ACCOUNTING STANDARDS UPDATE

Getting Ready for 31 December 2021

9 DECEMBER 2021

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TODAY'S HOST & PRESENTER

ANTHONY WHYTE
Partner & National Leader,
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Partner & National Leader,
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TODAY'S NFP PANEL

ELIZABETH BLUNT
Partner, Audit

TOM FAZIO
Partner, Risk Advisory

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Director, Corporate Reporting

BEN RENSHAW
Partner, People Advisory,
Global Expatriate Services
& Employment Taxes

TODAY'S AGENDA

- Latest NFP specific developments
- Transitioning from special purpose to general purpose financial statements
- AASB 1060 Simplified Disclosures
- Standards applicable for the first time
- Standards issued but not yet effective
- IFRIC agenda decisions
- Australian developments
- COVID-19 implications
- **ESG & Sustainability Reporting**
- Feedback from 30 June 2021 reporting season

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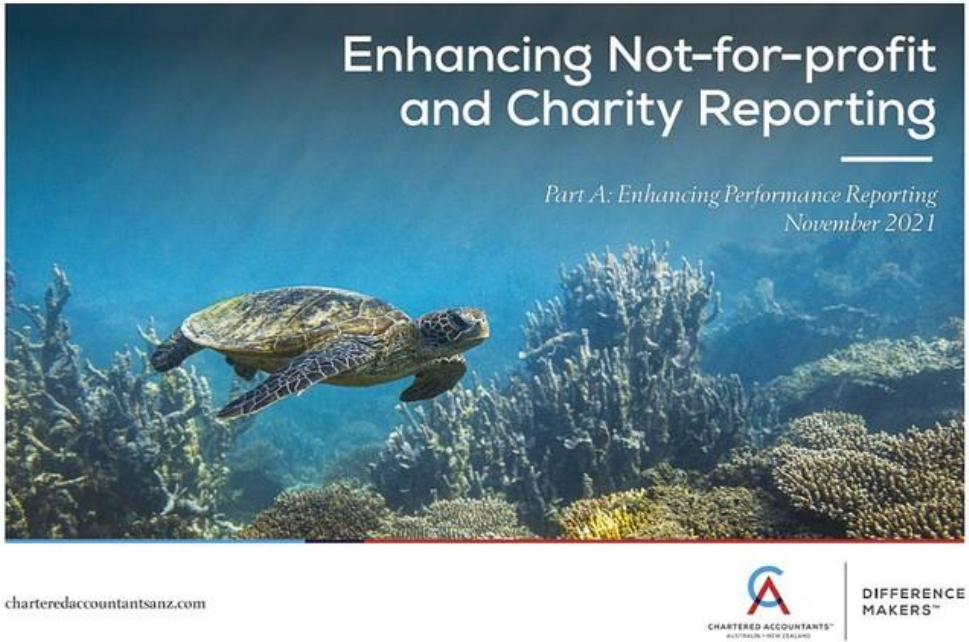
CA ANZ NFP GUIDE, NOVEMBER 2021 EDITION



- CA ANZ's new edition of NFP and charity reporting guide | Acuity (acuitymag.com)
- It is also available here under the CA ANZ's NFP Reporting resources: https://www.charteredaccountantsanz.com/member-services/technical/reporting/not-for-profit-reporting.

LATEST NFP SPECIFIC DEVELOPMENTS

INCREASED REPORTING THRESHOLDS FOR CHARITIES

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AMENDMENTS TO ACNC REGULATIONS

Size thresholds

- Link to new regulations: https://www.legislation.gov.au/Details/F2021L01547
- Current reporting thresholds contained in ACNC Regulations
- Thresholds increased for 30 June 2022 year-end reporting (i.e. 2022 Annual Information Statement)

Size	Current revenue thresholds	New thresholds	Audit/Review required?
Small	Less than $250,000	Less than $500,000	None
Medium	$250,000 - $1 million	$500,000 - $3 million	Review or audit
Large	> $1 million	> $3 million	Audit

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AMENDMENTS TO ACNC REGULATIONS

What is 'revenue' when assessing size test?

- ACNC Act, section 202-25(4) says to calculate in accordance with Accounting Standards
- ACNC web site provides guidance on what to include

Revenue is realised from the sale of goods or services, through the use of capital or assets, or revenue arising from the contribution of an asset to a charity when certain conditions have been met during the **ordinary activities of your charity**.

Examples of revenue for a typical charity include:

- grants from government, foundations, private or any other sources
- donations, tithes, bequests or legacies
- fees for provision of services
- sale of goods
- inflows from fundraising activities or sponsorship
- interest earned on investments, dividends
- royalties and license fees
- in-kind donations (for example, volunteer time or goods).

Revenue is a component of total income. A simple formula to help charities understand this is:
Revenue + Other Income = Total Income.

- Revenue for a charity is derived from ordinary activities of the charity
- Ordinary activities is determined based on the source of an item (i.e. how the charity usually raises money)
- Could be AASB 15 and AASB 1058 items

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AMENDMENTS TO ACNC REGULATIONS

What do we mean by ‘ordinary activities’?

For-profit entity

- Goods and services provided to customers to generate cash inflows

Not-for-profit entity (NFPs)

- Goods and services provided to customers do not always generate cash inflows
- May generate supplemental cash inflows from donations, bequests, etc. to enable it to provide goods and services to customers
- Parties that receive goods and services may be different to parties that pay for them

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AMENDMENTS TO ACNC REGULATIONS

What is ‘revenue’ when assessing size test?

Example 1

- NFP provides crisis counselling
- It has recurring contracts with government to receive $100 for each counselling session provided
- It also raises funds from donations & bequests (of cash or properties)
- From time to time, excess cash is invested in term deposits for a short period of time
- Revenue from ordinary activities likely to comprise:
  - $100 for each counselling session provided (AASB 15)
  - Cash donations (AASB 1058)
  - Property bequests (AASB 1058
- Income from term deposits not likely to result from ordinary activities

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AMENDMENTS TO ACNC REGULATIONS

What is ‘revenue’ when assessing size test?

Example 2

- Charitable Foundation established 10 years ago with a bequest of $10 million to manage a portfolio of investments
- Income each year is distributed as scholarships
- During the current year, Charitable Foundation sold a motor vehicle the CEO was driving and made a gain of $5,000
- Revenue from ordinary activities likely to comprise:
  - Interest income on cash invested
  - Investment income from the portfolio of investments
  - FVTPL movement on the investments
- Gain on disposal of motor vehicle not likely from ordinary activities

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ADDITIONAL RELATED PARTY & KMP COMPENSATION DISCLOSURES FOR SPFS

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AMENDMENTS TO ACNC REGULATIONS

New regulations for charities preparing SPFS

- AASB 124 *Related Party Disclosures* now a mandatory Standard
- Applies to all medium & large charities
- First required for years ending 30 June 2023 (2023 Annual Information Statement)
- But KMP compensation disclosures required:
  - Only for large charities with two or more KMPs
  - In aggregate
  - For years ending 30 June 2022 (i.e. 2022 Annual Information Statement)

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DISCLOSURES – ACNC BEST PRACTICE

ACNC BEST PRACTICE GUIDE PUBLISHED

To improve transparency and accountability

Three recommended disclosures

- If 10% or more of total revenue received from government, information about sources of government revenue as follows:
  - Total revenue from each level of government (e.g. Commonwealth, State, Local Council)
  - Amount of revenue received from each government department/agency (including name, up to a maximum of 10 lines else in an Appendix)
  - Revenue from providing goods/services to beneficiaries who receive related financial assistance from government (e.g. from NDIS)
- Economic dependency on government revenue
- Funding received from government but not yet recognised as revenue

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ACNC BEST PRACTICE GUIDE PUBLISHED

Detailed example for revenue disclosure

	2020 ($000)	2019 ($000)
Government revenue (including grants)		
Commonwealth government		
• Department of Health	800	840
• Department of Finance	180	60
• Department of Social Services	100	80
• National Disability Insurance Agency - NDIS payments*	50	40
Total	1130	1020
State government		
• NSW Ministry of Health	500	300
• Service NSW	50	20
• Department of Health and Human Services Victoria	85	45
• VicHealth	30	-
Total	665	365
Local government		
• City of Sydney Council	100	-
• North Sydney Council	175	120
Total	275	120
TOTAL	**2,070**	**1,505**

Best Practice Guide example disclosure

https://www.acnc.gov.au/for-charities/manage-your-charity/financial-and-other-reporting/annual-financial-report-disclosures

TRANSITIONAL RELIEF FOR NFPS MOVING FROM RDR TO SIMPLIFIED DISCLOSURES

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TRANSITIONAL RELIEF ON MOVE TO SIMPLIFIED DISCLOSURES

- NFPs currently preparing GPFS-RDR must change to Simplified Disclosures for years ending 30 June 2022 onwards

- If move to Simplified Disclosures for 30 June 2022 onwards, there is no transitional relief
  - Must include all new Simplified Disclosures (not required by RDR) for comparative period

- If move to Simplified Disclosures for 31 December 2021 (i.e. adopt early) – there is transitional relief
  - No need to include all new Simplified Disclosures (not required by RDR) for 31 December 2020 comparative period
  - Incentive to move early (still time for 31 December 2021 to do!)

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DISCLOSURE ABOUT RECOGNITION AND MEASUREMENT (R&M) COMPLIANCE IN SPFS

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DISCLOSURE R&M COMPLIANCE IN SPFS

Reminder

- If NFPs currently preparing SPFS, discussed earlier – not recommended to move to GPFS now (wait for revised AASB NFP reporting framework)
- In meanwhile, AASB 1054, paragraph 9A requires additional disclosure:
  - Basis on which decision to prepare SPFS was made
  - If entity has interests in other entities:
    - Whether or not subsidiaries or investments in associates and JVs have been consolidated or equity accounted, and if not, state that fact and reasons why, OR
    - If not required to make such an assessment by legislation, that entity has not determined whether interests in other entities give rise to investments in subsidiaries, associates or JVs
  - For each material accounting policy that does not comply with R&M, disclose indication of how it does not comply, or disclose fact that assessment not made
  - Whether or not financial statements overall comply with R&M or that such assessment has not been made

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RESOURCES

Accounting News articles

- How do we determine if a charity is small, medium or large for financial reporting purposes? (November 2021)
- Exposure draft proposes increased reporting thresholds for ACNC registered charities for years ending 30 June 2022 onwards (Oct 2021)
- NFPs – Disclosures about revenue and income – more than you bargained for (Part 2)? (July 2021)
- NFPs – Disclosures about revenue and income – more than you bargained for? (June 2021)
- Transitional relief now available for NFPs moving from RDR to Simplified Disclosures (May 2021)
- Accounting for portable long service leave in the community services sector (May 2021)
- ACNC's best practice financial report disclosures – start the new year on the right foot (Feb 2021)

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TRANSITIONING FROM SPECIAL PURPOSE TO GENERAL PURPOSE FINANCIAL STATEMENTS

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WHEN ARE GENERAL PURPOSE FINANCIAL STATEMENTS REQUIRED – FOR-PROFIT ENTITIES?

GPFS will be required for all for-profit private sector entities that are required by:

- Legislation to prepare financial statements in accordance with **Australian Accounting Standards or 'accounting standards'**, or
- Their constitutions or other documents (e.g. lending agreements) to prepare financial statements in accordance with **Australian Accounting Standards**, provided that the relevant document was created or amended on or after 1 July 2021.

LEGISLATION *(e.g. Part 2M of Corporations Act 2001)*	OR	CONSTITUTIONS/OTHER DOCUMENTS (e.g. trust deeds) CREATED OR AMENDED ON OR AFTER 1 JULY 2021
Australian Accounting Standards or 'accounting standards'		Australian Accounting Standards

WHAT ABOUT NOT-FOR-PROFIT ENTITIES?

Do they also have to prepare GPFS?

- Not for now
- AASB has a project underway to create a third tier (Tier 3) financial reporting framework for smaller charities
- Financial reporting thresholds for NFPs reporting to the ACNC are also increasing from 2022
- Recommend for NFPs currently preparing SPFS to continue to do so until the differential reporting framework is finalised by the AASB
- Don’t want to change to Simplified Disclosures (AASB 1060) and then have to change again to something else

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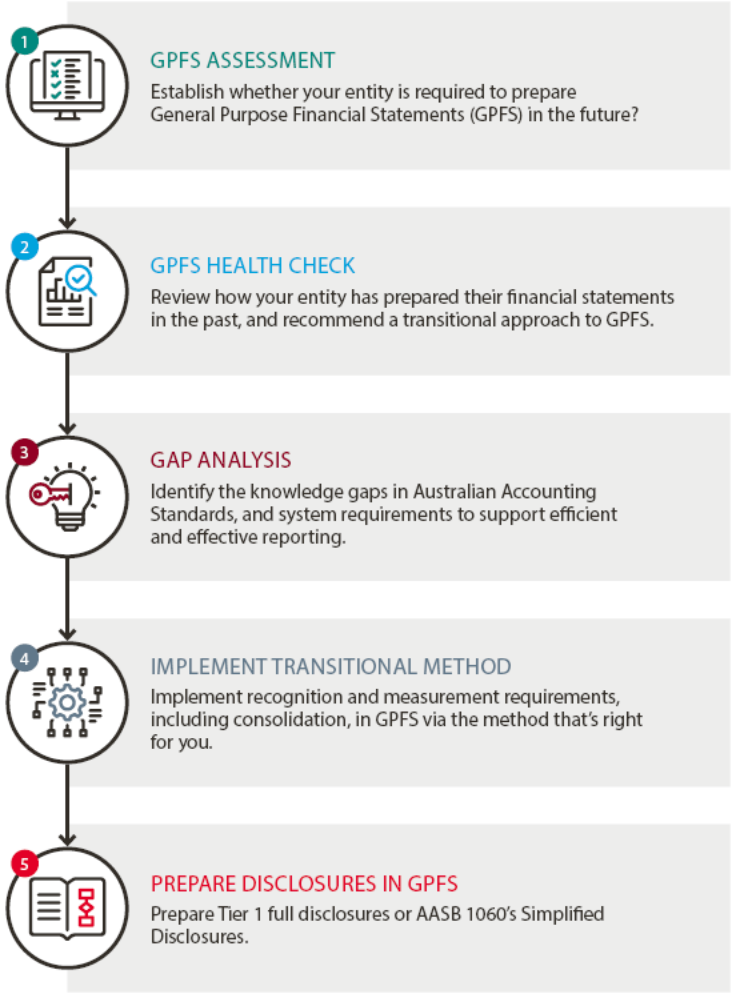
FIVE STEPS TO SUCCESSFUL GPFS TRANSITION



https://www.bdo.com.au/en-au/services/advisory/ifrs-advisory/gpfs-ready

AASB 1060 SIMPLIFIED DISCLOSURES

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WHERE DOES AASB 1060 FIT IN?

Entity preparing GPFS Tier 1

- Apply all applicable accounting standards
  - (i.e. no relief available)

No change

Entity preparing GPFS Tier 2

- Apply recognition and measurement requirements in all applicable accounting standards
- Disclosure relief applies
  - Apply AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Entities* instead of disclosures in all other Australian Accounting Standards

RDR withdrawn

Entity preparing SPFS

- Apply recognition and measurement requirements in all applicable accounting standards
- Disclosure relief applies – only apply disclosures in
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Statement of Cash Flows*
  - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - AASB 124 *Related Party Disclosures*
  - AASB 1054 *Australian Additional Disclosures*

Limited change

ARE YOU READY FOR SIMPLIFIED DISCLOSURES?

- BDO Disclosures Management Tool
  - Designed to give you the peace of mind that you've adequately identified, evidenced and actioned all the changes that were required for your organisation
  - By answering a series of tailored questions, this online tool will determine which disclosures are appropriate for you and identify any remaining gaps or actions you still need to take to achieve compliance
- Central place to maintain an audit trail of what disclosures you are making, and your rationale
- Upload the supporting working papers and documentation that underpin your decisions, so your auditor can easily access and assess your decision making
- Find our more about the BDO Disclosures Management Tool at: https://www.bdo.com.au/en-au/services/advisory/ifrs-advisory/gpfs-ready

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STANDARDS APPLICABLE TO 31 DECEMBER 2021

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STANDARDS APPLYING FOR FIRST TIME AT 31 DECEMBER 2021

Standard	Applies from	Annual periods	Half-year periods
AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*	1 June 2020	✓	×
AASB 2021-3 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021* *(recommend to adopt early)*	1 April 2021	✓	✓
AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*	1 January 2021	✓	×
AASB 2021-4 *Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors*	Years ending on or after 30 June 2021	✓	✓

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AASB 2020-4 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – COVID-19-RELATED RENT CONCESSIONS*

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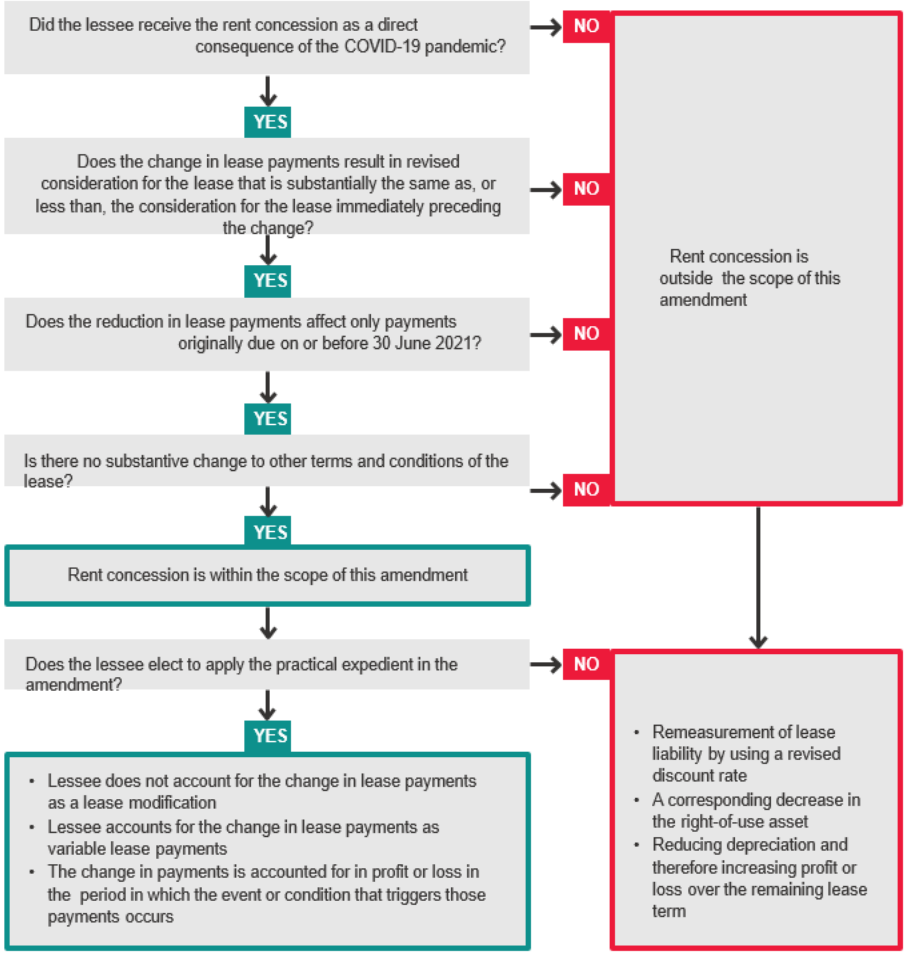
AASB 2020-4 - COVID-19 RELATED RENT CONCESSIONS UP TO 30 JUNE 2021

- Early adopted by most affected lessees in 31 December 2020 financial statements
- Principles still apply to new rent concessions granted during 31 December 2021 annual & half-year periods (see AASB 2021-3 discussion in next section)



AASB 2020-4 - FOR EXTERNAL USE

Accounting News articles

- Example – Waiver of rentals (June 2020)
- Example – Deferral of lease payments (June 2020)
- Example – Lessee choose to pay half rental during COVID-19 period, with waiver only formally agreed by lessor at a later date (June 2020)
- Example – Deferral of rental payments for six months and lease term extended by six months (July 2020)
- Example - Deferral of rental payments for six months – recouped over remainder of lease with additional interest on deferred payments to compensate for time value of money (July 2020)

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RESOURCES – FOR EXTERNAL USE

IFRB 2020/08 *IASB issues amendments to IFRS 16: COVID-19-related rent concessions*

- https://www.bdo.global/getmedia/5dc32444-ab3c-4960-aba3-4a695eb852b7/IFRB-2020-08-IASB-issues-amendments-to-IFRS-16-COVID-19-related-rent-concessions.aspx

IFRB 2020/11 *Accounting for rent concessions: Lessee FAQs*

- https://global-www.bdo.global/getmedia/ead2254f-8fd8-4636-a96a-39f9357d0533/IFRB-2020-11-accounting-for-rent-concessions-FAQ.aspx

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AASB 2021-3 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – COVID-19-RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021*

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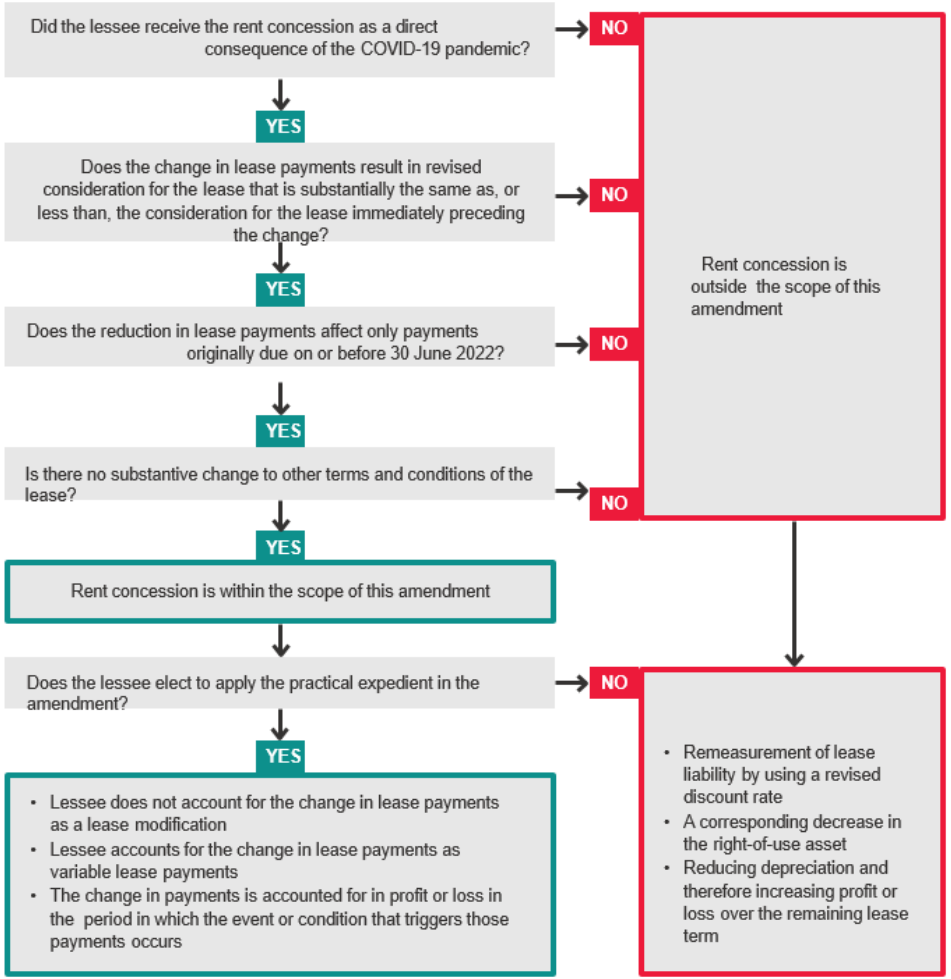
AASB 2021-3 - COVID-19 RELATED RENT CONCESSIONS UP TO 30 JUNE 2022

- Only applies to periods beginning on or after 1 April 2021
- Recommend to adopt early
- Extended practical expedient must be applied **consistently to eligible contracts with similar contracts and in similar circumstances,** regardless of whether the rent concession becomes eligible because of the original practical expedient or the extended practical expedient



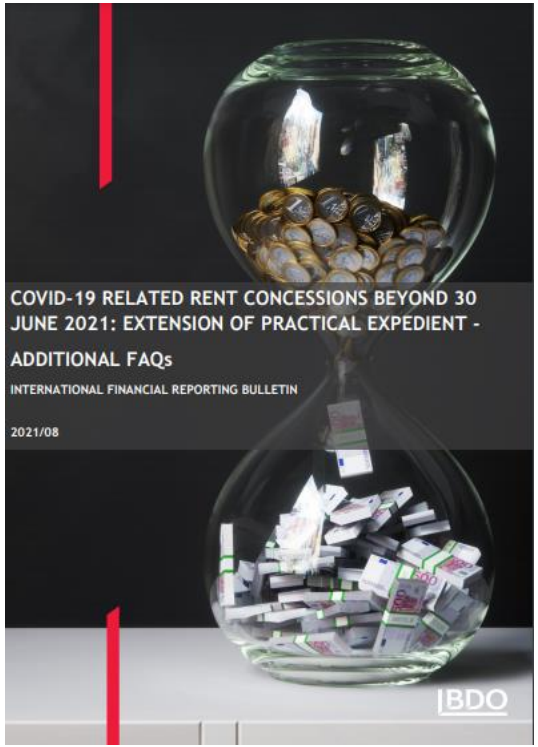
AASB 2021-3 - FOR EXTERNAL USE

Accounting News articles

- IASB extends practical expedient for COVID-19 rent concessions until 30 June 2022 (April 2021) – shows 3 scenarios:

Scenario	Can apply extended practical expedient apply?
Lessee previously elected NOT to apply original practical expedient to eligible rent concessions – now receives 'second wave' rent concessions	No
Lessee previously elected to apply original practical expedient to eligible rent concessions – now receives 'second wave' rent concessions	Must apply extended practical expedient
Lessee previously not eligible for original practical expedient because lease payments reduced were originally due before 30 June 2022 (accounted for as a lease modification)	Choice to retrospectively apply or not apply. Unwind previous lease modification accounting at beginning of period when this extended practical expedient is first applied (i.e. 1 January 2021 if early adopted)

AASB 2021-3 - FOR EXTERNAL USE



https://www.bdo.global/getmedia/1c13ab67-2018-4cef-bc4a-98915e1c6830/IFRB-2021-08-COVID-19-PE-extended-(IFRS-16).pdf.aspx

AASB 2020-8 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – INTEREST RATE BENCHMARK REFORM – PHASE 2*

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AASB 2020-8 INTEREST RATE BENCHMARK REFORM (PHASE 2)

- Amends the following standards to help entities provide financial statement users with useful information about the effects of interest rate benchmark reform
  - AASB 4 *Insurance Contracts*
  - AASB 7 *Financial Instruments: Disclosures*
  - AASB 9 *Financial Instruments*
  - AASB 16 *Leases*

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AASB 2020-8 INTEREST RATE BENCHMARK REFORM (PHASE 2)

- Will not have to derecognise or adjust carrying amount of financial instruments for changes required by the reform
- Instead update the effective interest rate (EIR) to reflect change to the alternative benchmark rate
- If a hedge meets other hedge accounting criteria, will not have to discontinue hedge accounting solely because of changes required by the reform
- Required to disclose information about:
  - New risks arising from the reform
  - How it manages the transition to alternative benchmark rates

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AASB 2021-4 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – MODIFIED RETROSPECTIVE TRANSITION APPROACH FOR SERVICE CONCESSION GRANTORS*

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AASB 2021-4 MODIFIED RETROSPECTIVE TRANSITION APPROACH FOR SERVICE CONCESSION GRANTORS

- Amends AASB 1059 *Service Concession Arrangements: Grantors*
- Changes the modified retrospective transition method for measuring the Grant of a Right to the Operator (GORTO) liability in paragraph AASB
- GORTO liability is initially measured based on fair value (current replacement cost) of service concession asset at date of initial application, adjusted by:
  - Deducting carrying amount of any consideration transferred by the grantor to operator recognised as an asset
  - Adjusting the resulting amount to reflect remaining period of service concession arrangement relative to total period of arrangement
  - Deducting any outstanding related financial liabilities

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STANDARDS ISSUED BUT NOT YET EFFECTIVE

STANDARDS ISSUED BUT NOT YET EFFECTIVE

When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. (IAS 8.30)

In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new IFRS;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the IFRS is required;

(d) the date as at which it plans to apply the IFRS initially; and

(e) either:

(i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect. (IAS 8.31)

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NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Annual Improvements to IFRS Standards 2018-2020 and Other Amendments (AASB 2020-3)	1 January 2022	• IFRS 1 – Simplifies application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to measuring cumulative translation differences • IFRS 9 - Clarifies the fees in the '10 per cent' test for assessing whether terms of a new/modified financial liability are substantially different from the original terms (i.e. whether to derecognise financial liability) • IFRS 16 – Deletes Illustrative Example 13 (reimbursement of leasehold improvements) • IAS 41 – Removes requirement to exclude cash flows from taxation when measuring FV (i.e. aligning FV measurement requirements with other Standards)
Onerous Contracts— Cost of Fulfilling a Contract Amendments to IAS 37 (AASB 2020-3)	1 January 2022	Added paragraph 68A to specify which costs an entity includes in determining the cost of fulfilling a contract for the purposes of assess whether the contract is onerous, i.e.: • Incremental costs of fulfilling contract, e.g. director labour and materials • Allocation of other costs that relate directly to fulfilling contracts, e.g. allocation of depreciation on PPE used in fulfilling contract

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NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) (AASB 2020-3)	1 January 2022	Proceeds from selling items produced before intended use should be included the statement of profit or loss rather than offset against the cost of property, plant and equipment as previously required by IAS 16 *Property, Plant and Equipment*
Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2) (AASB 2021-2)	1 January 2023	• Requirement to disclose 'material accounting policy information' rather than 'significant accounting policies' • Guidance on when an accounting policy information is likely to be considered material

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NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Definition of Accounting Estimates (Amendment to IAS 8)
(AASB 2021-2)

1 January 2023

- Definition of 'accounting estimates' added
- Clarifies that the effects on an accounting estimate of a change in an input or measurement technique are changes in accounting estimates, unless resulting from correction of prior period errors

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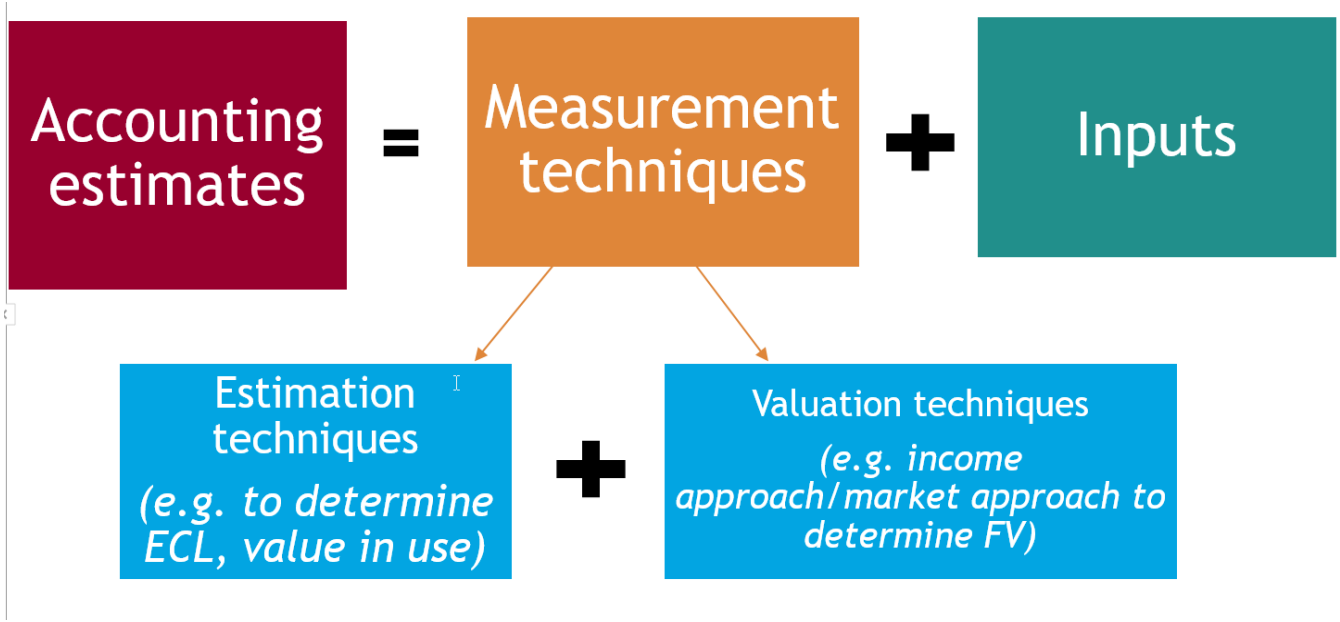
NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE



NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 17 *Insurance contracts*

1 January 2023

- Replaces IFRS 4 *Insurance Contracts*
- In Australia, replaces AASB 4, AASB 1023 *General Insurance Contracts* and AASB 1038 Life *Insurance Contracts* for private sector entities
- Establishes a comprehensive accounting model for all insurance contracts that requires entities to:
  - Measure insurance contracts at current value using updated assumptions about cash flows, discount rates and risks at each reporting date
  - Report estimated future payments to settle incurred claims on a discounted basis, and
  - Use a discount rate that reflects the characteristics of the insurance cash flows
- *Refer to separate section on Insurance in this presentation*

NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (AASB 2021-5)	1 January 2023	• Clarifies that the 'initial recognition exemption' in IAS 12 cannot be used on initial recognition of leases by lessees, or on the initial recognition of asset retirement obligations which give rise to equal taxable and deductible temporary differences • Equal and opposite deferred tax assets and liabilities are therefore recognised at initial recognition for the equal and opposite taxable and deductible temporary differences
Classification of Liabilities as Current or Non-current (Amendment to IAS 1)	1 January 2023 *(Being deferred to 1 January 2024)*	• Clarifies that an entity's right to defer settlement must exist 'at the end of the reporting period' • Classification depends on an entity has the right to defer and not whether the entity will exercise that right • If an entity has right to defer is subject the entity complying with specified conditions, the entity only has right to defer if it complies with those conditions at reporting date

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RESOURCES

Accounting News articles

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

- Expect to see a reduction in the amount of accounting policy disclosures - BDO Australia (March 2021)

Definition of Accounting Estimates (Amendments to IAS 8)

- IASB clarifies how to distinguish between a change in accounting policy and a change in accounting estimate (March 2021)

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RESOURCES

Accounting News articles

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

- IASB clarifies accounting for deferred taxes relating to assets and liabilities arising from a single transaction (leases and decommissioning obligations) (June 2021)
- How do lessees account for deferred taxes on leases when they have made advance lease payments and incurred initial direct costs? (July 2021)

Classification of Liabilities as Current or Non-current (arising from a Single Transaction (Amendments to IAS 1)

- IASB clarifies accounting for deferred taxes relating to Changes to IAS 1 – Classification of borrowings as current vs. non-current may change for some entities (Feb 2020)

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IFRIC AGENDA DECISIONS DURING 2021

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IFRIC AGENDA DECISIONS

- Not authoritative guidance but highly persuasive in practice
- Provides new information – clarify existing requirements by integrating requirements of IFRS Standards & Basis for Conclusions
- Usually treated as a voluntary change in accounting policy (retrospective restatement)
- Agenda decisions have no start date
- IASB article suggests months not years to implement new policy
- Rule of thumb: By next reporting date (also ASIC's expectation, else = error rather than change in accounting policy)

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RESOURCES

Accounting News articles

- Non-refundable value added taxes on leases (November 2021)
- Accounting for warrants that are classified as financial liabilities on initial recognition (November 2021)
- Latest IFRIC agenda decisions – Costs necessary to sell inventories & non-going concern financial statements (July 2021)
- SAAS implementation costs – Do you need to write these off at 30 June 2021? (May 2021)
- How to account for reverse factoring/supply chain financing arrangements (April 2021)

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RESOURCES

eLearning - IFRS Training Hub - eLearning - BDO Australia

- Non-refundable value added taxes on leases
- Accounting for warrants that are classified as financial liabilities on initial recognition
- Costs necessary to sell inventories
- Non-going concern financial statements
- Configuration or customisation costs in a cloud computing arrangement (SAAS implementation costs)
- Supply chain financing arrangements

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NON-REFUNDABLE VALUE ADDED TAXES ON LEASES

NON-REFUNDABLE VAT ON LEASES

Issue

- If a lease is for the purpose of making an input-taxed supply, GST cannot be recovered from the ATO

Question

- When calculating lease liability under IFRS 16, do the lease payments include any non-refundable GST?

IFRIC conclusion:

- Matter not widespread and not expected to have a material effect on leases
- Decided not to add to its work plan

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NON-REFUNDABLE VAT ON LEASES

BDO guidance

- Refer IFRS in Practice – IFRS 16, Example 18
- Two possible approaches

- Approach 1 - Not a lease payment
  - Not a payment for using the ROU asset
  - Charge levied by government – refer IFRIC 21 *Levies*
  - Recognise as an expense when incurred
- Approach 2 – Initial direct cost of ROU asset
  - Only GST on first lease payment can be capitalised to ROU asset
  - Not a practical solution

Preferred approach

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RESOURCES

IASB web site - https://www.ifrs.org/

- Non-refundable VAT payments on leases (October 2021)

Accounting News articles

- Non-refundable value added taxes on leases (November 2021)

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SAAS IMPLEMENTATION COSTS

SAAS IMPLEMENTATION COSTS

- Agenda decision issued April 2021
- ASIC expected change in accounting policy at 30 June 2021 half-years & year-ends
- Must change in policy if 31 December 2021 is first reporting period after agenda decision issued (ASIC would consider 8 months enough time to work out the impact)
- Could result in material adjustments (write-offs of intangible assets)

BDO

SAAS IMPLEMENTATION COSTS

Background

- Type of arrangement: Software as a Service (SaaS)
- Rights conveyed by the contract: Right to receive access to the supplier's software over the contract term
- The right to receive access does not provide the customer with a software asset and, therefore, the access to the software is a service that the customer receives over the contract term
- Costs incurred by the customer:

Configuration costs:
Setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way.

Customisation costs:
Modifying the software code in the application or writing additional code. Customisation generally changes or creates additional functionalities within the software.

BDO

SAAS IMPLEMENTATION COSTS

IFRIC addressed two questions

Question

Q1: Whether, applying IAS 38, the customer recognises an intangible asset in relation to configuration or customisation of the application software?

SAAS IMPLEMENTATION COSTS

Question 1 – Recognise intangible asset?

Agenda decision

- In the fact pattern, the supplier controls the application software to which the customer has access
- The assessment of whether configuration or customisation of that software results in an intangible asset for the customer depends on the nature and output of the configuration or customisation

If the customer does not control the software being configured or customised and those configuration or customisation activities do not create a resource controlled by the customer that is separate from the software

→ The customer would not recognise an intangible asset (more commonly observed scenario)

If the arrangement results in, for example, additional code from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits

→ To determine whether to recognise the additional code as an intangible asset, the customer assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38

BDO

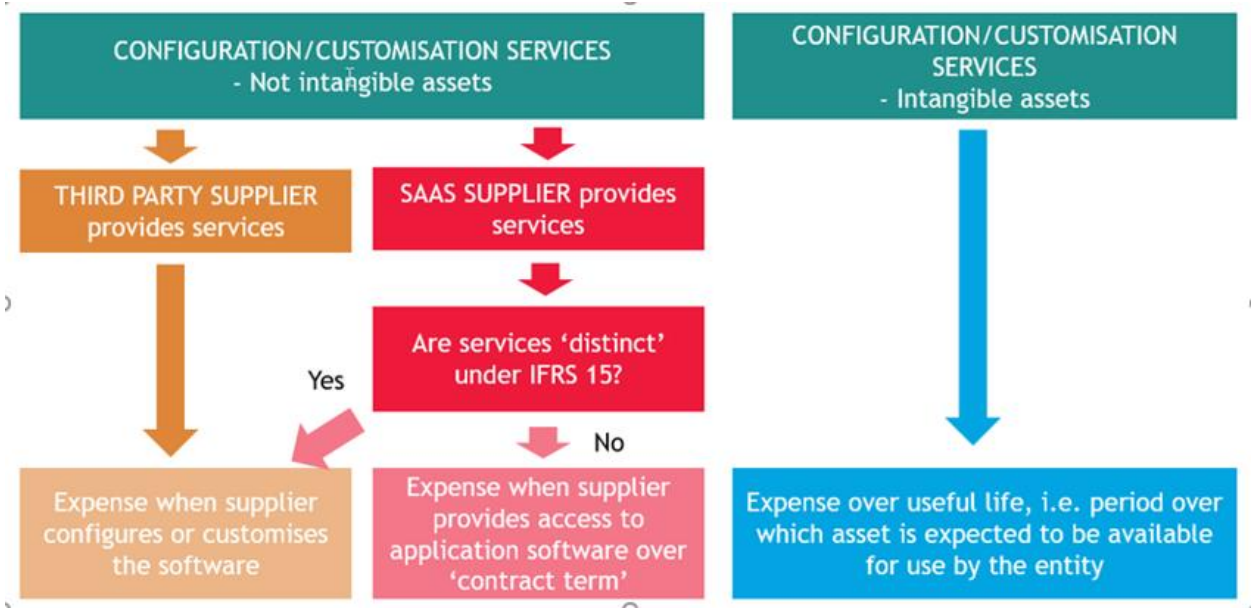
SAAS IMPLEMENTATION COSTS

IFRIC addressed two questions

Question

Q2: If an intangible asset is not recognised, how does the customer account for the configuration or customisation costs?

SAAS IMPLEMENTATION COSTS – DO YOU NEED TO WRITE THESE OFF AT 30 JUNE 2021?



PRACTICAL ISSUES - ASIC'S VIEWS

Cloud computing arrangements

The IFRS Interpretations Committee published an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)' on 27 April 2021. The decision confirms that a cloud computing customer should expense the costs of configuring or customising the supplier's application software in a Software as a Service arrangement.

There should be sufficient time to identify past amounts capitalised that should be derecognised before 30 June 2021 financial reports are completed. Adjustments are treated as relating to a change in accounting policy.

If amounts previously capitalised and now to be adjusted may be material but they cannot be identified for 30 June 2021 reporting, this fact should be prominently disclosed. Adjustments should be made in the next financial report.

Where only some amounts are identified and adjusted at 30 June 2021 as a change in accounting policy, any further amounts identified and adjusted at 31 December 2021 would be treated as errors.

https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/covid-19-implications-for-financial-reporting-and-audit-frequently-asked-questions-faqs/#q9D

BDO

PRACTICAL ISSUES – 30 JUNE 2021 YEAR-ENDS

Example

- Software related intangible asset in balance sheet at 30 June 2021 = $10 million
- Usually depreciates the software related intangible asset over 3 years
- Investigates $6 million of the costs before finalising 30 June 2021 financial statements
  - $5 million needs to be expensed due to latest IFRIC decision
- Still needs to review the remaining $4 million of the intangible asset

What are the accounting implications for the 30 June 2021 financial statements?

BDO

PRACTICAL ISSUES – 30 JUNE 2021 YEAR-ENDS

Example (continued)

Option 1 (preferred option) - Evaluate all costs before 30.6.21 and adjust	Option 2 - Wait until next period when fully assessed all costs	Option 3 - Adjust $5 million at 30.6.2021 & disclose still $4 million to review
None, all adjusted	Disclose at 30.6.Change in accounting policy at 31.12.21 *Audit implications: Intangible asset overstated by at least $5 million*	Adjustments from remaining $4 million = error

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RESOURCES

IASB web site - https://www.ifrs.org/

- Configuration or customisation costs in a cloud computing arrangement (April 2021) (June 2021)

Accounting News articles

- SAAS implementation costs – Do you need to write these off at 30 June 2021? (May 2021)

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AUSTRALIAN DEVELOPMENTS

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ACCOUNTING FOR BED LICENCES

BED LICENCES

Previous accounting treatment

- Intangible assets with indefinite useful life – refer to IAS 38/AASB 138

107 **An intangible asset with an indefinite useful life shall not be amortised.**

108 In accordance with AASB 136, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount

(a) annually, and

(b) whenever there is an indication that the intangible asset may be impaired.

Review of useful life assessment

109 **The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with AASB 108.**

110 In accordance with AASB 136, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount, determined in accordance with AASB 136, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.

BED LICENCES

Previous accounting treatment

- Impairment testing - refer to IAS 36/AASB 136

Identifying the cash-generating unit to which an asset belongs

66 **If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).**

67 The recoverable amount of an individual asset cannot be determined if:

(a) the asset's value in use cannot be estimated to be close to its fair value less costs of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

(b) the asset does not generate cash inflows that are largely independent of those from other assets.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

BED LICENCES

Previous accounting treatment

- Impairment testing - refer to IAS 36/AASB 136

Impairment loss for a cash-generating unit

104 An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with paragraph 60.

BDO

BED LICENCES

New developments

- Discussion paper – Improving Choice in Residential Aged Care – ACAR Discontinuation (Sep 2021)

BDO

BED LICENCES

Potential accounting implications

- How will the discontinuation of current licensing regime affect bed licences recognised as intangible assets in the balance sheet?

Considerations

- Should bed licences now be amortised?
- Does amortisation period need to change (i.e. end 30 June 2024)?
- Do the licences need to be impaired?
- Can the bed licences be rebadged as another type of asset (e.g. goodwill)? NO
- Do judgements and uncertainties need to be disclosed?

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BED LICENCES

ASIC's views

Aged care bed licences

Aged care providers should review the carrying amount of aged care bed licences in view of the announcement in the Federal Budget for 2021–22 and the decision by the Australian Government that the licences will be discontinued from 1 July 2024. The reforms follow the Royal Commission into Aged Care Quality and Safety.

Under the proposed new arrangements, the number of places that can be provided by an aged care provider will be driven by demand from senior Australians with an assigned place. Government funding will be allocated accordingly.

We understand that while the relevant legislation may not be passed before the next Federal election, the reforms are seen to create a better system for residential aged care and have broad industry support.

- FAQ 9D - https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/covid-19-implications-for-financial-reporting-and-audit-frequently-asked-questions-faqs/#q9D

RESOURCES

Accounting News articles

- Bed licences - Have you reviewed carrying amounts and estimated useful lives in 30 June 2021 financial statements? (October 2021)

BDO

EMPLOYEE LEAVE PROVISIONS FOR CASUAL EMPLOYEES

BDO

EMPLOYEE LEAVE PROVISIONS FOR CASUAL EMPLOYEES

Rossato decision

- Impacted 30 June/31 December 2020 financial statements
- Casual employees who fit the criteria stipulated in Rossato case could effectively 'double dip' entitlements (i.e. receive casual loading as well as other entitlements)
- Additional employee benefit provisions were required if covered by Rossato decision

Accounting News article

- Have you provided for 'double dipping' on casual entitlements in 30 June 2020 financial statements? (August 2020)

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EMPLOYEE LEAVE PROVISIONS FOR CASUAL EMPLOYEES

Recent developments - may be able to reverse additional provisions for casuals

Rossato decision overturned in High Court (August 2021)

- Impacts 30 June/31 December 2021 financial statements
- Said Mr Rossato was a casual employee – employment was on an 'assignment-by-assignment' basis – could accept or reject any assignment
- Despite what a work roster might suggest to the contrary, casual employees have no advance commitment from an employer about duration of employment, or days/hours they need to work, nor has casual employee given a reciprocal commitment

Recent legislation – changes to *Fair Work Act 2009* (operative from 27 March 2021)

- Introduced a definition of 'casual employee'
- Retrospective (i.e. not entitled to past 'double dipping')

May need to reverse additional employee benefit provisions created in previous financial years as a result of the original Rossato decision

BDO

RESOURCES

Accounting News article

- High Court's ruling may mean reversals of employee leave provisions for casual employees(August 2021)

BDO

PORTABLE LONG SERVICE LEAVE IN THE COMMUNITY SERVICES SECTOR

BDO

PORTABLE LONG SERVICE LEAVE (LSL)

Background

- Employees usually only entitled to LSL if work for same employer for long period of time (10-15 years depending on which State/Territory)
- Employees moving around from one employer to another usually would not qualify
- Impacts workers in industries where nature of work is not permanent
- Some states have ‘portable LSL’ for workers in construction industry, coal mining & contract cleaning, i.e. LSL goes with you
- VIC, QLD and ACT have introduced for workers in community services sector

BDO

PORTABLE LONG SERVICE LEAVE (LSL)

Does employer still need to provide for LSL?

- ‘Portable LSL’ schemes usually involve a contribution/levy from employer paid to administrator of the scheme
- Contribution/levy based on the $wages of employees
- Depending on the legal requirements of each scheme:
  - Employer might have legal responsibility to pay LSL to employee, and then recover costs from the scheme, or
  - Employee may be required to claim LSL payment directly from the scheme
- Can’t assume employer’s obligation is always ZERO

BDO

PORTABLE LONG SERVICE LEAVE (LSL)

Does employer still need to provide for LSL?

Who has legal responsibility to settle the claim?	LSL provision required by employer?	How much?
Employer, with recovery from the scheme	Yes	Usual LSL expected cash outflows Can recognise a reimbursement asset for expected recovery from portable LSL scheme (there could be a shortfall for some schemes)
Scheme	No	N/A

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PORTABLE LONG SERVICE LEAVE (LSL)

Examples where a shortfall may occur which is not covered by the scheme

- Period of service by an employee prior to the commencement of the portable LSL scheme
- Superannuation is required to be paid on LSL entitlements
- LSL entitlements paid may be more generous than those provided by the scheme
- If employee spends time working in another State or Territory that does not have a ‘portable LSL’ scheme in place

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PORTABLE LONG SERVICE LEAVE (LSL)

Example where employer has primary responsibility for LSL to employee

- Employer pays $100 portable LSL levies to the portable LSL authority
- Employer has primary responsibility of making LSL payments to employees so recognises a LSL provision of $150
- Employer estimates that it will be reimbursed $100 from the portable LSL authority if employee takes LSL

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PORTABLE LONG SERVICE LEAVE (LSL)

Accounting entries by employer (simple example – no discounting)

Payments made to scheme

Dr	Portable LSL levy expense	$100	
Cr	Cash		$100

Provide for LSL as usual

Dr	LSL provision expense	$150	
Cr	LSL provision		$150

Recognise expected reimbursement from portable LSL scheme

Dr	Reimbursement asset for LSL	$100	
Cr	LSL provision expense		$100

Cannot offset LSL provision and reimbursement asset But can offset in P/L (net $50 debit for additional LSL provision required)

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PORTABLE LONG SERVICE LEAVE (LSL)

Accounting entries by employer (simple example – no discounting)

Pay out LSL entitlements

Dr	LSL provision	$150	
Cr	Cash		$150

Receive reimbursement from portable LSL authority

Dr	Cash	$100	
Cr	Reimbursement asset for LSL		$100

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RESOURCES

Accounting News article (including worked example)

- Accounting for portable long service leave in the community services sector (May 2021)

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REPORTABLE PAYMENT TIMES SCHEME REPORTING

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REPORTABLE PAYMENT TIMES SCHEME REPORTING

What is it and why?

- A scheme that impacts large business and large Government enterprises and it started on 1 January 2021
- Need to report their small business payment terms and times twice a year and it will be made publically available on the Payment Times Register
- Previous enquiries show significant impact of late payments on small businesses including constraints on cash flow and capacity to hire staff
- The idea of the Scheme is to increase transparency around large business' payment performance and to create incentives for improved payment times and practices to small business
- Help small business and the public decide who to do business with from reviewing the public register

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REPORTABLE PAYMENT TIMES SCHEME REPORTING

Income thresholds

- Applies to entities if income in most recent income year meets one of the following thresholds:
  - More than $100 million
  - If the entity is a controlling corporation, combined total income of the controlling corporation's group > $100 million
  - If the entity is a member of a controlling corporation's group that has combined total income of > $100 million – total income for the entity must have been at least $10 million

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REPORTABLE PAYMENT TIMES SCHEME REPORTING

Implications for affected businesses

Reputational damage (ESG)

- Small businesses may not want to deal with them if they don't pay within reasonable payment terms – will be able to compare which customers have best payment terms

Penalties

- There are penalties for non-compliance (Note: SGEs may be subject to higher penalties)
- Consider:
  - Obligations to report non-compliance with laws and regulations (APES 110)
  - ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*
  - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (for penalties)

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RESOURCES

Accounting News article

- Are you ready to lodge your first Reportable Payment Times Scheme Report? (Sep 2021)
- Payment Times Report Scheme – Is your organisation ready for 1 January 2021? (December 2020)

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RESOURCES

https://bdoaustralia.bdo.com.au/acton/attachment/18110/f-ad84f7f9-c5e0-4858-8d22-68c4c79fb76b/1/-/-/-/-/-/Rethinking%20Payment%20Practices.pdf

CORONAVIRUS

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RESOURCES

Illustrative financial statements (includes rent concession disclosures)

- https://www.bdo.global/getmedia/7dd690a9-7712-4e59-9cfd-5aaa0859e065/IFRS-Illustrative-Financial-Statements-(Dec-2021).pdf.aspx

RESOURCES

COVID supplement

- https://www.bdo.global/getmedia/0dcdae38-e7b4-4c34-80de-db2f0b641229/31-December-2021-Illustrative-IFRS-Disclosures-COVID-19-Supplement.pdf.aspx

- Includes:
  - Link to all BDO Global publications
  - COVID disclosure checklist
  - Illustrative COVID disclosures

RESOURCES

Accounting News articles

- Listed entities must disclose JobKeeper payments to the ASX (Oct 2021)
- 'Instant asset write-offs' and interaction with accounting for research and development incentives (May 2021)
- Accounting for loss carry back announced as part of Federal Government's October 2020 and May 2021 additional COVID-19 stimulus measures (May 2021)
- Expansion of Government's SME loan guarantee scheme may impact the accounting for your financial liabilities (borrowings) (May 2021)
- IASB extends practical expedient for COVID-19 rent concessions until 30 June 2022 (April 2021)

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RESOURCES

Accounting News articles (continued)

- Accounting for JobKeeper and JobMaker where employee costs have been capitalised (Dec 2020)
- Accounting for Federal Budget economic recovery stimulus measures – JobMaker Hiring Credit (Nov 2020)
- Accounting for land tax rebates received by landlords and the impact on outgoings audits (Oct 2020)
- Accounting for COVID-19 government stimulus by for-profit and not-for-profit entities – Job keeper payments (May 2020)

BDO

ESG & SUSTAINABILITY REPORTING

WHAT IS THE BUSINESS PROBLEM?

WHAT IS THE BUSINESS PROBLEM?

- Stakeholders are demanding greater transparency from entities about their long-term sustainability (i.e. ESG impact)
  - What is your social licence to operate?
  - What does your ESG performance look like?
  - How does it compare to others?
- This is an issue for for-profit entities
  - Investors are directing funds preferentially (sometimes exclusively) to sustainable entities
  - Financiers are facing increasing pressure to only finance sustainable entities
  - Supply chain issues
- This is an issue for not-for-profit entities
  - Funders prioritise entities that can demonstrate a positive ESG impact
  - Government favours entities that can demonstrate a positive ESG impact

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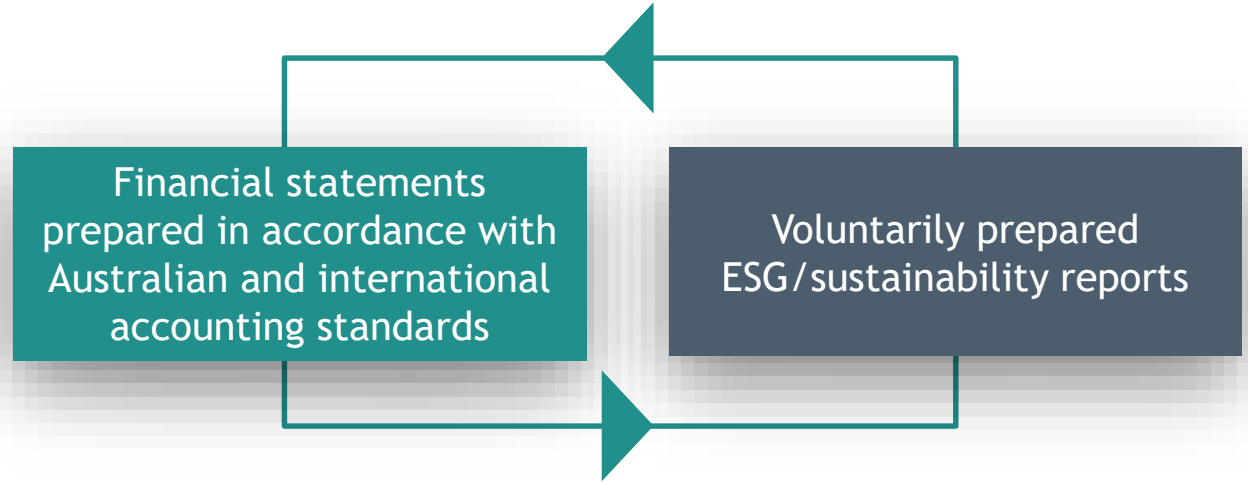
THE SOLUTION: AN INTEGRATED AND HOLISTIC APPROACH



WHAT IS ESG?

WHAT IS ESG & SUSTAINABILITY?

Environmental factors	Social Factors	Governance Factors
Climate change	Customer satisfaction	Governing purpose
Land use and ecological sensitivity	Data protection and privacy	Quality of governing body
Air and water pollution	Diversity and inclusion	Stakeholder engagement
Biodiversity	Employee engagement	Ethical behaviour
Deforestation	Health and safety	Risk and opportunity oversight
Energy efficiency	Community engagement	Bribery and corruption
Water management	Human rights (Modern slavery)	Executive compensation
Fresh water availability	Wealth creation and employment	Lobbying

AVAILABLE REPORTING FRAMEWORKS

UNITED NATIONS

THE FOUR PILLARS – WORLD ECONOMIC FORUM

Principles of Governance

The definition of governance is evolving as organizations are increasingly expected to define and embed their purpose at the centre of their business. But the principles of agency, accountability and stewardship continue to be vital for truly “good governance”.

Planet

An ambition to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.

People

An ambition to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.

Prosperity

An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

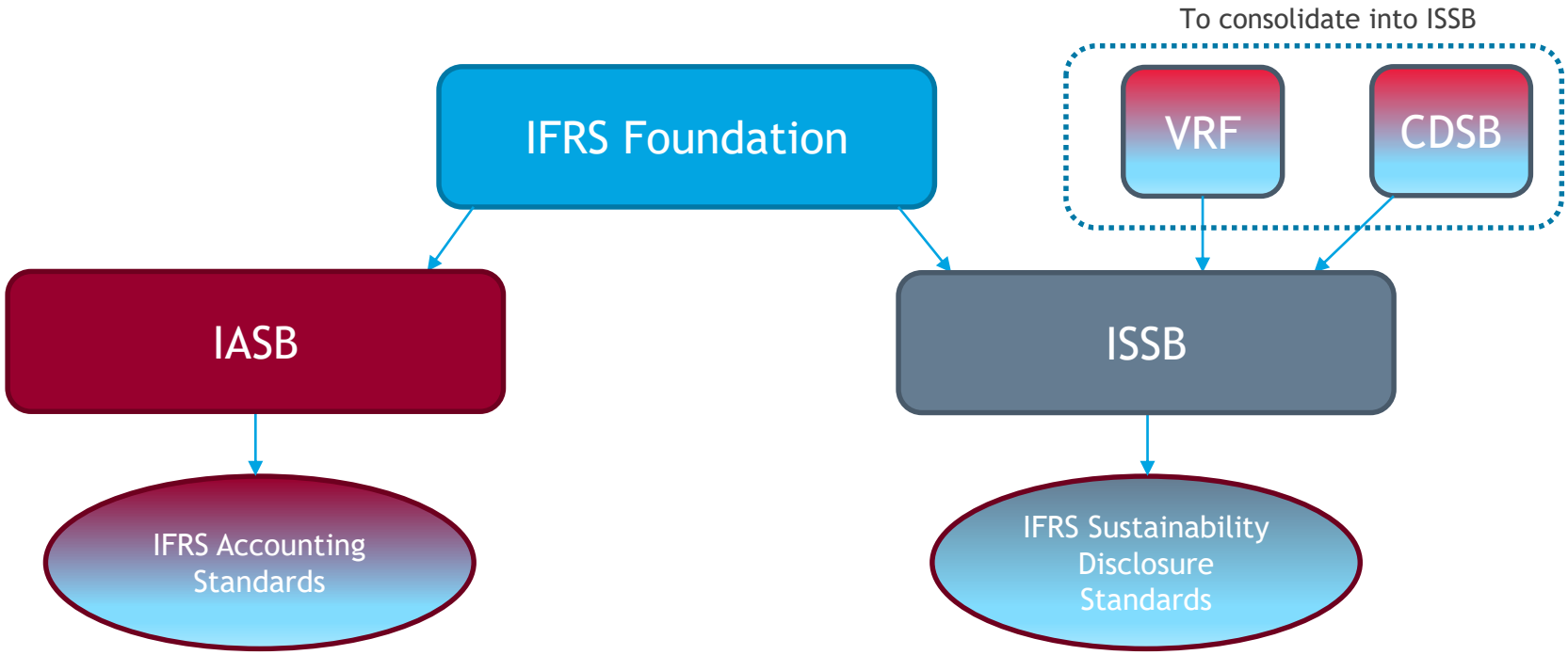
LATEST DEVELOPMENT: CREATION OF ISSB AND COP26 UPDATE

CREATION OF ISSB AND COP26 UPDATE

- On 3 November 2021, Erkki Liikanen, Chair of the IFRS Foundation Trustees, announced three significant developments at the COP26 UN global summit in Glasgow, Scotland:
  - The formation of a new International Sustainability Standards Board (ISSB), which will develop a comprehensive global baseline of high-quality sustainability disclosure standards with an aim to meet investors' information needs
  - A consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF – which houses the current Integrated Reporting Framework and SASB standards) into the ISSB by June 2022
  - The publication of two prototype standards: one on climate and the other on general disclosure requirements. These prototype standards were developed by the Technical Readiness Working Group (TRWG) prior to the formation of the ISSB
- The technical standards and frameworks established by CDSB and VRF, along with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the World Economic Forum Stakeholder Capitalism Metrics form the basis for the work to be carried out by the new ISSB

BDO

CREATION OF ISSB AND COP26 UPDATE



PROTOTYPE STANDARDS – GENERAL REQUIREMENTS

Prototype General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Prototype) (ifrs.org)

- A requirement to disclose a complete, neutral and accurate depiction of an entity's significant sustainability risks and opportunities
- A definition of materiality, aligned with the Conceptual Framework for Financial Reporting, focused on the information that serves the needs of users and drives enterprise value
- A consistent approach for the disclosure of information about significant sustainability-related risks and opportunities built on a consideration of an entity's governance, strategy and risk management and supported by metrics and targets
- Further requirements and guidance that support the provision of comparable and connected information

- Entities are required to make disclosures about all material sustainability-related risks and opportunities, regardless of whether there is a specific IFRS Sustainability Disclosure Standard for that issue

PROTOTYPE STANDARDS – GENERAL REQUIREMENTS

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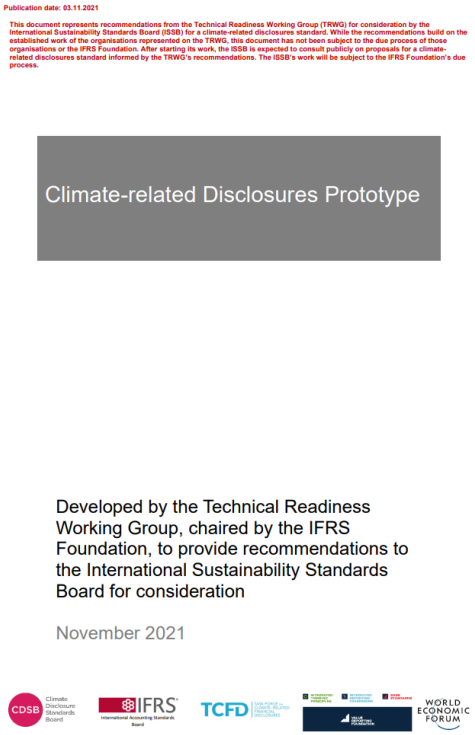
PROTOTYPE STANDARDS – CLIMATE-RELATED DISCLOSURES

Prototype Climate-related Disclosures Requirements (Climate Prototype) (ifrs.org)

- Incorporates recommendations from TCFD along with industry disclosure requirements from SASB standards
- Disclosures relating to governance, strategy, risk management, metrics and targets as they relate to climate-related risks and opportunities
- Prototype (39 pages) is accompanied by 'Supplemental: Technical Protocols for Disclosure Requirements' (581 pages)


Publication date: 03.11.2021

This document represents recommendations from the Technical Readiness Working Group (TRWG) for consideration by the International Sustainability Standards Board (ISSB) for a climate-related disclosures standard. While the recommendations build on the established work of the organisations represented on the TRWG, this document has not been subject to the due process of those organisations or the IFRS Foundation. After starting its work, the ISSB is expected to consult publicly on proposals for a climate-related disclosures standard informed by the TRWG's recommendations. The ISSB's work will be subject to the IFRS Foundation's due process.

Climate-related Disclosures Prototype

Developed by the Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for consideration

November 2021

PROTOTYPE STANDARDS – CLIMATE-RELATED DISCLOSURES

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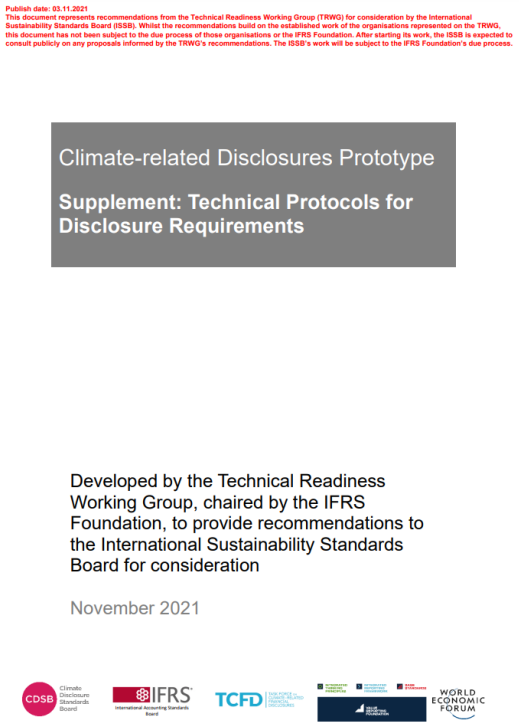
PROTOTYPE STANDARDS – CLIMATE-RELATED DISCLOSURES

[Supplement: Technical Protocols for Disclosure Requirements (Climate Prototype) (ifrs.org)]



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Climate-related Disclosures Prototype

Supplement: Technical Protocols for Disclosure Requirements

Developed by the Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for consideration

November 2021

PROTOTYPE STANDARDS – CLIMATE-RELATED DISCLOSURES

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- Rail Transportation 569
- Road Transportation 575

NEXT STEPS

- Trustees of the IFRS Foundation are in advanced stages of appointing a Chair and Vice-Chair
- Other Board members to follow.
- ISSB will proceed with Due Process necessary to proceed with finalising its first IFRS Sustainability Disclosure Standards
- Exposure Drafts are expected in early 2022

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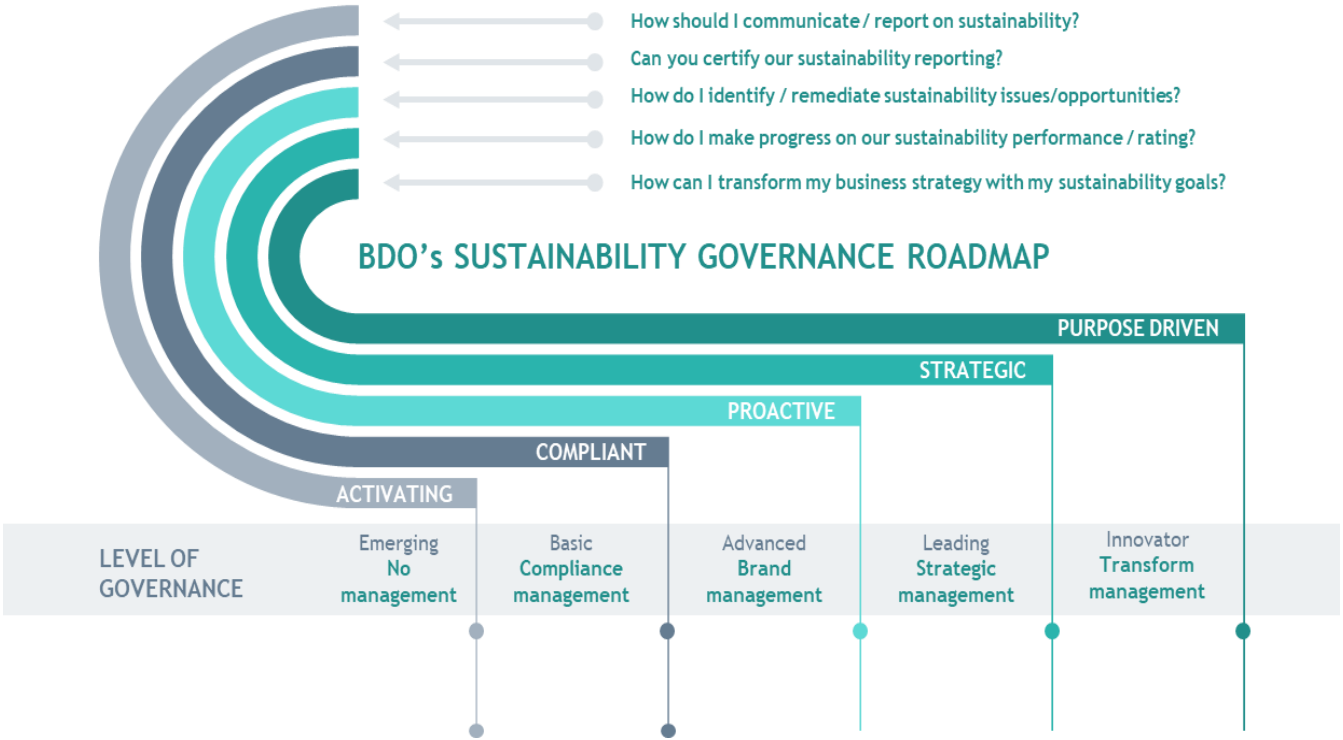
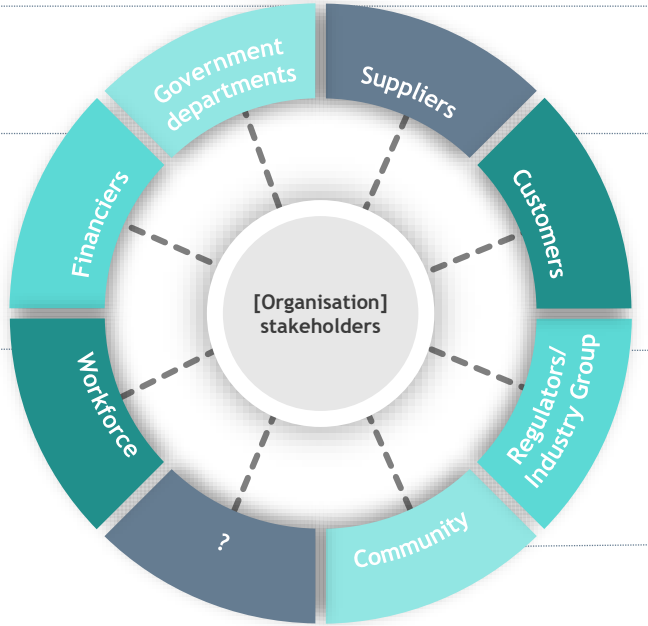
SO, WHERE DO YOU START…?

GOVERNANCE FRAMEWORK REVIEW



STAKEHOLDER ENGAGEMENT



- Federal government
- State government
- Local government

- Shareholders
- Investors
- Lenders
- Banks and insurances

- Employees
- Contractors
- Sub-contractors

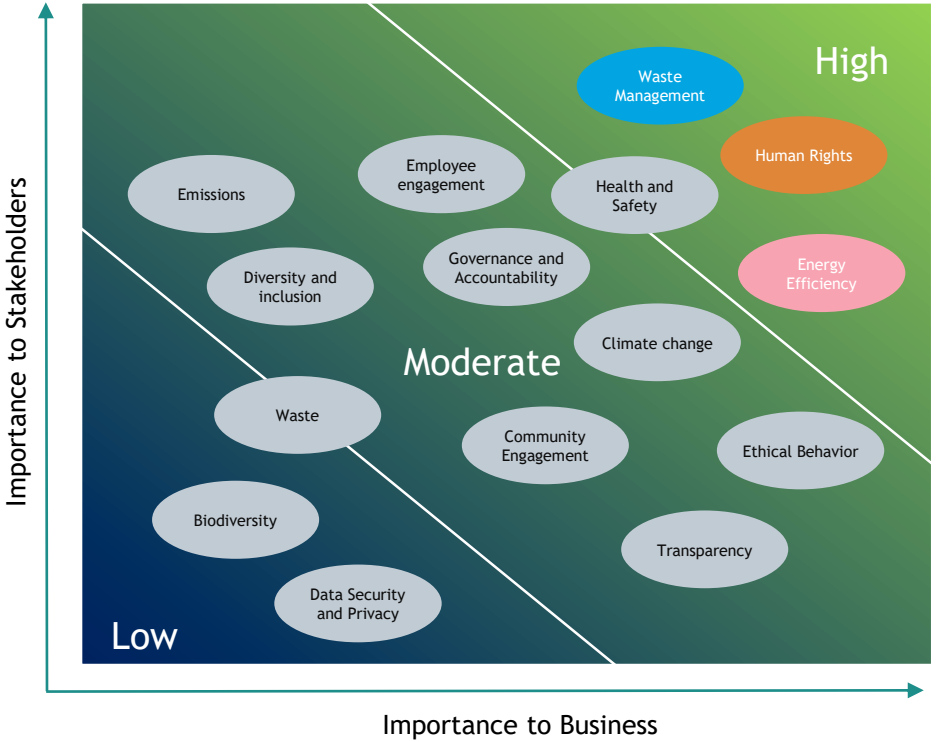
- Service providers
- Materials suppliers
- [others TBC]

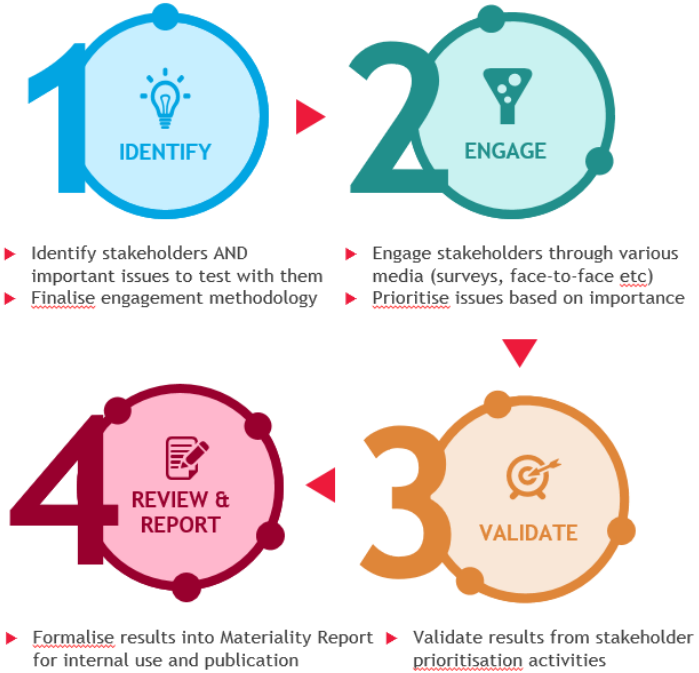
- [user group]
- [user group]
- [others TBC]

- Planning agencies
- Environmental agencies
- Worksafe agencies

- Local communities
- Local traders
- [others TBC]

MATERIALITY ASSESSMENT





MATURITY ASSESSMENT

- Current position
- Where do you want to go?
- Roadmap - How do you move from current position to future state?

A SUGGESTED APPROACH

1. Governance framework review
2. Stakeholder engagement
3. Materiality assessment
   - Who are your stakeholders?
   - What do they want to see in your communications?
4. Maturity assessment
   - Current position
   - Where do you want to go?
   - Roadmap - How do you move from current position to future state?
5. Measurement and reporting on ESG
6. Assurance
7. Monitoring & performance improvement

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BDO'S WEBSITE ON SUSTAINABILITY REPORTING

https://www.bdo.com.au/en-au/services/advisory/ifrs-advisory/sustainability-reporting

RESOURCES – FOR EXTERNAL USE

Accounting News articles

- Five reasons why mid-market businesses should care about ESG (Oct 2021)
- Net zero, ESG and sustainability reporting in the mining and energy industries (Oct 2021)
- BDO publishes a snapshot of sustainability reporting frameworks (Oct 2021)
- The first step towards a sustainability report (Sep 2021)
- ESG is an investment driver for real estate and construction (Aug 2021)
- How climate change became a business issue worth reporting (June 2021)
- What is ESG and why is it important for your business? (May 2021)

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FEEDBACK FROM BUSY SEASON – HOT TOPICS

IDEAS | PEOPLE | TRUST

FEEDBACK FROM BUSY SEASON

Hot topics

- Make good provisions
- SAAS implementation costs
- Leases - Reassessments, modifications & terminations
- Revenue
- Impairment testing
- Going concern
- Government grants

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REMINDER MAKE GOOD PROVISIONS

How does a dilapidation / restoration liability arise?

- Many contracts entered into by entities include clauses for them to restore a site they have used or to rectify other damages, such as damage to the environment
- A liability for a restoration/dilapidation provision is required to be accounted for when an obligation arises in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Liabilities may arise:

At a point in time (often beginning or near beginning of a contract)	Over time as damage occurs

REMINDER MAKE GOOD PROVISIONS

At a point in time

At a point in time (often beginning or near beginning of a contract)

EXAMPLES

- Lease of premises where lessee is required to restore premises to original shell at end of lease. An obligation for restoration exists at the point in time a fit-out of the premises is constructed
- Mining activities – to remove structures and equipment at the end of the life of the mine. An obligation exists when structures are constructed and equipment is brought on site
- An entity operates a factory that has caused environmental damage. An obligation exists when legislation is passed that requires such entities to rectify past environmental damage

Accounting treatment

- Liability = discount estimated future cost to 'make good'
- Debit side added to PPE (IAS 16.16(c)) or right-of-use asset (IFRS 16.24(d))
- Depreciated as part of PPE/ROU asset depreciation
- IFRIC 1 *Changes in Existing Decommissioning, Restoration and Other Similar Liabilities* explains what to do if the provision changes

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REMINDER MAKE GOOD PROVISIONS

Over time as damage occurs

Over time as damage occurs

EXAMPLES

- Lease of premises that includes fit out – to restore premises to same condition at time of initial lease (e.g. carpets, fit-out, furniture to be returned in original condition). An obligation exists as damage occurs
- Mining activities – to restore land damaged during mining to certain condition at the end of the life of the mine. An obligation exists as the mining activity takes place
- An entity operates a factory that has caused environmental damage. Legislation is passed stating that such entities must rectify future environmental damage that occurs. An obligation exists when damage occurs

- 'Make good' provision builds up over time
- Liability = discount estimated future cost to 'make good'
- 'Wear and tear' type make good provisions are sometimes expensed (repairs & maintenance)
- Apply IFRIC 1 *Changes in Existing Decommissioning, Restoration and Other Similar Liabilities* if not for wear and tear

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LEASE ACCOUNTING … THE PAIN IS VERY REAL!

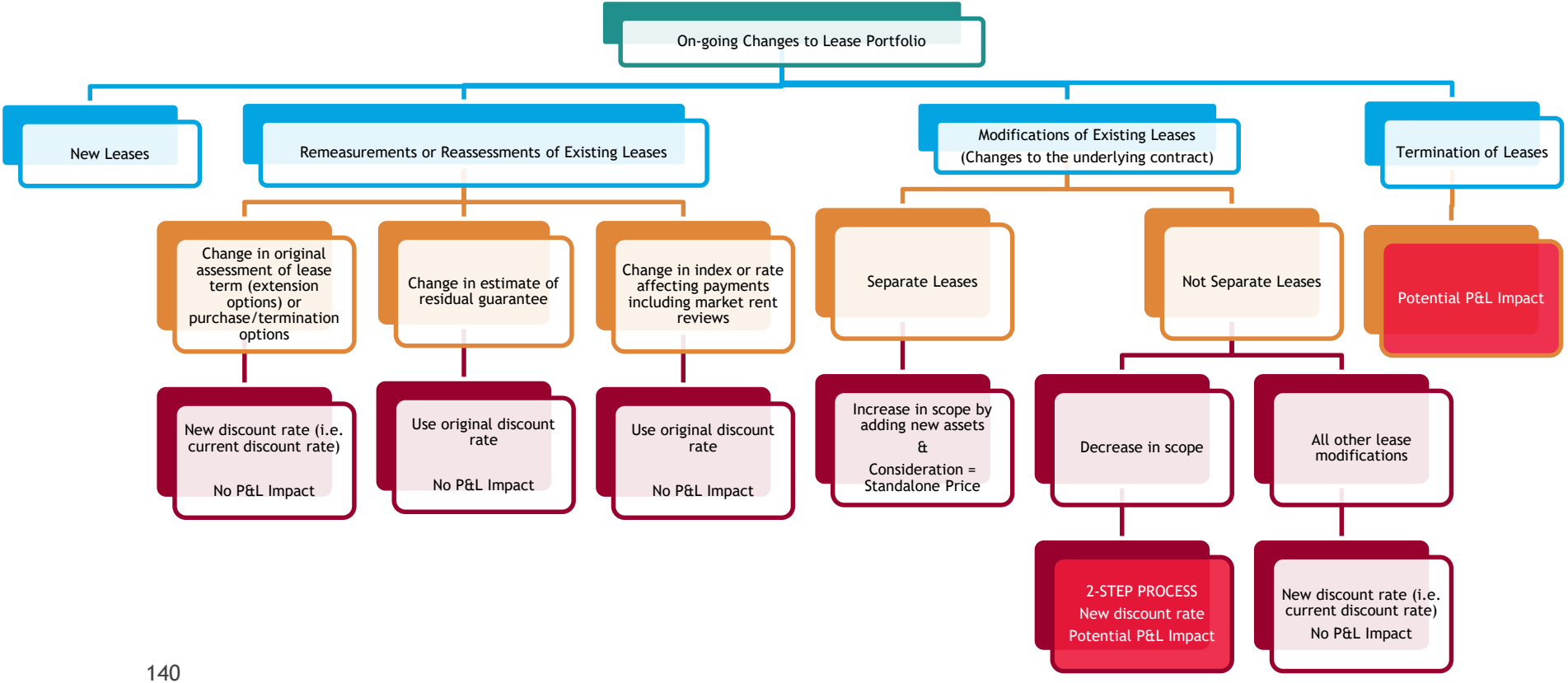
BDO Lead SaaS

https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-16/ifrs-tool-bdo-lead

BDO Lease Management Services (Outsourcing your lease accounting to us)

https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-16/lease-management-services

MANAGING ON-GOING CHANGES TO LEASE PORTFOLIO



DO YOU NEED ASSISTANCE?

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TODAY'S NFP PANEL

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