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Are you ready for 30 June 2022 reporting?

Part 2

17 May 2022

Your facilitators are...

Kim Heng

Partner

Joe Wheeler

Director

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Senior Manager

What is our reporting framework?

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Agenda

- **New standards**
- **IFRIC decisions**
  - **The IFRIC agenda**
  - **Demand deposits**
  - **Rent concessions**
- **Hot topic – Climate-related risk disclosures**
- **Wrap up**

New standards

New standards: 30 June 2022 Y/Es

AASB 2021-3 *Covid-19 Related Rent Concessions beyond 30 June 2021* [AASB 16]

Refer to 30 June 2021 webinar

AASB 2020-8 + 2020-9 *Interest Rate Benchmark Reform - Phase 2* [AASB 9]

AASB 2020-2 *Removal of Special Purpose*

AASB 1060 + AASB 2021-1 *General Purpose Financial Statements – Simplified disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

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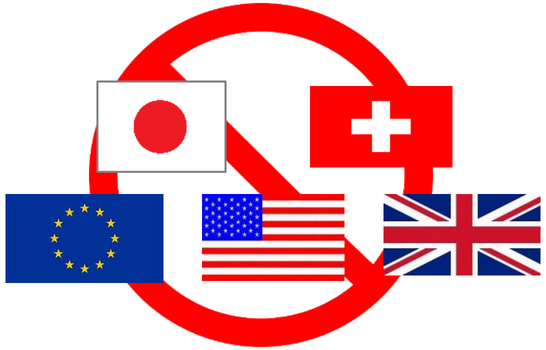
Interest rate benchmark reform

AASB 2020-8 + 2020-9
Interest Rate Benchmark Reform - Phase 2
[AASB 9]

With LIBOR ceasing, contracts have been amended so that they are linked to a new benchmark rate such as SONIA (GBP), ESTR (EUR) and SOFR (USD)



Sep 2019	Phase 1 amendments issued
Aug 2020	Phase 2 amendments issued
Nov 2021	
Dec 2021	
Jan 2022	1 Jan 22 LIBOR for GBP, EUR, CHF, JPY and 1-week and 2-month USD LIBOR have ceased
Jun 22	Current reporting period
Jun 23	30 Jun 23 Remaining USD LIBOR rates cease

Borrowings

Derivatives used for hedging

Leases

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Interest rate benchmark reform

AASB 2020-8 + 2020-9
Interest Rate Benchmark Reform - Phase 2
[AASB 9]

What is the accounting impact when contracts are amended?

If:

Leases, loan agreements and derivatives are amended only to effect changes required due to IBOR reform

&

The new basis for determining the cash flows is <u>economically equivalent</u> to the previous basis

Then:

Treat changes to interest rates on loans and borrowings on a prospective basis by revising the effective interest rate

Remeasure any affected lease liability using the guidance for a change in an index or rate

Update hedge documentation to ensure hedge accounting can continue

No significant recognition or measurement impacts for loans, leases and derivatives!

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Interest rate benchmark reform

Things to be aware of

AASB 2020-8 + 2020-9
Interest Rate Benchmark Reform - Phase 2
[AASB 9]

Complexity where changes are made to contracts over and above what is required to effect IBOR reform.

Financial reporting impacts may be significant.

E.g. Change benchmark rate borrowing from USD LIBOR to SOFR ***and*** negotiate a reduction in fixed credit margin at same time

Concept of "economic equivalence" is principles based – no bright lines nor a requirement to perform a quantitative test.

Documentation of analysis and conclusions important

Updates to hedge documentation need to be made by the end of the reporting period during which the IBOR reform changes were made.

Don't forget! Fair value hedge accounting applied to fixed rate borrowings may also be impacted.


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IBOR reform Phase 2

Reporting Update

24 January 2022, 22RU-04

All IBOR benchmarks will be replaced with new alternative benchmarks (ABR)

- **Borrowings, receivables** or **leases** referencing an IBOR benchmark;
- **Derivatives** referencing IBOR benchmarks, and/or
- Applied **hedge accounting** in accordance with either AASB 9 *Financial Instruments* (AASB 9) or AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139).

"The end of IBOR is in sight and organisations affected will be required to apply the relief granted by the IASB in their Phase 2 amendments. This relief allows organisations to change interest rates and amend hedge designations and documentation without significant disruption. However, the accounting can get complicated where additional changes to borrowings and derivatives are made over and above those required by IBOR reform. If this is the case for your organisation, it is recommended you consult with your advisor to assist in working through the accounting impacts".

Patricia Stebbens
Partner, Department of Professional Practice

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New standards: 30 June 2022 H/Ys

AASB 2020-3 *Annual Improvements 2018-2020 and Other Amendments*

Onerous Contracts—Cost of Fulfilling a Contract

[Amendments to AASB 137]

Property, Plant and Equipment: Proceeds before Intended Use

[Amendments to AASB 116]

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Accounting for onerous contracts

Onerous Contracts—Cost of Fulfilling a Contract
[Amendments to AASB 137]

Key question in onerous contract assessment:
Do 'unavoidable costs' of fulfilling a contract exceed economic benefits?

'Costs of fulfilling a contract' comprise both: incremental costs and an allocation of other direct costs (full cost approach)

Increase in onerous contract provisions likely for those currently applying incremental costs approach

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Example : Costs of fulfilling a contract

Onerous Contracts—Cost of Fulfilling a Contract

[Amendments to AASB 137]

Company Y provides data transmission services using external carriers' network infrastructure under non-cancellable network capacity contracts on fixed payment terms. Y has identified one revenue contract with a particular customer where it provides services under significantly low rates. The revenue from this one contract is $1,000. Y only considers incremental costs in its onerous contract assessment.

Directly related incremental costs

Direct labour - $100

Subcontractor fees - $150

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Example : Costs of fulfilling a contract

Onerous Contracts—Cost of Fulfilling a Contract
[Amendments to AASB 137]

Under the amendments, however, Company Y includes additional costs directly related to fulfilling the contracts.

Directly related incremental costs

- **Direct labour - $100**
- **Subcontractor fees - $150**

+

- **Depreciation of own equipment**
- **Fees for the use of network infrastructure**
- **Personnel costs**
- **Contract management costs**
- **Other allocated costs**
- **Total other direct costs = $800**

All directly related costs

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Accounting for onerous contracts

Transition – some thought required

Onerous Contracts—Cost of Fulfilling a Contract

[Amendments to AASB 137]

When

- Applies for annual reporting periods beginning 1 January 2022, early application permitted.

How

- Applies to contracts existing at date when amendments are first applied.
- **Comparatives are not restated.**

KPMG view

- May choose an accounting policy to apply either incremental cost or full direct cost approach **BEFORE** amendments become effective.

No more early application for 31 December 2022 YE

Last chance for 30 June 2022 YE!

For entities who wish to change to a full cost approach *and* restate comparatives, we recommend the entity effect a voluntary change in accounting policy *rather* than early adopt the amendments

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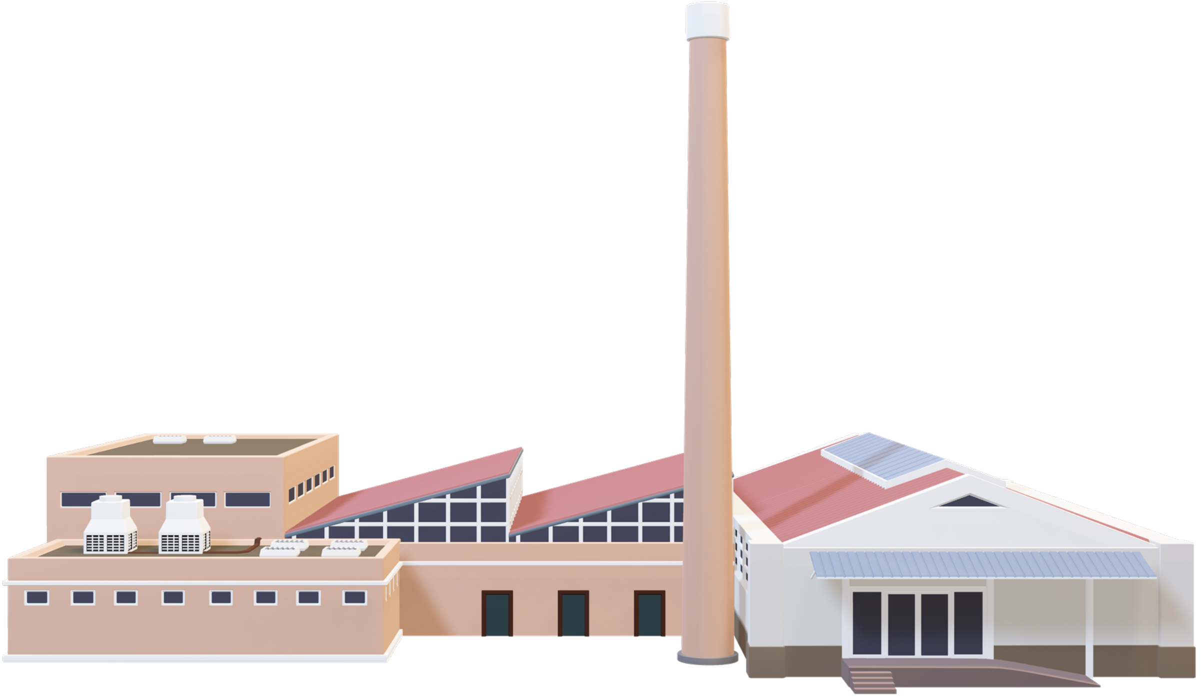
Accounting for proceeds before an asset's intended use

Property, Plant and Equipment: Proceeds before Intended Use
[Amendments to AASB 116]



- Effective 1 January 2022
- **Proceeds from selling items** before related item of PPE is available for use **is recognised in profit or loss**, together with **costs of producing those items.**
- Testing the functioning of PPE means assessing its technical and physical performance rather than its financial performance
- Applied retrospectively, but only to items of PPE made available for use on or after the beginning of the earliest period presented.
- May require additional disclosures.

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Accounting for proceeds before an asset's intended use

Property, Plant and Equipment: Proceeds before Intended Use
[Amendments to AASB 116]

Costs associated with the PPE item

Costs to make the item of PPE available for its intended use

AASB 102 Inventories applied

Costs to produce items being sold

How to track the cost of output being sold?

e.g. Direct labour costs

Which allocation method to apply?

e.g. Overheads

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Other standards available for early adoption

AASB 17 *Insurance Contracts* and amendments to AASB 17 *Insurance Contracts*

AASB 2020-1 and AASB 2020-6 *Classification of Liabilities as Current or Non-Current* [AASB 101]

Refer to 31 December 2021 webinar

AASB 2021-2 *Disclosure of Accounting Policies and Definition of Accounting Estimates*

[Amendments to AASB 101 and AASB 108]

AASB 2021-5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* [AASB 112]

Sale or contribution of assets between an investor and its associate or joint venture [AASB 3 & AASB 128]

Annual reporting periods beginning on or after 1 January 2023

Annual reporting periods beginning on or after 1 January 2025

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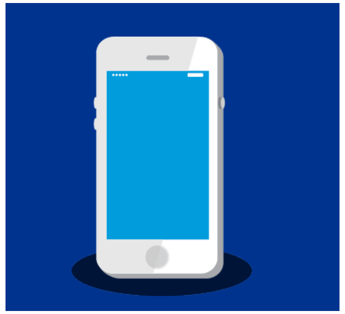
AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* and amendments to AASB 17 *Insurance Contracts*

Common contracts for non-insurers that could be an insurance contract

Fixed fee service contracts:

Road side assistance



Phone screen repair

Extended warranty

Surety bonds (or similar) which are common in the following industries:

- General building
- Mining
- Civil, heavy and specialist engineering
- Manufacturing
- Transportation

Refer to 30 June 2021 webinar

Disclosures relating to impact of standards not yet adopted should be considered for 30 June 2022 YE

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IFRIC decisions

THE IFRIC agenda

The IFRIC agenda

Agenda decisions finalised by IASB

- Configuration or customisation costs in a cloud computing arrangement
- Demand deposits with restrictions on use
- ECB – Third targeted longer-term refinancing operations programme

See 31 Dec 2021 webinar

Tentative agenda decisions

See 31 Dec 2021 webinar

- Cash received via electronic funds transfer as settlement for a financial asset
- Negative low emission vehicle credits
- Profit recognition for annuity contracts (IFRS 17)

Decisions subject to IASB approval

- Principal versus agent: Software reseller

Likely frequency across entities:

High | Medium | Low

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The IFRIC agenda

Tentative agenda decisions continued…

- **Rent concessions: lessors and lessees**
- **SPAC – Classification of public shares as debt or equity**
- **SPAC – Accounting for warrants at acquisition**

Remember to monitor developments up until the date the financial report is signed

Likely frequency across entities:

High   Medium   Low

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Demand deposits with restrictions on use

What is the issue?

- Demand deposit subject to contractual restrictions on use agreed with third party.
- Fact pattern:
  - Terms of deposit itself do not prevent organisation from accessing amounts held in it.
  - Organisation has contractual agreement with third party to keep specified amounts of cash in deposit account.
  - If organisation uses cash on deposit for another purpose, it is in breach of its contractual obligations.

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Demand deposits with restrictions on use

What is the issue?

Cash is defined as comprising of "cash on hand and <u>demand deposits</u>"

- **Cash equivalents** are short-term, highly liquid investments that are readily convertible into known amounts of cash […].
- Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

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Demand deposits with restrictions on use

What did IFRIC decide?

Statement of cash flows

- Include demand deposit as ‘cash and cash equivalents’ in statement of cash flows.

Statement of financial position

- When relevant to understanding of financial position, disaggregate cash equivalents line item and present demand deposit subject to restriction separately in an additional line item.

Disclosures

- Disclose the nature and amount of significant ‘cash and cash equivalent’ balances that are subject to restrictions

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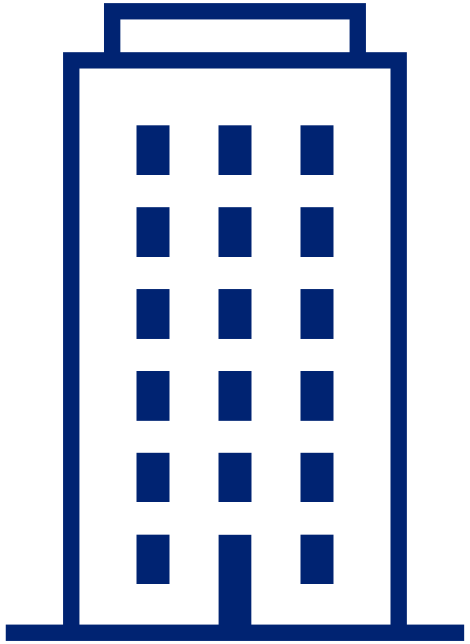
Rent concessions

Lessor forgiveness of lease payments

Original lease contract	Change to lease contract
• Classified as an operating lease by lessor. • Operating lease receivable is subject to IFRS 9 ECL provisions.	• Rent concession agreed. • Lessor forgives specified lease payments. • Some payments are already contractually due; others are contractually due in future periods.
Issue: How does the lessor apply IFRS 9 and IFRS 16 in accounting for the rent concession?	



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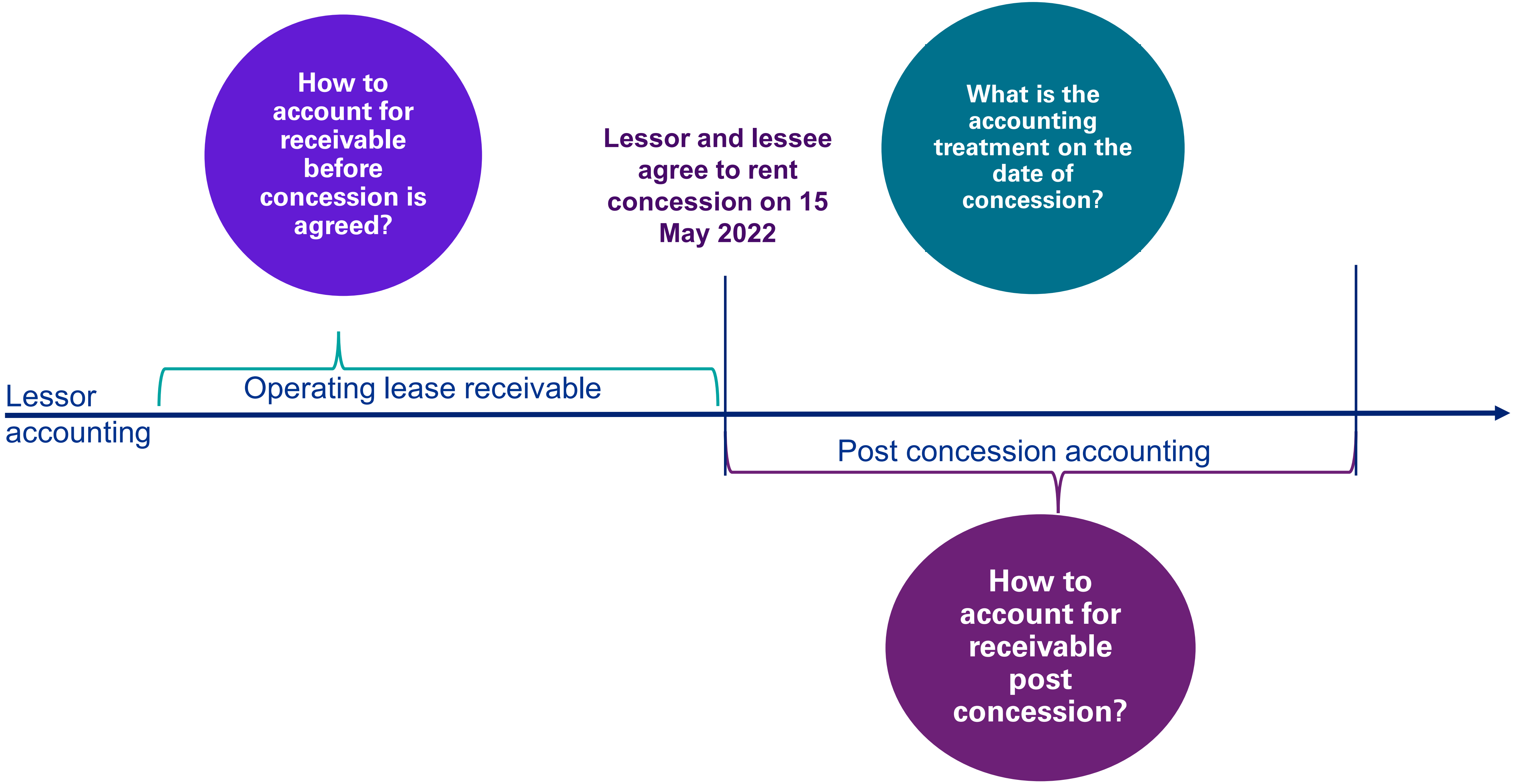
Lessor forgiveness of lease payments



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Lessor Forgiveness of Lease Payments (IFRSs 9 and IFRS 16)

Apply impairment requirements to operating lease receivable in period before the rent concession is granted

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Lessor forgiveness of lease payments

Lessor and lessee agree to rent concession on 15 May 2022

What is the accounting treatment on the date of concession?

Lessor accounting

Apply derecognition requirements to operating lease receivable on the date the rent concession is granted

[IFRS 9, para 3.2.3]

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Lessor Forgiveness of Lease Payments (IFRSs 9 and IFRS 16)

Lessor and lessee agree to rent concession on 15 May 2022

Lessor accounting

Post concession accounting

Apply leases modification accounting after the date the rent concession is granted

How to account for receivable post concession?

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Hot topic - climate related risk disclosures

Regulatory developments on sustainable reporting

Nov 21: Establishment of **International Sustainability Standards Board (ISSB)**

Nov 21: FRC announces AASB remit be expanded to include standards on sustainability reporting

Nov 21: AASB seeks comment on endorsing TCFD framework for climate-related disclosures

Mar 22: **AASB** published **Position Statement** on Extended External Reporting Framework

Mar 22: **Two proposals** – covering general requirements as well as climate-related disclosures - released by **ISSB**

Apr 22: AASB releases **ED321** containing ISSB proposals Submissions by 15 July 2022

ASIC is encouraging listed Australian entities to use the TCFD recommendations

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Proposals on sustainability disclosures

New on a Horizon publication!

General requirements proposal

Governance

Processes, controls and procedures that a company uses to monitor sustainability-related risks and opportunities.

Strategy

Sustainability-related matters that could enhance the business model and strategy over the short, medium and long term.

Risk Management

How sustainability-related risks are identified, assessed and managed.

Metrics and Targets

Information used to manage and monitor performance on sustainability-related matters over time.

Additional standards that build on this framework and include industry-specific requirements

Climate-related disclosures

Future Sustainability Disclosure Standards

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Get ready for ISSB sustainability disclosures

What's the issue?

- New proposals mark the next step towards equal prominence for sustainability and financial reporting.

What's the impact?

- Companies would report on **all** relevant sustainability topics under a consistent global framework
- Reporting would be connected to the financial statements. Processes and controls will need to be implemented.

What's next?

- The proposals are open for comment until 29 July 2022; the subsequent standards may be issued by the end of 2022
- Individual jurisdictions will decide whether and when to adopt
- Some public and private companies may choose to adopt them voluntarily

Sustainability and Climate Change – Financial reporting
Australian resource centre

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Bridging a gap between OFR and Financial statements

OFR

Materiality

[AASB 101.7]

Financial statements

- Reasonable and supportable
- Market data & expectations
- Best available information at measurement date
- Disclosures of judgements, estimates, assumptions and sensitivities

ASIC focus area!

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What we are seeing in practice

Discussion of strategies and scenarios

BHP Extract from BHP 2021 Annual Report

Significant accounting policies, judgements and estimates

Framing of climate change response strategy and modelled scenarios and **how reflected** in **significant judgements** and **key estimates** and therefore the financial statements

Climate change

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low carbon economy. The Group's current climate change strategy focuses on reducing operational greenhouse gas (GHG) emissions, investing in low emissions technologies, supporting emissions reductions in our value chain and promoting product stewardship, managing climate-related risk and opportunity, and working with others to enhance the global policy and market response. Future changes to the Group's climate change strategy or global decarbonisation signposts may impact the Group's significant judgements and key estimates and result in material changes to financial results and the carrying values of certain assets and liabilities in future reporting periods.

The Group's current climate change strategy is reflected in the Group's significant judgements and key estimates, and therefore the Financial Statements, as follows:

Transition risks

The Group's targets and goals

As part of its response to the Paris Agreement goals, the Group has set a target to reduce its operational GHG emissions (Scope 1 and Scope 2 from our operated assets) by at least 30 per cent from FY2020 levels by FY2030 and a goal to achieve net zero operational GHG emissions by 2050. For the FY2030 target, the FY2020 baseline will be adjusted for any material acquisitions and divestments based on GHG emissions at the time of the transaction, and carbon offsets will be used as required. Emissions reduction projects aimed at contributing to the achievement of the Group's operational GHG emissions target and goal have been incorporated into the forecast cash flows of the Group's assets.

The Group's offset strategy is currently being managed at a consolidated Group level and therefore is not currently incorporated into the forecast cash flows of individual assets. Any change to the Group's climate change strategy could impact these forecasts and the Group's significant judgements and key estimates.

The Group continues to invest, including in partnership with others, in emissions reduction projects and technology innovation and development in its value chain to support reductions to its total reported Scope 3 GHG emissions inventory. However, while we seek to influence, Scope 3 emissions occur outside of our direct control. Reduction pathways are dependent on the development and upstream or downstream deployment of solutions and/or supportive policy. It is therefore currently not possible to reliably estimate or measure the full potential financial statement impacts of the Group's pursuit of its Scope 3 goals and targets.

Expenditure under the Climate Investment Program (CIP) which, as announced by the Group in July 2019, aims to invest at least US$400 million over the CIP's five-year life in emissions reduction projects across the Group's operated assets and value chain, is recognised in the relevant year of expenditure.

Continues on to discuss scenarios in more detail and impacts on commodities and demand for fossil fuels globally…

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What we are seeing in practice

Most common areas mentioning climate

Impairment of non-financial assets – **key assumptions** in recoverable amount models

Restoration provisions – key assumptions impacting estimates

Expected credit loss (ECL) methodology

What is missing?

What **specifically** is considered?

What **specific assumptions** have been made?

How do assumptions **differ** to those discussed in the front, and **why**?

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Climate related products

agl

FLY CARBON
NEUTRAL

OPTUS

22RU-08 Sustainable energy: Power purchase arrangements

22RU-10 Sustainability linked financing – accounting considerations

NBN prices $800m green bond

Iron-Ore Giant Fortescue Makes Foray Into Green-Bond Market

Emerging issues!

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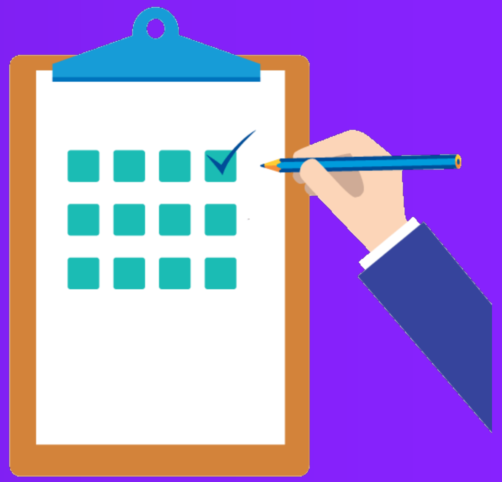
Wrap up



Take-aways

1 **Assess the impact of the newly effective standards on the financial statements this 30 June**

2 **Consider how IFRIC's agenda decisions affects your organisation**

3 **Try to bridge any gaps between the climate-related risk disclosures in the OFR and those in financial statements**

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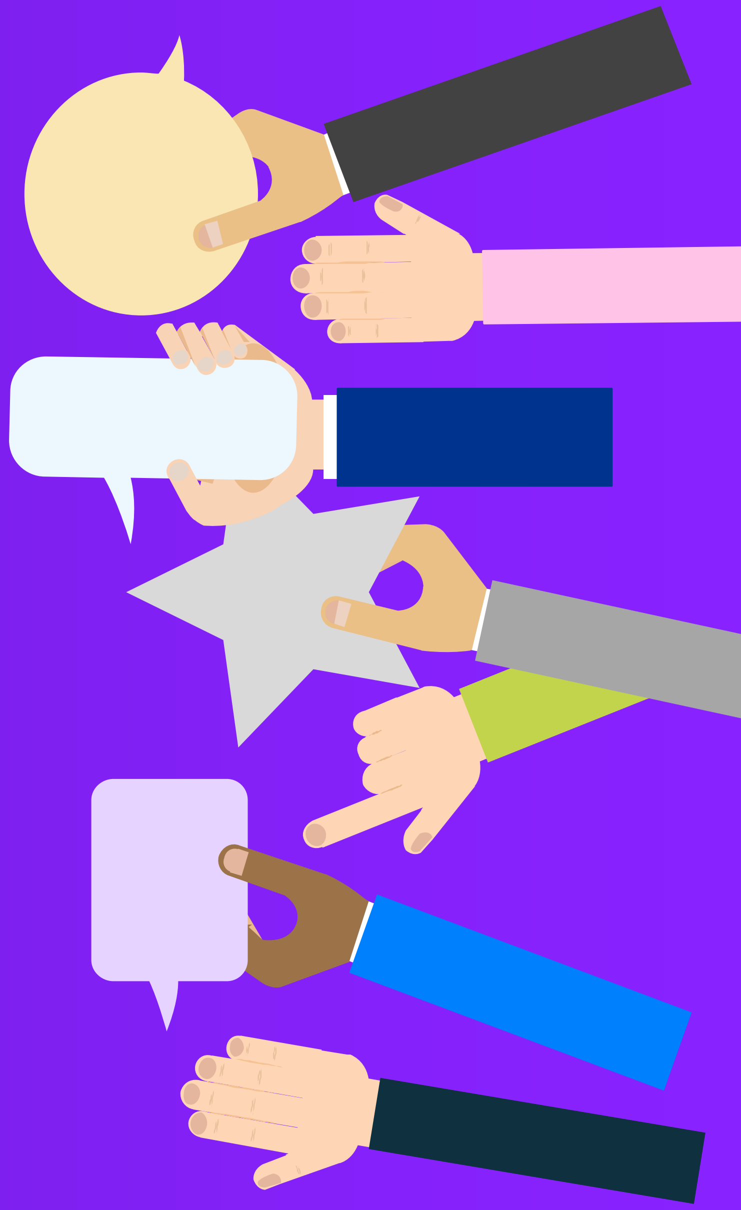
Questions



Thank you

Appendix

Standards effective for 30 June 2022
Standards available for early adoption

Standards first effective - 30 June 2022 Y/Es

AASB 2020-8 Interest Rate Benchmark Reform – Phase 2	The amendments in this final phase relate to: • **changes to contractual cash flows**—an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; • **hedge accounting**—an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and • **disclosures**—an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.
Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	Extends an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 by 12 months - i.e. permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.

Annual reporting periods beginning on or after 1 April 2021

Annual reporting periods beginning on or after 1 January 2021

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Standards first effective - 30 June 2022 Y/Es

AASB 2020-2 *Removal of Special Purpose*	Removes the ability of certain for-profit private sector entities to prepare special purpose financial statements. These entities will be required to prepare a form of general purpose financial statements (GPFS).
AASB 1060 *General Purpose Financial Statements – Simplified disclosures for For-Profit and Non-for-Profit Tier 2 Entities*	AASB 1060 is a single standard containing all the disclosure requirements for an entity preparing General Purpose Financial Statements under Tier 2 (GPFS-Tier 2). The new standard applies to all entities preparing GPFS-Tier 2 and replaces the current suite of Reduced Disclosure Regime (RDR) disclosures.
AASB 2021 – 1 *Amendments to Tier 2 Simplified Disclosures for Not-for Profit Entities*	AASB 2021-1 provides relief to NFPs from having to present comparative information in the notes to the financial statements when first applying GPFS-Tier 2 where they did no present comparable information in most recent GPFS under Reduced Disclosure Regime. The relief only applies where AASB 1060 is adopted early.

Annual reporting periods beginning on or after 1 July 2021

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Standards first effective - 30 June 2022 H/Ys

Onerous Contracts—Cost of Fulfilling a Contract [Amendments to AASB 137]	Clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
Property, Plant and Equipment: Proceeds before Intended Use [Amendments to AASB 116]	Prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
AASB 2020-3 Annual Improvements 2018-2020 and Other Amendments	Amendments to existing accounting standards, particularly in relation to: • AASB 1 – simplifies the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. • AASB 3 – to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. • AASB 9 – to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. • AASB 116 – as described above • AASB 137 – as described above • AASB 141 – to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

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Standards available for early adoption

AASB 17 **Insurance contracts and amendments to AASB 17 Insurance Contracts[1]**	Expected to result in lower deferral of acquisition expenses, the introduction of risk adjustments for reporting purposes, and a likely change in 'boundary' for certain contracts such as yearly renewable term insurance policies.
AASB 2020-1 Classification of Liabilities as Current or Non-current	Amends AASB 101 to require a liability be classified as current when companies do not have a substantive right to defer settlement at the end of the reporting period.
AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates **[Amendments to AASB 101 and AASB 108]**	Introduces a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. Clarifies several aspects of materiality application to disclosure of accounting policies and requires companies to disclose their *material* accounting policies rather than their *significant* accounting policies.

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1 Note early adoption of AASB 17 requires concurrent application of AASB 9 Financial Instruments.

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AASB 2021-5 –Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Amendments to AAB 3 and AASB 128	Requires the full gain or loss to be recognised when the assets transferred meet the definition of a 'business' under AASB 3 Business Combinations (whether housed in a subsidiary or not).

Annual reporting periods beginning on or after 1 January 2023

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