

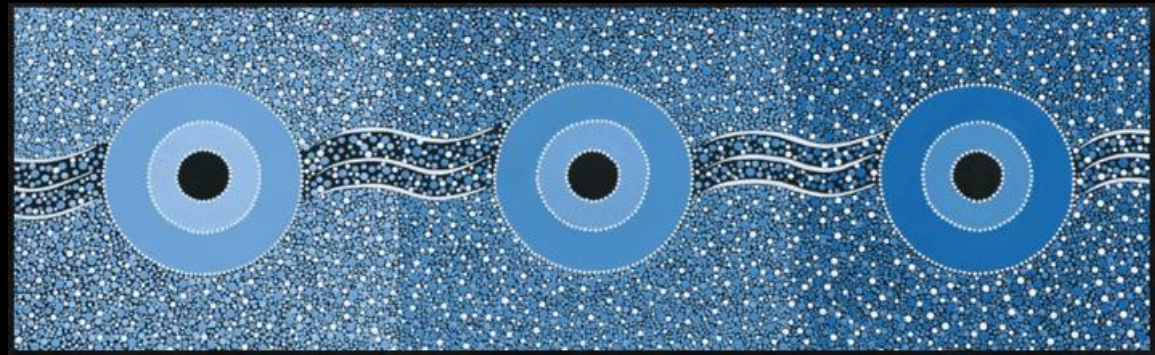


Client financial reporting update – November 2022 Completing the puzzle

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

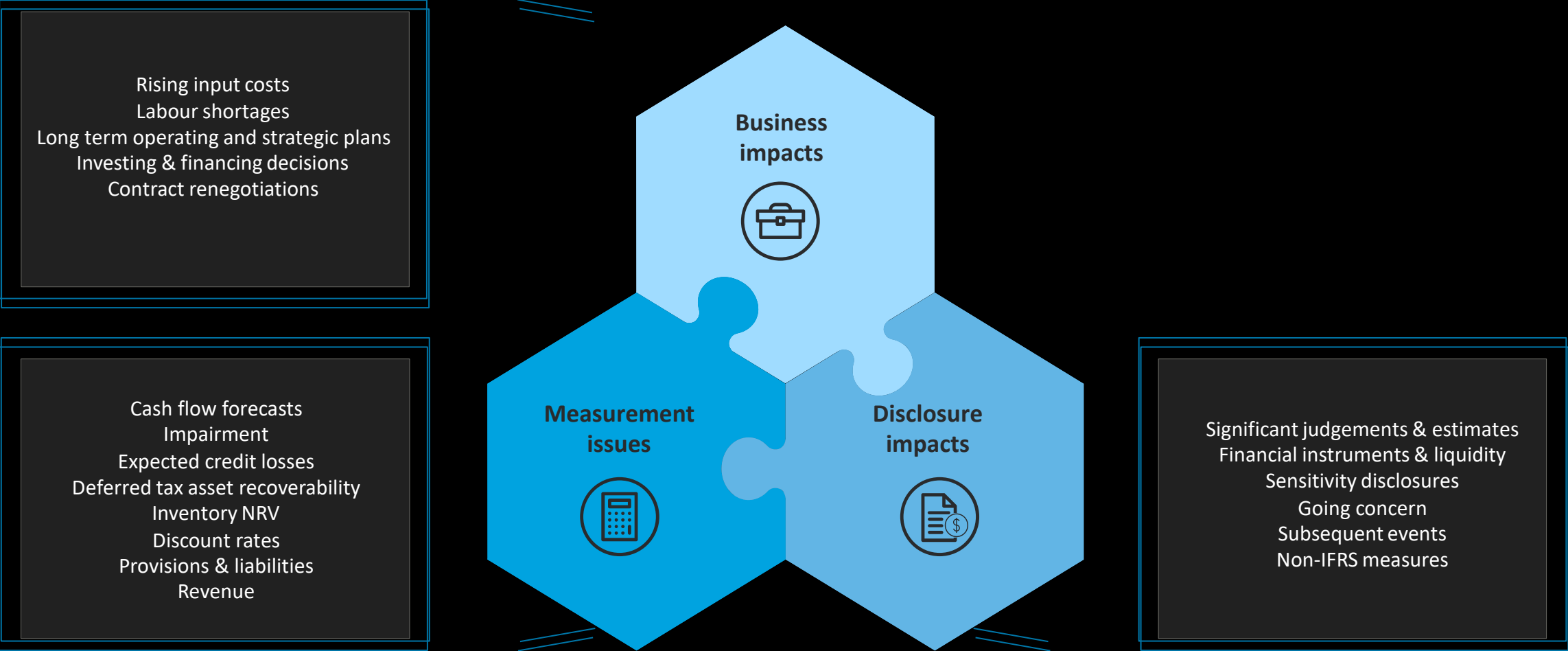
Agenda





Reporting in times of risk and uncertainty

Supply chain disruption, rising inflation and interest rates

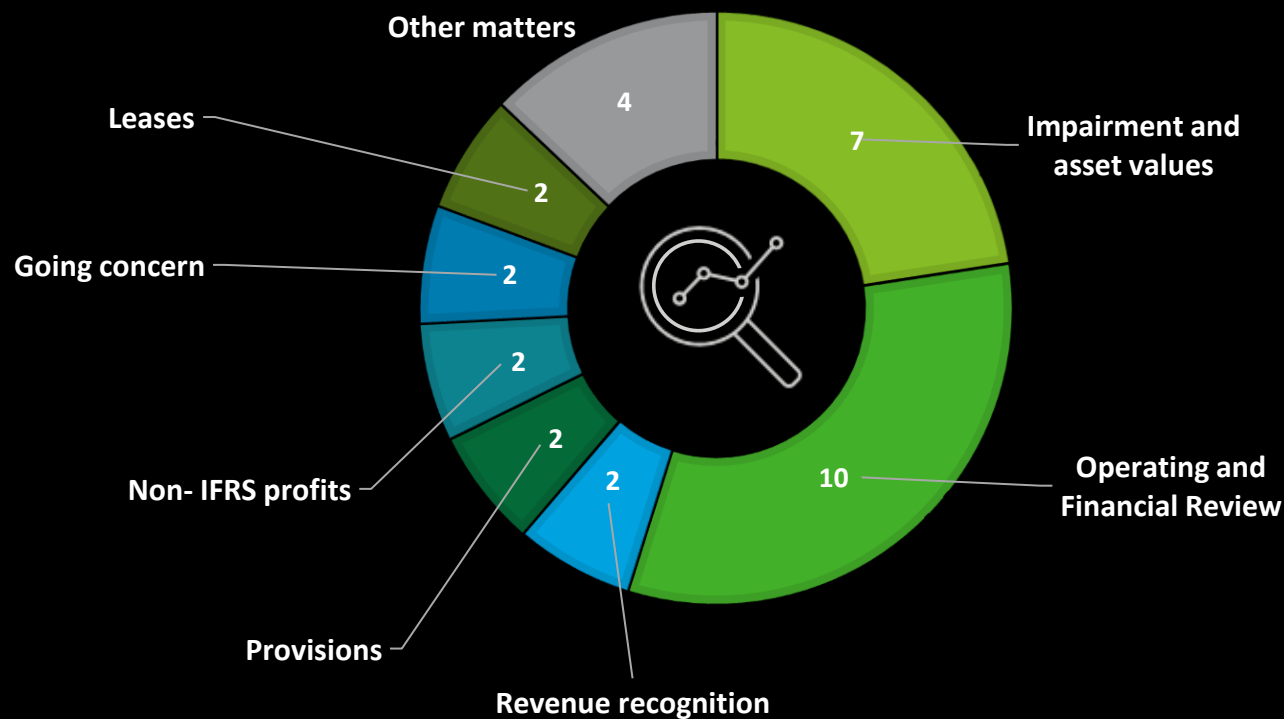




ASIC focus areas – reporting in times of risk and uncertainty

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

- Risks affecting future performance
- Why risk is important
- Potential impact
- ESG and climate risks

DON'T

- Exhaustive list of generic risks

Non IFRS profit measures:

DO

- Consider requirements of RG 230
- Label as 'non-IFRS'
- Reconcile to statutory profit figures
- Label as audited or unaudited
- Consistency

DON'T

- 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:

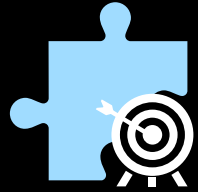
- **Foreign exchange**—given the increase in sales in Europe, where customers are billed in euro, this has resulted in foreign exchange losses for the company because of the high Australian dollar this year. This has been mitigated to an extent by partial hedging and is therefore unlikely to have a significant 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?

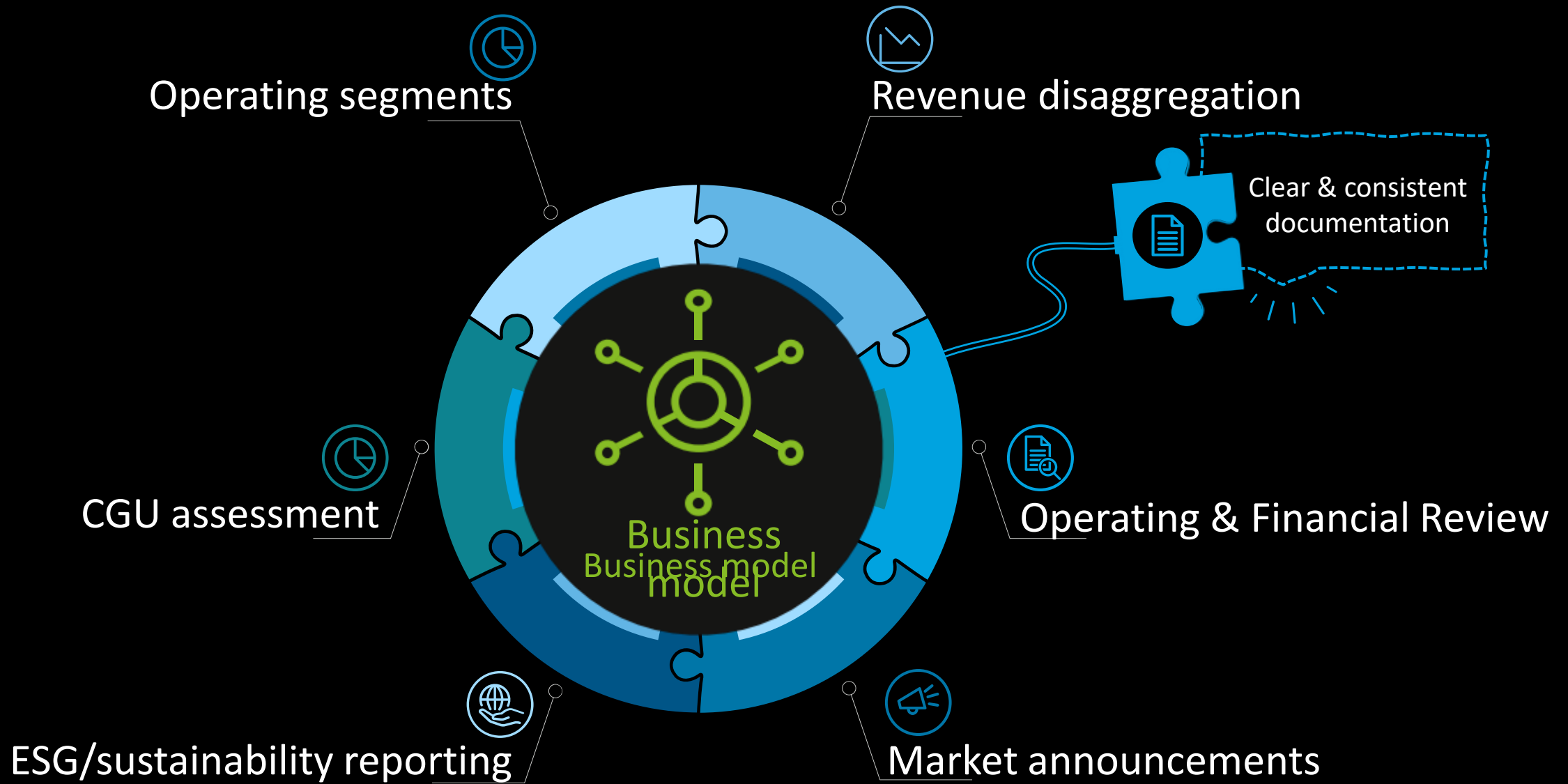


How has the basis for your assumptions being reasonable and supportable been documented?



ASIC focus areas – reporting in times of risk and uncertainty

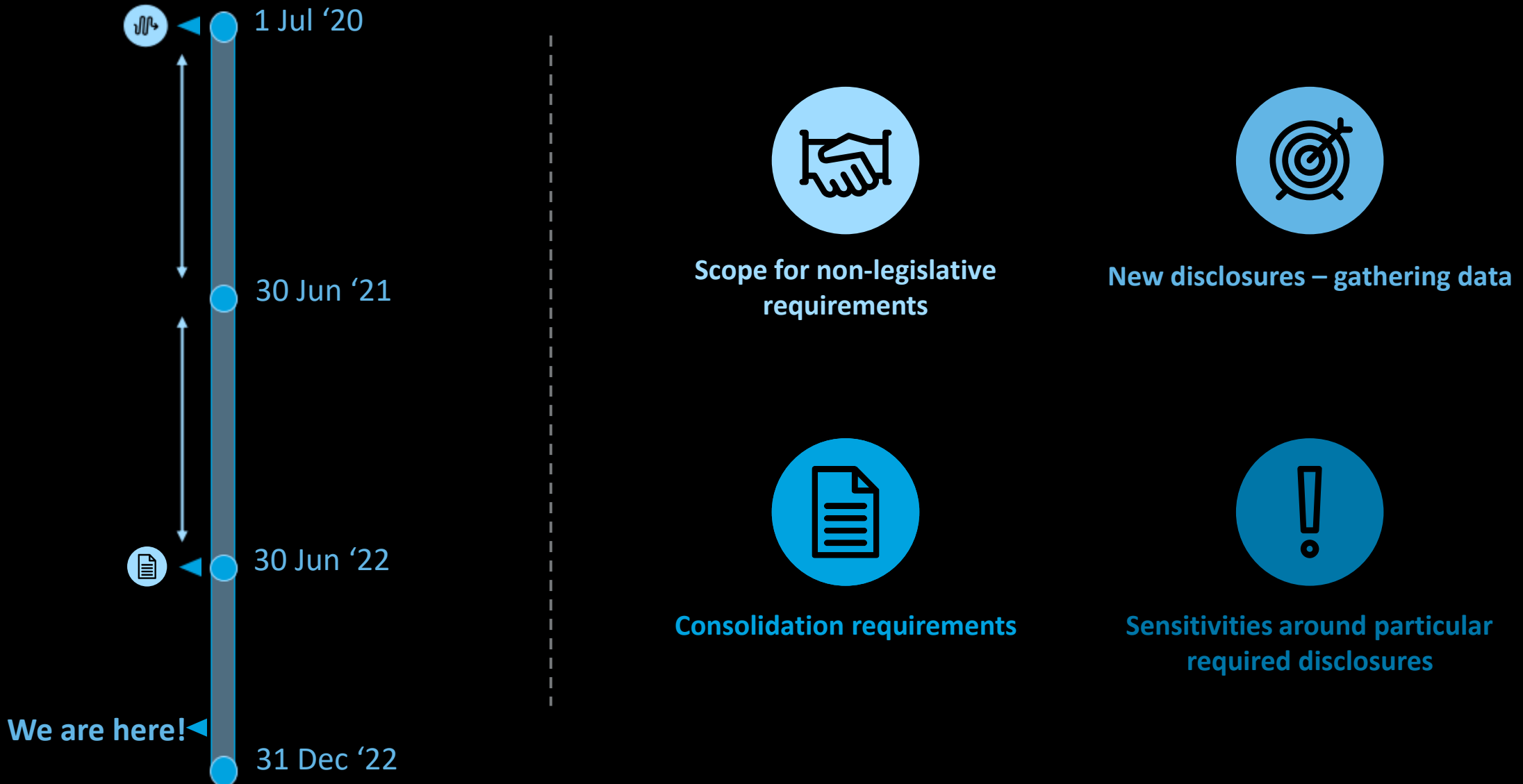
Business models - bringing a commercial lens





Removal of SPFS – Transition to GPFS Simplified Disclosures

Key learnings from June adopters





Removal of SPFS – Transition to GPFS Simplified Disclosures Resources




Model Tier 2 financial report
Financial reporting periods ending on or after 30 June 2022



Article
Tier 2 (Simplified Disclosures) presentation and disclosure Version 1.20 (June 2021)
A guide to required presentation and disclosure under Australian Accounting Standards – Simplified Disclosures

This Excel workbook can be used by entities applying Australian Accounting Standards – Simplified Disclosures.

The workbook summarises the presentation and disclosure requirements of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and other relevant Australian Accounting Standards on issue as of 31 December 2020 and as effective for annual reporting periods beginning on or after 1 July 2021.

The checklist also accommodates entities that wish to early adopt AASB 1060 prior to this date.

The workbook includes cross references to our Tier 2 Simplified Disclosures model financial statements.

Conditions

The Excel workbook contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organisation”) is, by means of this Excel workbook, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this Excel workbook, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on




Article
Simplified Disclosures – Transition options and opportunities

The new ‘Simplified Disclosures’ Tier 2 financial reporting framework came into effect from 1 July 2021 and will apply for the first time from 30 June 2022 (see our [earlier publication](#)). In this publication we explain what this means, and the opportunities available on transition.

In summary:

- The ability of many for-profit entities to prepare special purpose financial statements was removed with effect from 1 July 2021.
- A new Tier 2 ‘Simplified Disclosures’ Standard replaces ‘Reduced Disclosure Requirements’ (RDR) from the same date.
- The transitional requirements are complex and depend upon various factors.
- Many entities will have choices on transition, particularly those moving from stand-alone special purpose financial statements to consolidated general purpose financial statements.
- Entities choosing to early adopt have additional choices available.
- There can be a substantial amount of effort required to transition to the new framework.

“The new Simplified Disclosures framework presents a significant compliance challenge for entities should underestimate the amount of effort required to transition.”

*Alison White
Lead Partner – Accounting*




Article
Removal of special purpose financial statements

The ability of many for-profit entities to prepare special purpose financial statements has been removed with effect from 1 July 2021. In a new Tier 2 ‘Simplified Disclosures’ Standard generally provides comfort and relief when compared to ‘Reduced Disclosure Requirements’.

The key impacts include:

- The reporting entity concept has been a long-term feature of the Australian financial reporting landscape. Its removal represents a major change to prior practice.
- Many private sector for-profit entities will be required to prepare general purpose financial statements (GPFS).
- Entities preparing financial statements under the Corporations Act 2001 or other legislation that are required to comply with Australian Accounting Standards or ‘accounting standards’, such as large proprietary companies, unlisted companies and small foreign-controlled proprietary companies.
- Trusts, partnerships and similar entities where the constituting document or another document (such as an agreement) requires preparation of financial statements in accordance with Australian Accounting Standards, these documents are created or amended on or after 1 July 2021.
- Any for-profit entity that chooses voluntarily to prepare GPFS.
- The Reduced Disclosure Requirements (RDR) has been replaced with new Simplified Disclosures to be used for both for-profit and not-for-profit entities that have fewer disclosures than RDR.
- Under Simplified Disclosures, an ultimate Australian parent is required to prepare consolidated financial statements for non-reporting entities. As a result, CIC reporting entities will no longer be able to prepare GPFS where a foreign parent prepares consolidated GPFS in accordance with International Financial Reporting Standards (IFRS).

There is no impact on:

- Tier 1 entities. Entities with public accountability and certain public sector entities continue to prepare Tier 1 financial statements.
- Not-for-profit and public sector entities that prepare special purpose financial statements. These are subject to the project.



Article
Simplified Disclosures framework webcast
Understanding the removal of the reporting entity concept and the new ‘Simplified Disclosures’ framework

This special edition webcast:

- Provides a summary of the Simplified Disclosure requirements arising under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*
- Outlines which entities are required to apply Simplified Disclosures
- Explains the transition process, including a worked example of AASB 1’s ‘short-cut consolidation’ method.

Published: April 2022

[Model financial statements](#)

[Disclosure checklist](#)

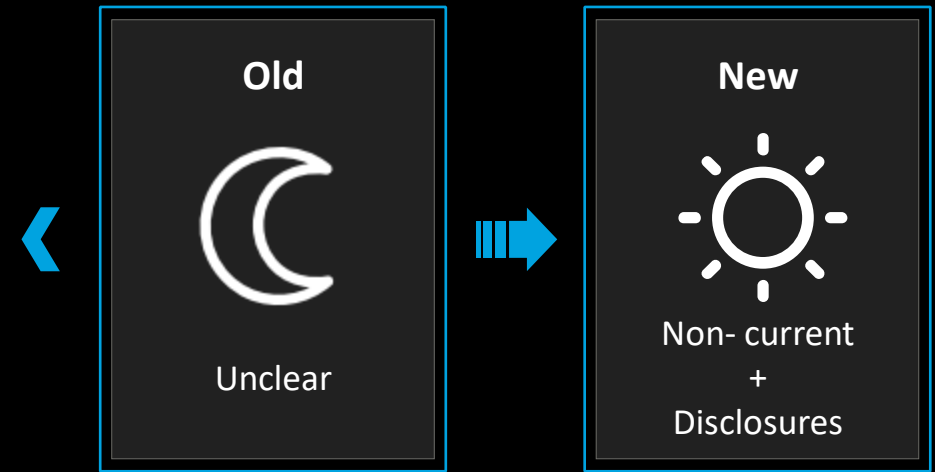
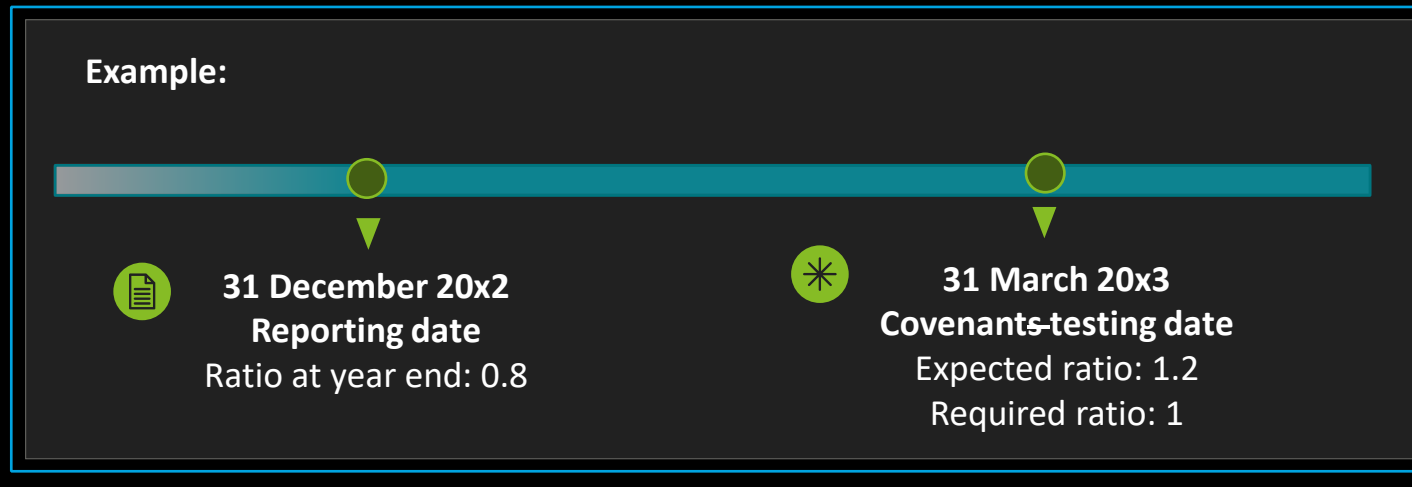
[Simplified Disclosures – Transition options...](#)

[Removal of special purpose financial statements](#)

[AASB 1060 Webinar](#)

Emerging issues

Upcoming amendments: Current and non current liabilities with covenants





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?



Issuer



Policyholder

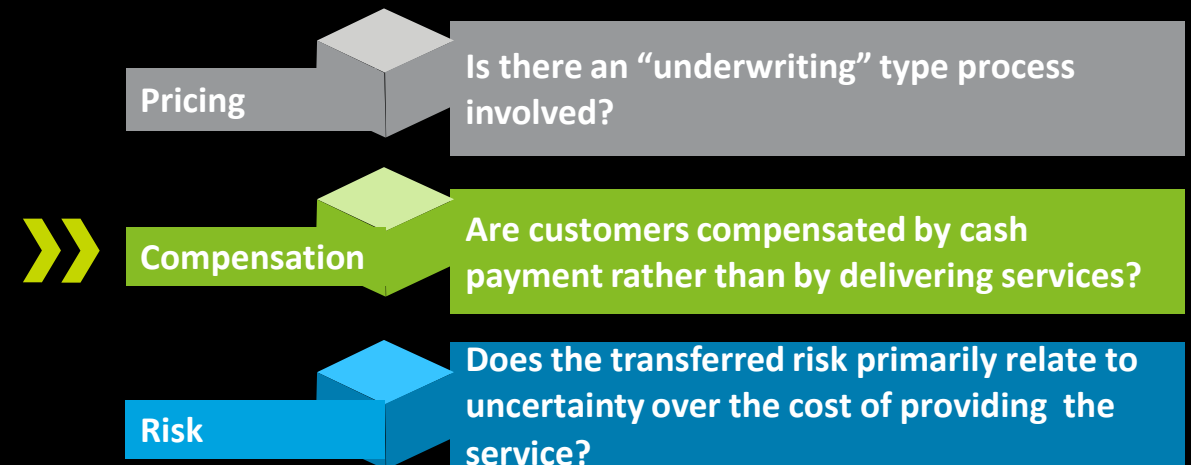
Example

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:





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



Closing out 2022

Resources



Deloitte.

Tier 1 models and considerations
Financial reporting periods
31 December 2022

Deloitte.

Australian financial reporting guide
12th Edition (October 2022)

Deloitte.

Clarity in financial reporting

Responding to ASIC areas of focus
Financial reporting in times of risk and uncertainty

- The Australian Securities and Investments Commission (ASIC) recently issued its [focus areas](#) for June 2022 year ends.
- ASIC also [announced](#) that it reviewed 70 listed entity financial reports as part of its surveillance for 31 December 2021, ten of which were IPOs in the past 18 months.
- ASIC made inquiries of 18 entities on 31 matters. Ten related to insufficient disclosure of business risks in the operating and financial review (32%) and seven related to recoverability of asset values (23%).
- Recognition of restoration and lease make-good provisions, revenue recognition, expense deferral and classification of debt as current or non-current also continue to be areas of inquiry.
- ASIC has [updated directions](#) to place greater focus on disclosure of material business risks in the operating and financial review (OFR), de-emphasising the impacts of COVID-19 in favour of broader economic risks and uncertainties like the impact of rising interest rates and oil prices, geopolitical risks (including the Russia-Ukraine conflict), discontinuation of financial support, changes in customer behaviours and availability of skilled staff and expertise.
- ASIC has also emphasised the disclosure of environmental, social and governance risks and ensuring consistency between disclosures in the OFR and any other voluntary climate related disclosures.
- In order to provide useful and meaningful information, in compiling the financial report it is important to disclose the impacts on the entity, the uncertainties the entity faces and the significant judgements. Appropriate documentation of these assumptions can assist in protecting both management and directors.
- Additional ASIC updates relate to prior periods include the:
 - Disclosure of material penalties for non-compliance with sanctions imposed in relation to Russia
 - Ensuring the recognition of assets, liabilities, income and expenses in registered scheme balance sheet statements where scheme members have in substance pooled interest in assets and returns.

Companies face market conditions and uncertainties on financial assets to ensure better informed strategies and

Sean Hughes, ASIC

Deloitte.

Clarity in financial reporting

Disaggregated revenue disclosures
The relevance and value of more transparent revenue disclosure

- AASB 15 Revenue from Contracts with Customers has challenged the status quo of revenue disclosures typically seen in the past by adding new, comprehensive disclosure requirements.
- Entities are required to provide disaggregated revenue information in both their annual and interim financial statements about the composition of revenue, including information to explain the relationship between the disaggregated revenue and revenue disclosed for each reportable segment.
- To date many revenue disclosures have been simplistic, not necessarily meeting the objective of the disclosure requirement to provide insight into how economic factors impact and influence the nature, amount, timing and uncertainty of revenue and associated cash flows.
- Since adoption of AASB 15, regulators locally and globally have challenged the adequacy of disaggregated revenue disclosures, suggesting that the level of disclosure in the first year after adoption is not hitting the mark in providing users of the financial statements with information about an entity's revenue that is aligned to how management and those charged with governance analyse its most fundamental transaction streams.
- Entities are encouraged to revisit their revenue disclosures in light of this focus by regulators and at regular intervals, when a change in circumstances occurs, such as the current COVID-19 environment, categories are appropriate.
- Judgement and careful consideration is needed to determine the extent of disaggregation required to provide relevant and transparent information that is consistent with information included in the financial statements disclosures and to enable users to predict and analyse future revenue performance.

Careful consideration of the appropriate revenue disaggregation is imperative for understanding economic factors that impact the nature, amount, timing and uncertainty of associated cash flows.

Deloitte.

Clarity in financial reporting

Clarity in financial reporting
Non-IFRS measures – enhancements or embellishments?

Background
What is non-IFRS financial information?
Helpful insights or smoke and mirrors?
What guidance is out there for preparers disclosing non-IFRS information?
Illustrative examples
Upcoming developments
Conclusion and quick-reference checklist

Talking points

- Many preparers in the Australian and global markets measure when communicating information to stakeholders their unique business and provide additional measures.
- Non-IFRS measures, also known as non-GAAP or alternative measures, are under the spotlight from investors and concerned that entities are increasingly using them to mislead users.
- In our view, preparers that either give undue prominence or present it without an accompanying statutory measure, are much more likely to risk mislead.
- Locally in Australia, ASIC Regulatory Guide 230 Disclosures provides the detailed requirements when information. These requirements cover non-IFRS info documents:
 - Financial reports – including the face of the and related notes and the operating and financial review.
 - Transaction documents – for example prospectuses.
 - Other documents – including market announcements.
- Internationally, the IASB has added this issue to its work plan to make further progress on the project by the end of 2023.

For more information please see the following websites:
www.iasb.org
www.deloitte.com

Deloitte.

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

September 2022

[Model financial statements & Australian financial reporting guide](#)

[Responding to ASIC areas of focus](#)

[Disaggregated revenue disclosures](#)

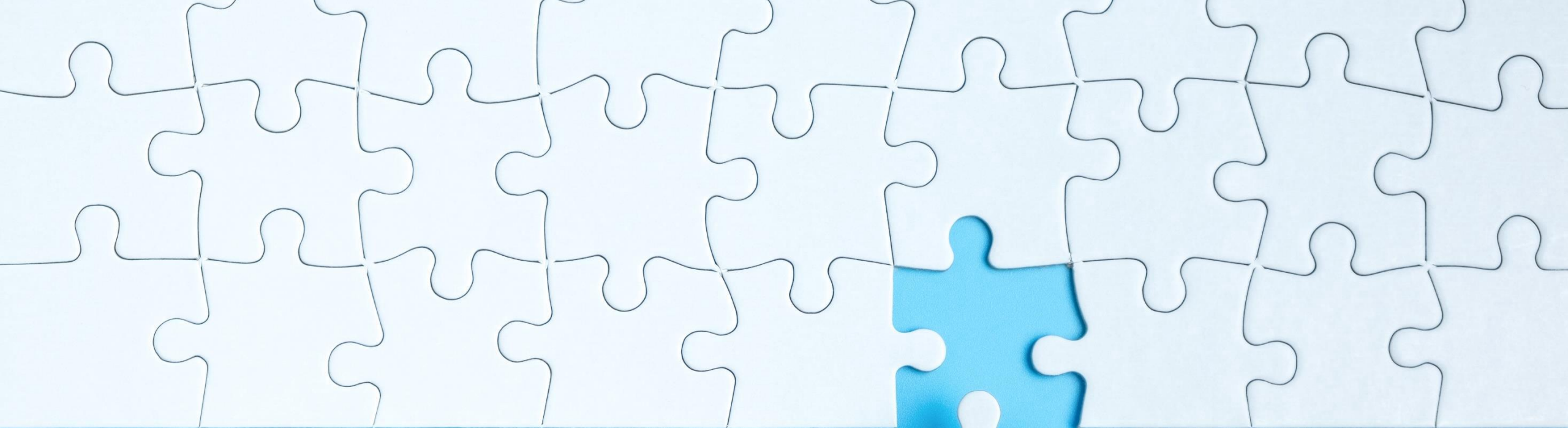
[Non-IFRS measures](#)

[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: <ul style="list-style-type: none"> • Corrugated cardboard packaging • Bottles for household products • Steel drums, and • Food and beverage containers • Aluminium cans • Other forms of packaging. Companies in the industry typically function as business-to-business (B2B) entities and many operate globally.			



This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that November affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities. DTTL (also referred to as “Deloitte Global”) and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

About Deloitte

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 286,000 people make an impact that matters at www.deloitte.com.

About Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities provide services in Australia, Brunei Darussalam, Cambodia, East Timor, Federated States of Micronesia, Guam, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, Palau, Papua New Guinea, Singapore, Thailand, The Marshall Islands, The Northern Mariana Islands, The People’s Republic of China (incl. Hong Kong SAR and Macau SAR), The Philippines and Vietnam, in each of which operations are conducted by separate and independent legal entities.

About Deloitte Australia

In Australia, the Deloitte Network member is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia’s leading professional services firms. Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 8,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at www.deloitte.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

© 2022 Deloitte Touche Tohmatsu.

Designed by CoRe Creative Services. RITM1190482