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Clarity in financial reporting

ASIC focus areas for December 2018 reporting

ASIC focus areas

Link to relevant ASIC media releases

[18-364MR Major financial reporting changes and other focuses]

Talking points

- ASIC announced its focus areas for the December 2018 reporting season on 3 December 2018.
- Four main topics are covered in ASIC's focus areas for December 2018:
  - New accounting standards
  - Accounting estimates
  - Accounting policy choices
  - Key disclosures.
- ASIC will review at least 85 full year financial reports at 31 December 2018 and selected half-year reports.
- ASIC has noted that entities should:
  - Focus on the new requirements that can materially affect items in financial statements as a result of implementing the new standards.
  - Ensure timely implementation of the new accounting standards and adequate disclosures in the financial reports.
  - Quantify the impact of the new standards, particularly AASB 16 Leases, as it is a reasonable expectation from the market.
  - Disclose the impact on the future financial position of the entity as a result of the new definition and recognition criteria for assets, liabilities, income and expenses in the IASB's Conceptual Framework for Financial Reporting in the notes to the 31 December 2018 financial statements.

For more information, please see the following websites:

www.iasplus.com

www.deloitte.com

ASIC focus areas for 31 December 2018 reporting season

On 3 December 2018 the Australian Securities and Investments Commission (ASIC) announced its focus areas for 31 December 2018 financial reports (18-364MR Major financial reporting changes and other focuses). The ASIC key focus areas are as follows:

Key focus areas

New accounting standards

Topic	Considerations
Impact of new accounting standards	New accounting standards that are effective for December 2018 half-year and year-ends: • AASB 9 *Financial Instruments* (applies from years commencing 1 January 2018) • AASB 15 *Revenue from Contracts with Customers* (applies from years commencing 1 January 2018). New accounting standards that are not yet effective: • AASB 16 *Leases* (applies from years commencing 1 January 2019) • AASB 17 *Insurance Contracts* (applies from years commencing 1 January 2021)[1] • The IASB's *Conceptual Framework for Financial Reporting* (an equivalent *Conceptual Framework* yet to be released by the AASB, expected to apply from years commencing 1 January 2020). The new accounting standards are expected to impact not only financial statements but also to have a flow on impact to items such as debt covenants, tax liabilities, dividends paying capacity and remuneration schemes. Besides timely implementation and adequate disclosures, ASIC also expects entities to consider their continuous disclosure obligations to keep the market informed. **Thinking it through – What if the new accounting standards have no material impact?** Consistent with ASIC we believe that disclosing information where the new accounting standards have no material impact is important to the market. Such an entity should not disregard the process of performing an adequate assessment to determine the quantitative impact of the new accounting standards and should also disclose how the conclusion has been reached.
Half-year reports	We are aware that ASIC has reviewed more than 200 entities financial reports in the June reporting season, which includes half-yearly reports. ASIC will again review selected half-year reports in the December reporting season, focusing on compliance with the new standards. ASIC expects half-year financial reports to disclose clearly the nature and effect of changes in accounting policies from applying the new standards. Although the detailed disclosure requirements of AASB 9, AASB 15 and AASB 16 do not formally apply to condensed half-year financial statements prepared in accordance with AASB 134 *Interim Financial Statements*, entities should consider disclosing all material information required by the new standards to meet user needs. AASB 134 requires disclosure of the effects of changes in accounting policy. Entities should also take account of any additional requirements on the disclosure of changes in accounting policies implemented by the Australian Securities and Investments Commission (ASIC), including (but not limited to) the Australian Prudential Regulation Authority (APRA) applicable to financial institutions on first-time adoption of AASB 9. **Accessing information** For more information on what to disclose in half-year reports see Deloitte Clarity publication **Disclosing the adoption of new accounting standards in half-year financial statements**.

[1] Note that in November 2018, the International Accounting Standards Board (IASB) has proposed a one-year deferral of the effective date for IFRS 17 (AASB 17 equivalent) to 2022. This also includes extending the temporary exemption for insurers to apply IFRS 9 (AASB 9 equivalent) to 2022.

New lease accounting	AASB 16 is effective for reporting periods beginning on or after 1 January 2019. ASIC has a view that It is reasonable for the market to expect entities to quantify the impact of AASB 16. Entities with December 2018 year ends that will be disclosing their results forecast for the 2019 year should prepare those forecasts using the accounting basis required for the 2019 financial year.
New conceptual framework	Although the Australian Accounting Standards Board (AASB) has not issued the equivalent *Conceptual Framework* in response to the IASB's *Conceptual Framework for Financial Reporting*, ASIC expects companies that are required to make an explicit unreserved statement of compliance with IFRS to consider and make note disclosure at 31 December 2018 of the future impact of the criteria in the new framework. Directors and auditors should ensure that notes to 31 December 2018 financial statements disclose the impact on future financial position as a result of new definition and recognition criteria for assets, liabilities, income and expenses. **Thinking it through – Who would be impacted and what should be disclosed?** Entities that may be impacted include those that rely on the principles in the current AASB's *Conceptual Framework for the Preparation and Presentation of Financial Statements* to determine appropriate accounting policies due to there not being specific requirements in an Australian Accounting Standard. *Entities* should asses their existing policies and form an expectation of whether the new IASB's *Conceptual Framework for Financial Reporting* would impact the financial statements, and if the expected impact is known such information should be disclosed. If the entity has not assessed the impact and cannot yet form a view, such information should also be clearly disclosed.
Accounting for insurance businesses	Although the IASB has proposed a one-year deferral of the effective date for IFRS 17 (AASB 17 equivalent) and extending the temporary exemption for insurers to apply IFRS 9 (AASB 9 equivalent) to 2022, insurance entities should not delay timely implementation. Where possible entities should disclose the expected impact of the new accounting standard in their financial statements.

Accounting estimates

Topic	Considerations
Impairment testing and asset values	ASIC will continue focusing on the recoverability of the carrying amounts of assets such as goodwill, other intangibles and property, plant and equipment. Directors and auditors should ensure the methodology and assumptions used for determining the recoverable amount are appropriate. ASIC has indicated a number of additional focus areas relating to asset values including: • companies affected by market changes, digital disruption, technological change, climate change or Brexit; • the pricing, valuation and accounting for inventories, including the net realisable value of inventories, possible technical or commercial obsolescence, and the substance of pricing and rebate arrangements; and • the valuation of financial instruments, particularly where values are not based on quoted prices or observable market data. Fair values should be based on appropriate models, assumptions and inputs. **Thinking it through – What are common issues we see in practice?** In practice, we are still seeing a significant number of queries from ASIC in relation to impairment assumptions and calculations. In particular, careful consideration is needed when determining the identification of cash-generating units, cash flow assumptions, fair value calculations (especially in relation to the use of market participant assumptions) and disclosure of key assumptions and the sensitivity of the headroom to changes in assumptions. It is also important to be mindful that the assumptions used to support impairment are not inconsistent with those used to support the recoverability of deferred tax and going concern assessments. **Accessing information** See ASIC Information Sheet 203 Impairment of non-financial assets: Materials for directors (INFO 2013).

	For further guidance, see the Deloitte's Clarity publication Focusing on impairment issues for June 2017.

Accounting policy choices

Topic	Considerations
Revenue recognition	Directors and auditors should review and ensure that the revenue recognition policies reflect the substance of the underlying transactions. AASB 15 has more detailed requirements than the previous standards. Regardless of whether the AASB 15 has immaterial impact to an entity, the entity must review the accounting policies to align with AASB 15 requirements.
Expense deferral	Directors and auditors should ensure that expenses are only deferred where the definition of an asset and the recognition criteria are met. Furthermore, expense deferral relating to internally generated intangible assets is only permitted where the requirements of AASB 138 *Intangible Assets* are met. **Thinking it through – what about contract costs under AASB 15?** Contract costs (i.e. costs to obtain or fulfil a contract with a customer) that meet the criteria under AASB 15 are required to be capitalised and amortised. In forming a view as to whether the amounts should be capitalised, preparers should carefully consider the relevant detailed requirements in AASB 15. There are also specific disclosure requirements for any assets recognised from the costs to obtain or fulfil a contract with a customer.
Off-balance sheet arrangements	Directors and auditors should review: • the treatment of off-balance sheet arrangements; • whether other entities are controlled and should be consolidated; • the accounting for joint arrangements; and • disclosures relating to structured entities. Entities should also consider whether client monies held will give rise to on-balance sheet assets and liabilities.
Tax accounting	Preparers should: • understand the tax and accounting treatments which may affect tax assets, liabilities and expenses; • consider any recent changes in legislation; and • review the recoverability of any deferred tax assets. **Thinking it through – Interpretation 23 *Uncertainty over Income Tax Treatments*** Interpretation 23 further clarifies the application of AASB 112 *Income Taxes* specifically when it is unclear how tax law applies to a particular transaction or circumstances. The Interpretation requires an entity to consider the probability of whether the ATO (or other taxation authority) will or will not accept an uncertain tax treatment. These considerations include the changes in company tax rates or tax legislation such as thin capitalisation rules. Although the Interpretation will be effective for financial years beginning on or after 1 January 2019, entities should consider disclosure of the impact for the December financial reports.

Key disclosures

Topic	Considerations
Operating and financial review (OFR)	ASIC continues to emphasise that listed companies should disclose information on risks and matters that are likely to have a material impact on the future financial results. Some of these risk areas include, matters relating to digital disruption, new technologies, climate change, Brexit or cyber-security. ASIC also highlighted that directors should consider disclosing information that would be relevant under integrated reporting, sustainability reporting or the recommendations of the Task Force on

	Climate-related Financial Disclosures where that information is not already included in the Operating and Financial Review. In September 2018, the ASIC released Report 593 Climate risk disclosure by Australia's listed companies (REP 593) which shows that 17% of listed entities in their sample for review identified climate risk as a material risk in the entities OFR. ASIC will keep monitoring climate risk disclosure practices. **Accessing information** Directors should consider the content of ASIC Regulatory Guide RG 247 Effective disclosure in an operating and financial review on providing useful and meaningful information to shareholders or unit holders when preparing an OFR to be presented in the directors' report. ASIC has also put together an Information Sheet to assist directors with their general financial reporting obligations. Directors should refer to Information Sheet 183 Directors and financial reporting for guidance on their general financial reporting obligations. To further understand the Taskforce for Climate-Related Financial Disclosure (TCFD) recommendations, refer to Deloitte's publication on Climate-related risk assessments and financial disclosures.
Non-IFRS financial information	Directors should determine whether any non-IFRS financial information (such as non-GAAP earnings) in the operating and financial review or other documents outside the financial report can be considered misleading to users. **Accessing information** Entities should consider ASIC Regulatory Guide RG 230 Disclosing non-IFRS financial information if there is any non-IFRS financial information disclosed.
Estimates and accounting policy judgements	Ensure adequate estimates and accounting policy judgements disclosures, and key assumptions and sensitivity analysis disclosures are made. These disclosures should be specific to the assets, liabilities, income and expenses of the entity.

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