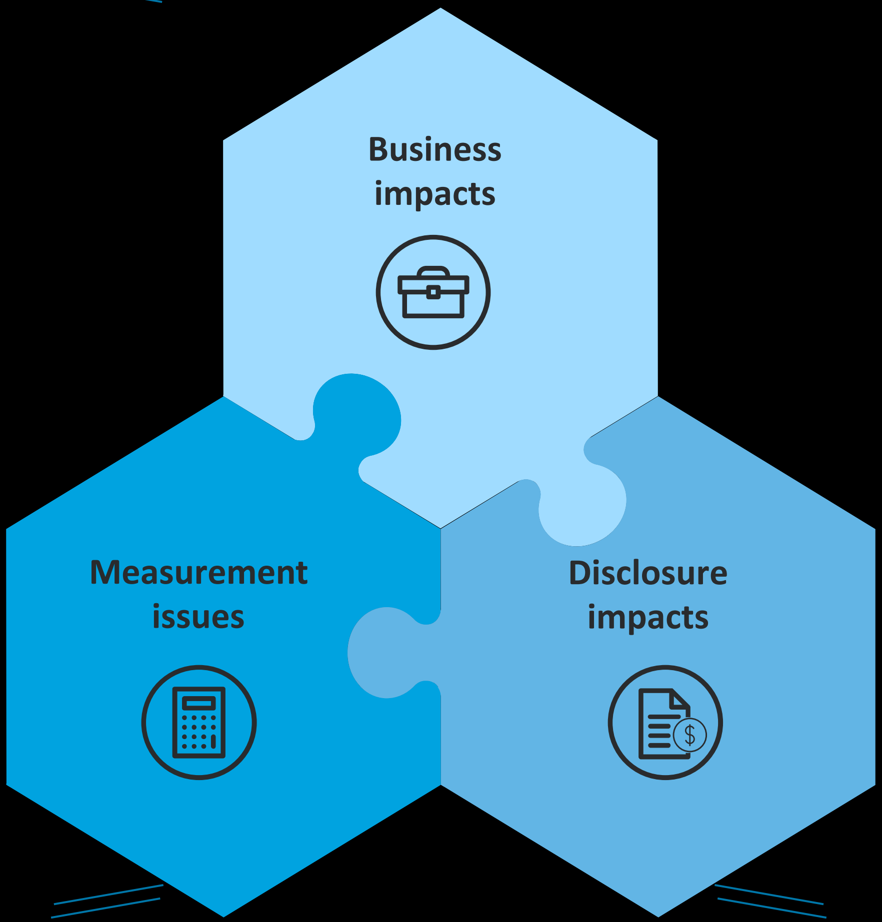
Agenda

- ASIC focus areas
- Removal of SPFS
- Emerging issues
- Sustainability reporting
- Closing out 2022
- Q&A

Reporting in times of risk and uncertainty

Supply chain disruption, rising inflation and interest rates

Rising input costs
Labour shortages
Long term operating and strategic plans
Investing & financing decisions
Contract renegotiations



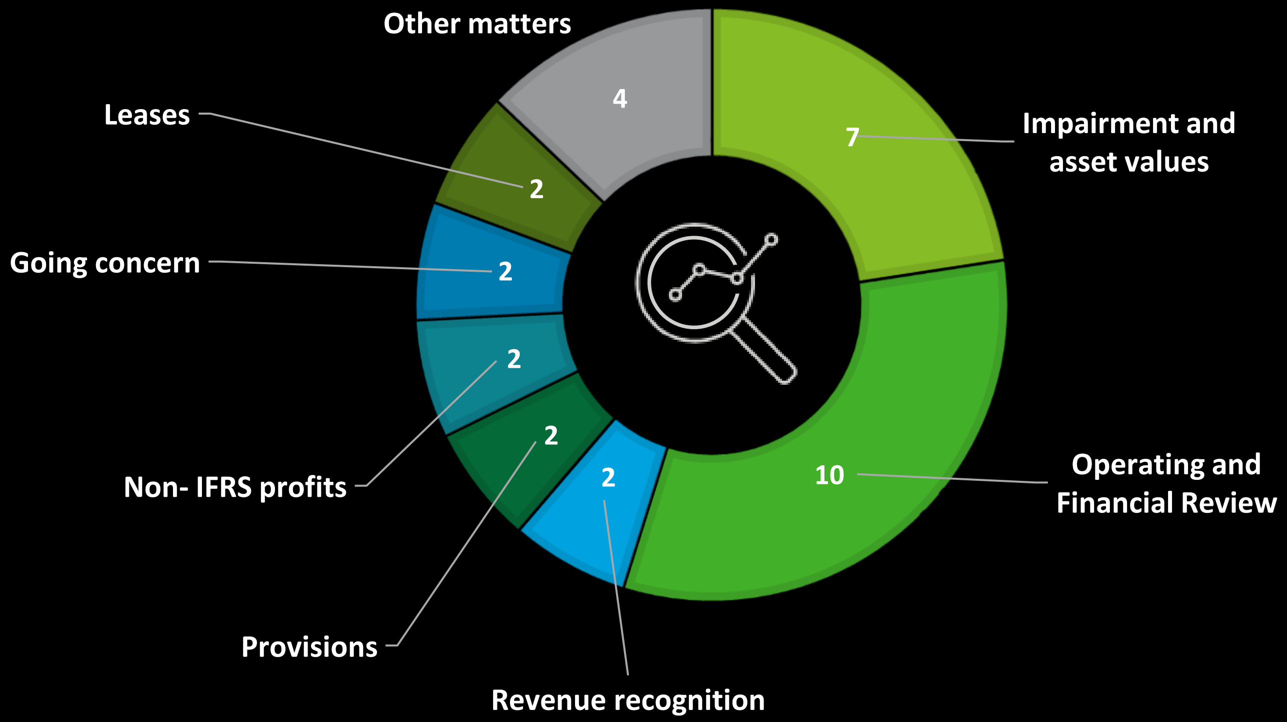
Cash flow forecasts
Impairment
Expected credit losses
Deferred tax asset recoverability
Inventory NRV
Discount rates
Provisions & liabilities
Revenue

Significant judgements & estimates
Financial instruments & liquidity
Sensitivity disclosures
Going concern
Subsequent events
Non-IFRS measures

ASIC focus areas – reporting in times of risk and uncertainty

December 2021 ASIC surveillance findings

Reviewed financial reports of 70 listed and other public interest entities
Made inquiries of 18 entities on 31 matters



Heightened focus on Operating and Financial Review (OFR)

Material business risk disclosures:

DO	DON'T
• Risks affecting future performance • Why risk is important • Potential impact • ESG and climate risks	• Exhaustive list of generic risks

Non IFRS profit measures:

DO	DON'T
• Consider requirements of RG 230 • Label as 'non-IFRS' • Reconcile to statutory profit figures • Label as audited or unaudited • Consistency	• Misleading • Undue prominence • Include within financial statements

ASIC focus areas – reporting in times of risk and uncertainty

Material business risk disclosures

Example

Entity A is an entity selling patented point of sale devices for in Australia/New Zealand and has recently expanded its footprint into the European market.

× **Inadequate disclosure**

Business strategies and prospects - material business risks
The company is subject to a number of risks. The company regularly reviews the possible impact of these risks and seeks to minimise this impact through a commitment to its corporate governance principles and its various risk management functions

Adequate disclosure

Business strategies and prospects - material business risks
The material business risks faced by the company and how the company manages these risks, and its future financial impacts include:

- Foreign exchange—given the increase in sales in Europe, where customers are billed in euro, this has resulted in foreign exchange losses for the company because of the high Australian dollar this year. This has been mitigated to an extent by partial hedging and is therefore unlikely to have a significant impact on our financial results. We expect the risk of experiencing similar foreign exchange losses to continue, although we do not expect any significant change in this risk over the next couple of years
- Technological obsolescence—given the rapidly changing environment in which the company operates, this could have a very significant impact on our financial results. This risk is addressed through investment in research and development and by constantly monitoring the market. This risk is expected to increase in future due to a constant number of competitors entering our market with new and improved products.

ASIC focus areas – reporting in times of risk and uncertainty

Impairment

What questions should you consider?

Have impairment indicators been triggered?

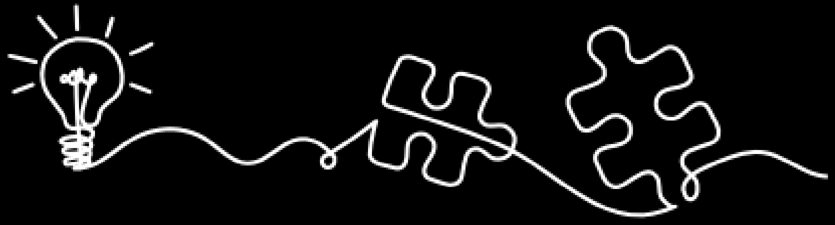
Is forecasting consistent throughout the organisation?

How are inputs verified?

What is a reasonable expectation of growth?

How has the impact on margin been determined?

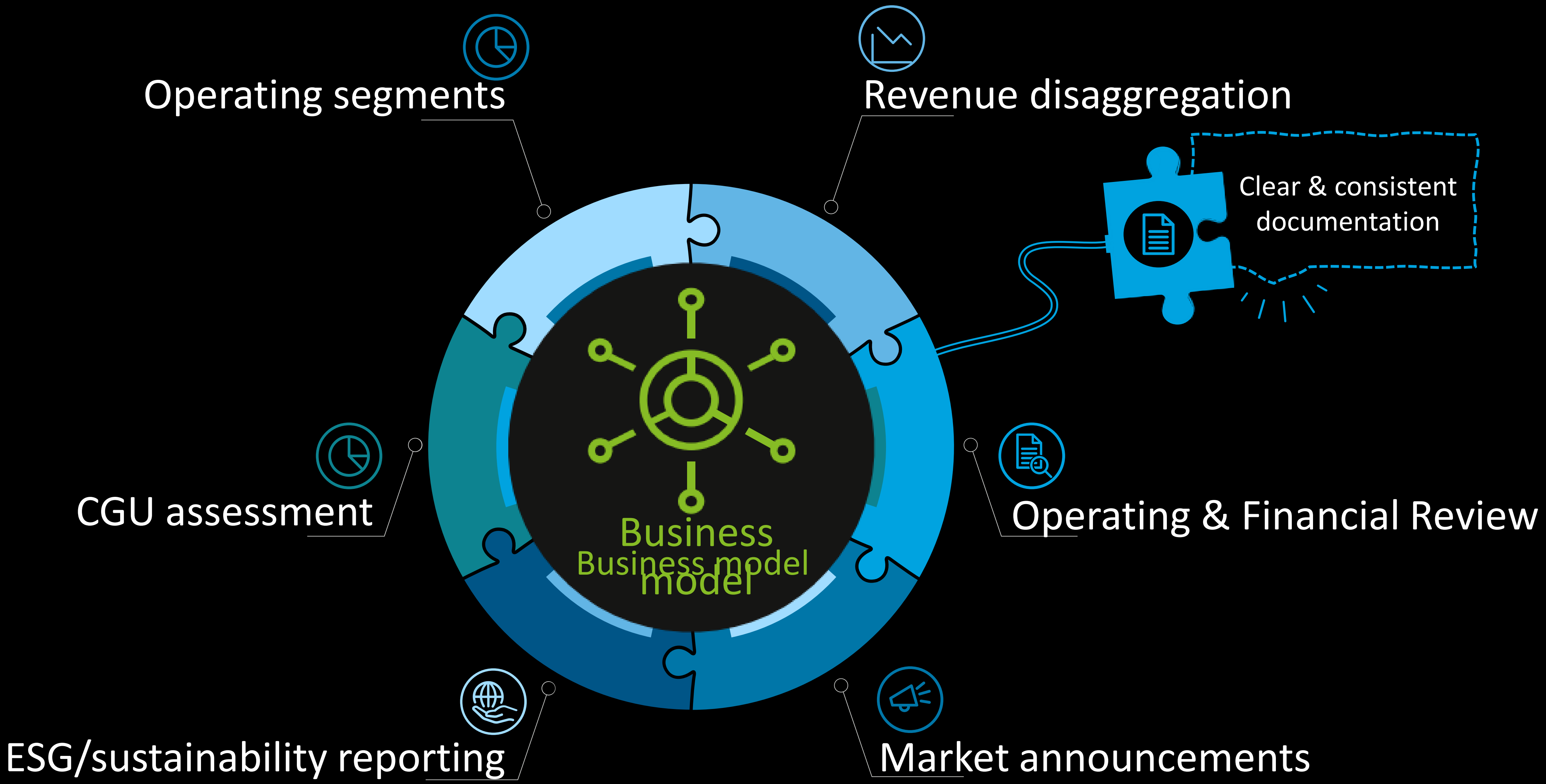
What is the industry outlook?



How has the basis for your assumptions being reasonable and supportable been documented?

ASIC focus areas – reporting in times of risk and uncertainty

Business models - bringing a commercial lens



Removal of SPFS – Transition to GPFS Simplified Disclosures

Key learnings from June adopters

1 Jul '20

30 Jun '21

30 Jun '22

We are here!

31 Dec '22

Scope for non-legislative requirements

New disclosures – gathering data

Consolidation requirements

Sensitivities around particular required disclosures

Removal of SPFS – Transition to GPFS Simplified Disclosures

Resources

[Model financial statements]

[Disclosure checklist]

[Simplified Disclosures – Transition options…]

[Removal of special purpose financial statements]

[AASB 1060 Webinar]

Emerging issues

Upcoming amendments: Current and non current liabilities with covenants

Why it matters?

Compliance with covenants required on/before reporting date

Proposed effective date: **not earlier than 1 Jan 2024**

Example:

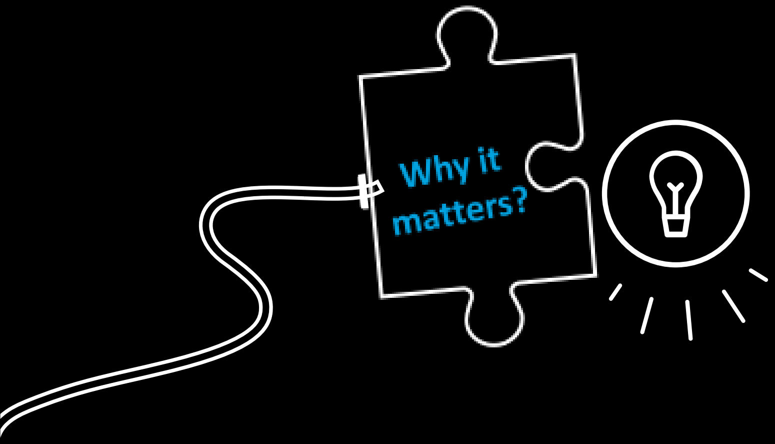
31 December 20x2
Reporting date
Ratio at year end: 0.8

31 March 20x3
Covenants-testing date
Expected ratio: 1.2
Required ratio: 1

Old	New
Unclear	Non- current + Disclosures

Emerging issues

Narrow scope amendments to AASB 16 on sale and leaseback transactions



1 No gain/loss recognised on ROU asset retained

2 Liability should include expected variable lease payments

Example

An asset is sold by Entity A to Entity B at fair value. Transfer of the asset meets requirements of a 'sale' under AASB 15 and is subsequently leased back by Entity A. Terms of arrangement as follows:

- Selling price: $1,800,000
- Carrying amount of asset at date of sale: $1,000,000
- Term: 5 years
- Interest implicit in the lease: 3%
- Annual lease payments comprise fixed payments and variable payments linked to revenue
- Present value of the expected fixed and variable payments is $450,000
- Entity A determines the proportion of the building retained by Entity B that relates to the right of use it retains as 25%*

* ($450,000 / $1,800,000)

Emerging issues

Narrow scope amendments to AASB 16 on sale and leaseback transactions

Example – calculation of the lease liability by Entity A

Lease liability: Approach 1

Year	Beginning balance	Payment*	Interest	Ending balance
1	**450,000**	(95,902)	13,500	367,598
2	367,598	(98,124)	11,028	280,502
3	280,502	(99,243)	8,415	189,674
4	189,674	(100,101)	5,690	95,263
5	95,263	(98,121)	2,858	0

* Estimated at contract inception

Lease liability – Approach 2

Year	Beginning balance	Payment*	Interest	Ending balance
1	**450,000**	(98,260)	13,500	365,240
2	367,598	(98,260)	10,957	277,937
3	280,502	(98,260)	8,338	188,015
4	189,674	(98,260)	5,640	95,395
5	95,263	(98,260)	2,865	0

* Equalised annual amount imputed

Emerging issues

AASB 17 insurance contracts

What is an insurance contract?

Example

Under a maintenance contract an entity has agreed to :

- Repair specific equipment after a malfunction
- Service fee is fixed based on expected number of malfunctions
- Uncertainty around whether and how often a particular asset would break down
- Pricing takes into account the condition of the specific asset as well as the specific customers risk profile

Contract **would meet** the definition of an insurance contract.

Fixed fee service contract considerations:

Pricing – Is there an "underwriting" type process involved?

Compensation – Are customers compensated by cash payment rather than by delivering services?

Risk – Does the transferred risk primarily relate to uncertainty over the cost of providing the service?

Emerging issues

New effective amendments

Recent amendments effective beginning 1 January 2022

Property, Plant and Equipment—Proceeds before Intended Use

- Sales proceeds and costs of producing items before item is available for use are recognised in profit or loss

Onerous Contracts—Costs of Fulfilling a Contract

- = incremental costs + allocation of directly related costs

Sustainability reporting

Environmental, Social and Governance considerations

Four pillars of sustainability disclosure standards

Are plans and strategies developed and aligned?

Is data available to satisfy the specific metric requirements?

Who will be responsible?

Are sustainability risks identified and managed?

Closing out 2022

Resources

[Model financial statements & Australian financial reporting guide]

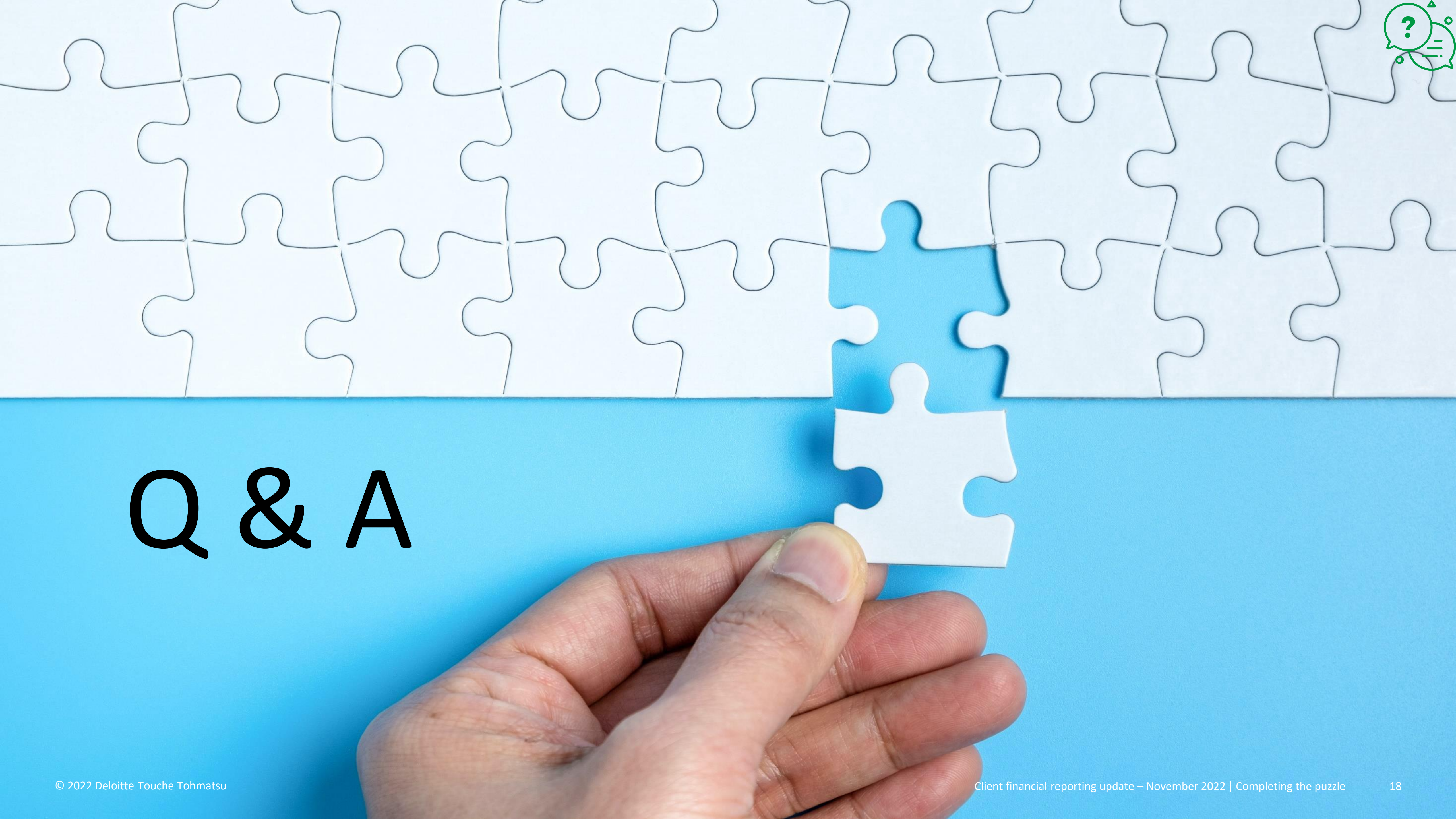
[Responding to ASIC areas of focus]

[Disaggregated revenue disclosures]

[Non-IFRS measures]

[Making sense of the ISSB: Navigating climate regulation, compliance and reporting]

Q & A



Other useful materials

Environmental, Social and Governance considerations

ISSB exposure drafts on sustainability and climate

The importance of reliable data

Quantitative metrics (Cross-industry and Industry Specific)

Proposals are that entities would be required to disclose quantitative information about the impact of climate-related risk and opportunities on an entity's financials, including projections along with industry-specific metrics drawn from SASB. The exposure drafts provide for cross-industry quantitative disclosures as well as industry-specific disclosures. The industry based disclosure requirements are an integral part of the exposure draft and includes a set of 68 industry-based disclosure requirements enabling an entity to identify the requirements that are applicable to its business model and associated activities

CROSS-INDUSTRY			
TOPIC	**METRIC**	**CATEGORY**	**UNIT OF MEASURE**
Greenhouse Gas Emissions (GHG)	Absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard. Scope 1-3 emissions.	Quantitative	Metric tons (t) CO_2-e, Percentage (%)
	Greenhouse gas emissions intensity for each of Scope 1-3 emissions.	Quantitative	Metric tons (t) CO_2 -e per unit of physical or economic output
	For Scope 1 and Scope 2 emissions, the entity shall disclose emissions separately for: 1) The consolidated accounting group 2) Associates, joint ventures, unconsolidated subsidiaries.	Quantitative	Metric tons (t) CO_2-e, Percentage (%)
	Approach used to include emissions for the entities and reasons for the entity's choice of approach.	Discussion and Analysis	n/a
	For Scope 3 emissions: 1) Upstream and downstream emissions 2) Disclose categories included within its measure of Scope 3 emissions 3) Basis for that measurement, and 4) State the reason for exclusion of any GHG.	Discussion and Analysis	n/a
Transition risks, physical risk and opportunities	The amount and percentage of assets or business activities vulnerable to transition risks, physical risks and climate-related opportunities.	Quantitative	Number, Percentage (%)
Capital deployment	The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.	Quantitative	Number
Internal carbon prices	The price for each metric ton of greenhouse gas emissions that the entity uses to assess the costs of its emissions.	Quantitative	Price/Metric tons (t) CO_2-e
	An explanation of how the entity is applying the carbon price in decision-making.	Discussion and Analysis	n/a
Remuneration	The percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.	Quantitative	Percentage (%)
	A description of how climate-related considerations are factored into executive remuneration.	Discussion and Analysis	n/a

INDUSTRY-SPECIFIC (EXAMPLE ONLY – CONTAINERS & PACKAGING INDUSTRY			
TOPIC	**METRIC**	**CATEGORY**	**UNIT OF MEASURE**
Greenhouse Gas Emissions	Gross global Scope 1 emissions, percentage covered under emissions- limiting regulations.	Quantitative	Metric tons (t) CO_2-e, Percentage (%)
	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets.	Discussion and Analysis	n/a
Energy Management	1) Total energy consumed 2) Percentage grid electricity 3) Percentage renewable energy, and 4) Total self-generated energy.	Quantitative	Gigajoules (GJ), Percentage (%)
Water Management	1) Total water withdrawn 2) Total water consumed 3) Percentage of each of the above in regions with High or Extremely High Baseline Water Stress	Quantitative	Thousand cubic meters (m^3), Percentage (%)
	Description of water management risks and discussion of strategies and practices to mitigate those risks.	Quantitative	n/a
	Number of incidents of non-compliance associated with water quality permits, standards, and regulations.	Quantitative	Number
Waste Management	Amount of hazardous waste generated and percentage recycled.	Quantitative	Metric tons (t), Percentage (%)
Supply Chain Management	Total wood fiber procured, percentage from certified sources.	Quantitative	Metric tons (t), Percentage (%)
	Total aluminum purchased, percentage from certified sources.	Quantitative	Metric tons (t), Percentage (%)

Containers & Packaging

Example of industry description

Appendix B of [Draft] IFRS S2 defines the Containers and Packaging industry as being one that converts raw materials, including metal, plastic, paper, and glass, into semi-finished or finished packaging products. Companies produce a wide range of products, including:

- Corrugated cardboard packaging
- Food and beverage containers
- Bottles for household products
- Aluminium cans
- Steel drums, and
- Other forms of packaging.

Companies in the industry typically function as business-to-business (B2B) entities and many operate globally.

Deloitte.

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