KPMG

Are you ready for 31 December 2023 reporting?

14 November 2023

Your facilitators are...

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Acknowledgement of Country

KPMG acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples of Australia. We pay our respects to Elders past, present, and future as the Traditional Custodians of the land, water and skies of where we work.

At KPMG, our future is one where all Australians are united by a shared, honest, and complete understanding of our past, present, and future. We are committed to making this future a reality. Our story celebrates and acknowledges that the cultures, histories, rights, and voices of Aboriginal and Torres Strait Islander People are heard, understood, respected, and celebrated.

Australia's First Peoples continue to hold distinctive cultural, spiritual, physical and economical relationships with their land, water and skies. We take our obligations to the land and environments in which we operate seriously.

Guided by our purpose to 'Inspire Confidence. Empower Change', we are committed to placing truth-telling, self-determination and cultural safety at the centre of our approach. Driven by our commitment to achieving this, KPMG has implemented mandatory cultural awareness training for all staff as well as our Indigenous Peoples Policy. This sincere and sustained commitment has led to our 2021-2025 Reconciliation Action Plan being acknowledged by Reconciliation Australia as 'Elevate' – our third RAP to receive this highest level of recognition. We continually push ourselves to be more courageous in our actions particularly in advocating for the Uluru Statement from the Heart.

We look forward to making our contribution towards a new future for Aboriginal and Torres Strait Islander peoples so that they can chart a strong future for themselves, their families and communities. We believe we can achieve much more together than we can apart.

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*This acknowledgement of country has been developed within KPMG Indigenous Network (KIN) should you wish to modify the wording please reach out for consultation of the KIN. The KIN is a culturally safe and supportive space for Aboriginal and Torres Strait Islander colleagues from all geographies, divisions, and levels of the firm and you can get in touch by emailing smoates@kpmg.com.au

What is our reporting context?

Changing and uncertain market conditions

AASB

ASIC

IASB and IFRS IC

ISSB

Global tax reform

Sustainability reporting

Agenda

New standards and IFRIC agenda decisions

Hot topic – CGUs and levels of impairment testing

Q&A

Regulatory update

Hot topic - Share-based payments

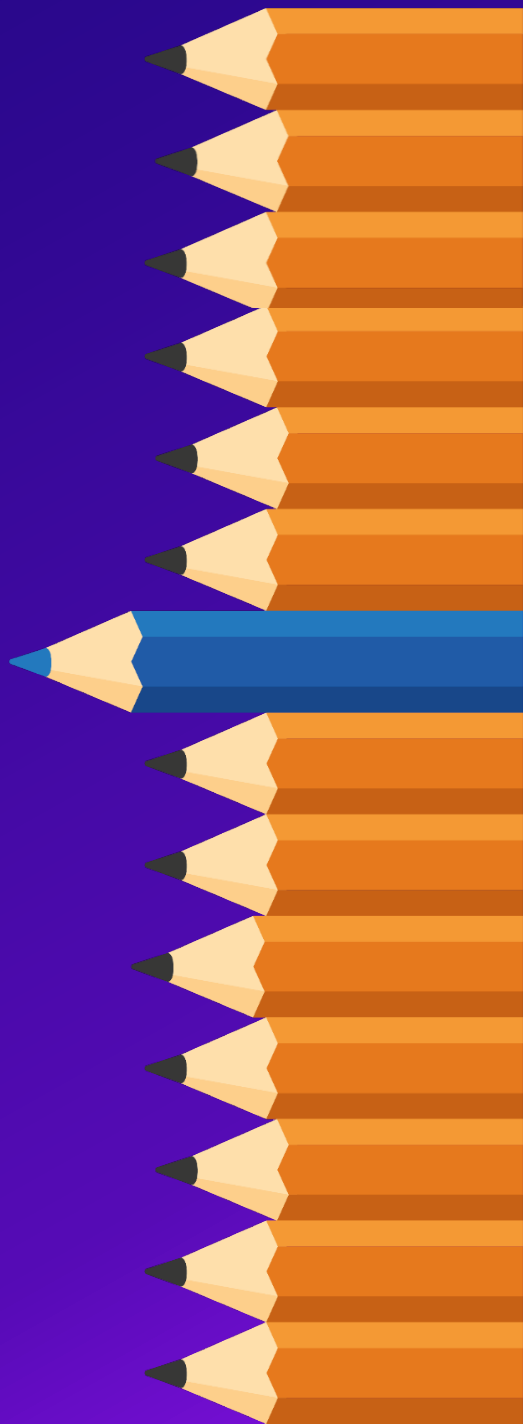
– Grant date

– ‘Good leaver’ clauses

ESG update

Wrap up

Q&A



New standards

New standards: 31 December 2023 Y/Es and H/Ys

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

Refer to 31 December 2022 webinar

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

Refer to 31 December 2022 webinar

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

[AASB 101 and AASB 108]

AASB 2023-2, AASB 2023-4

International Tax Reform – Pillar Two Model Rules

[Amendments to AASB 112]

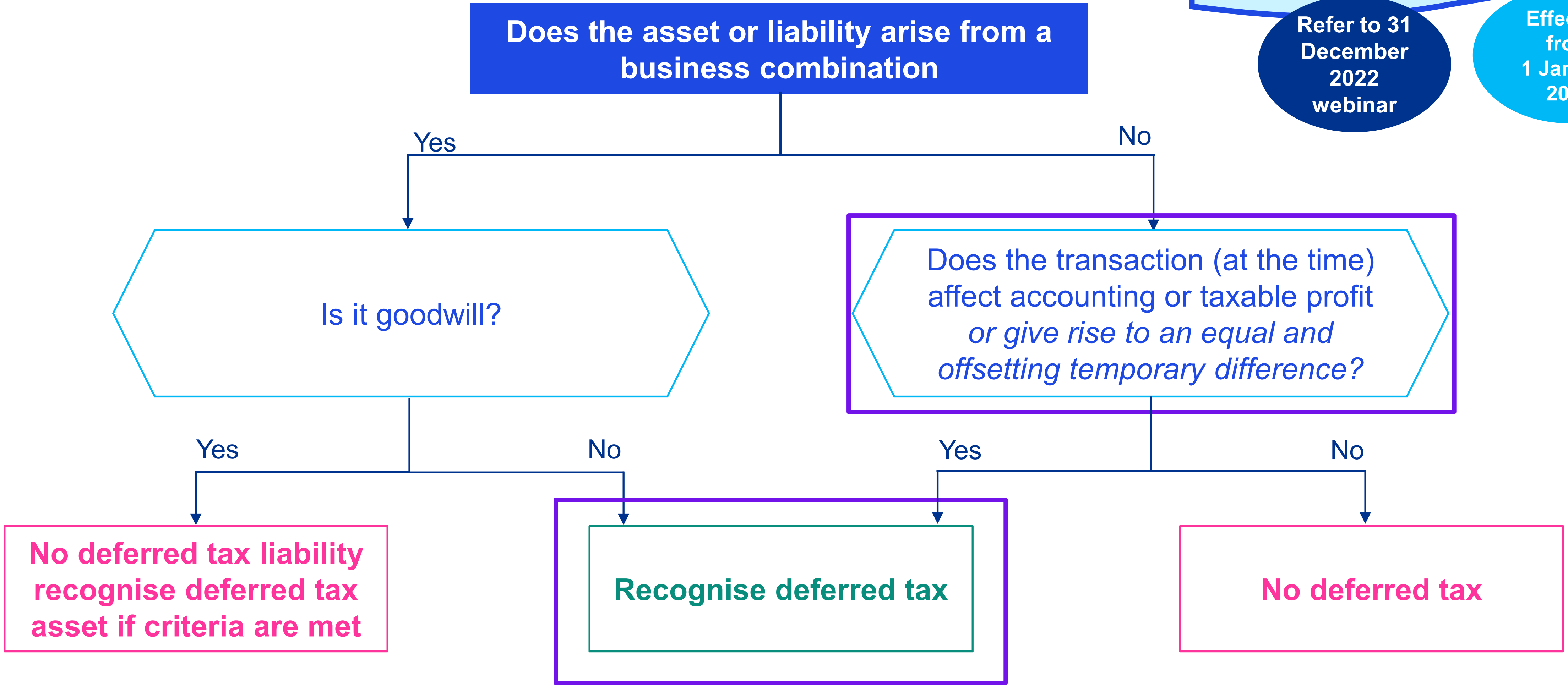
- Annual reporting periods beginning on or after 1 January 2023
- The amendments first immediately applied for 30 June 2023 YEs, however disclosure requirements apply only for annual reporting periods beginning 1 January 2023

Deferred tax – Initial recognition exemption

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

Refer to 31 December 2022 webinar

Effective from 1 January 2023



Disclose 'material' accounting policies

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

[AASB 101 and AASB 108]

Effective from 1 January 2023

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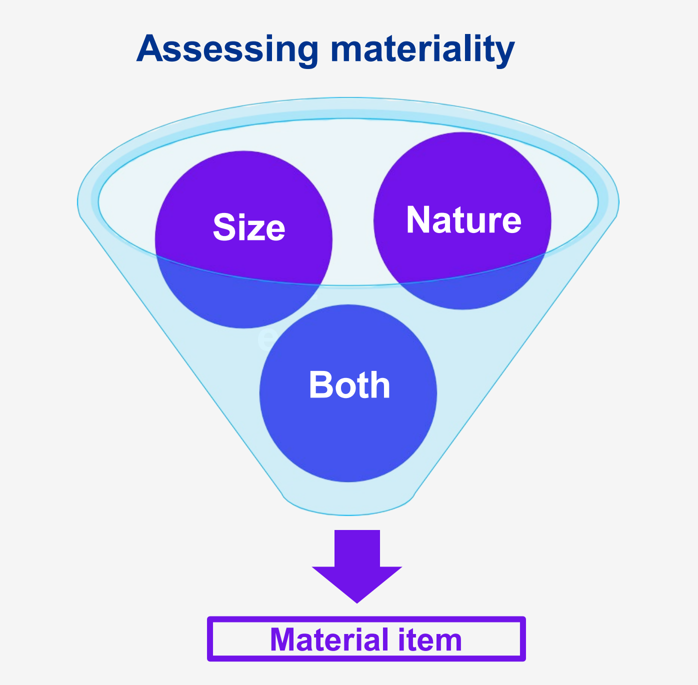


Disclose 'material' accounting policies

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

[AASB 101 and AASB 108]

Effective from 1 January 2023

Is the transaction, other event or condition material? (Step 1)

No

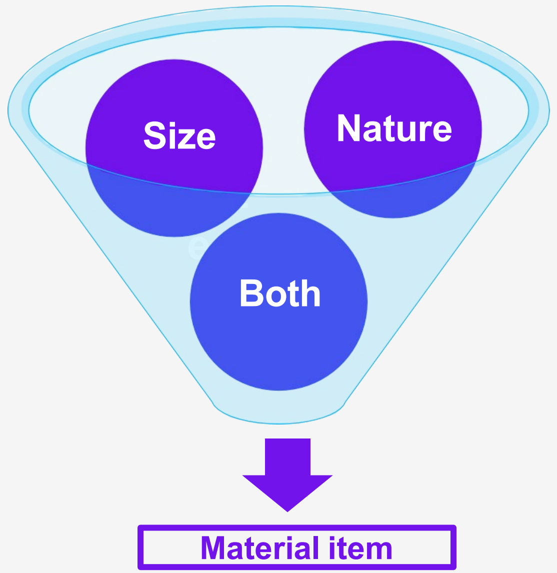
Yes ↓

Is the related accounting policy information itself material? (Step 2)

No ↓

No accounting policy information needs to be disclosed

Assessing materiality



Disclose 'material' accounting policies

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

[AASB 101 and AASB 108]

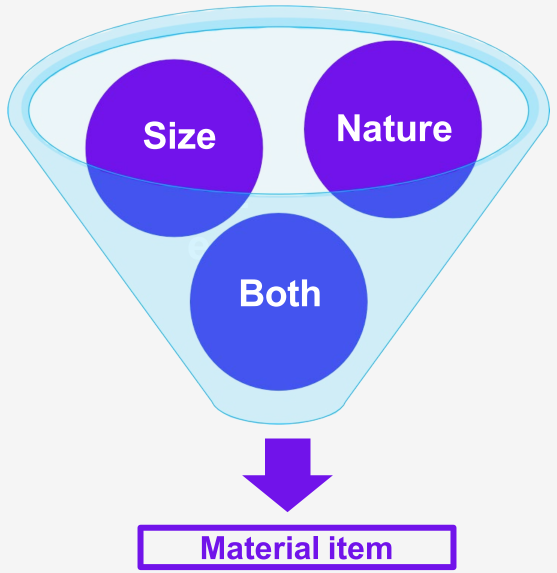
Effective from 1 January 2023

Is the transaction, other event or condition material? (Step 1)

- No → **No accounting policy information needs to be disclosed**
- Yes → **Is the related accounting policy information itself material? (Step 2)**
  - No → **No accounting policy information needs to be disclosed**
  - Yes → **Disclose material accounting policy information**

Disclose material accounting policy information → Go to Step 3 → **Determine what accounting policy information to disclose (Step 3)**

Assessing materiality



Disclose 'material' accounting policies

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

[AASB 101 and AASB 108]

Effective from 1 January 2023

More relevant and less cluttered

Is the transaction, other event or condition material? (Step 1)

- No → No accounting policy information needs to be disclosed
- Yes → Is the related accounting policy information itself material? (Step 2)

Is the related accounting policy information itself material? (Step 2)

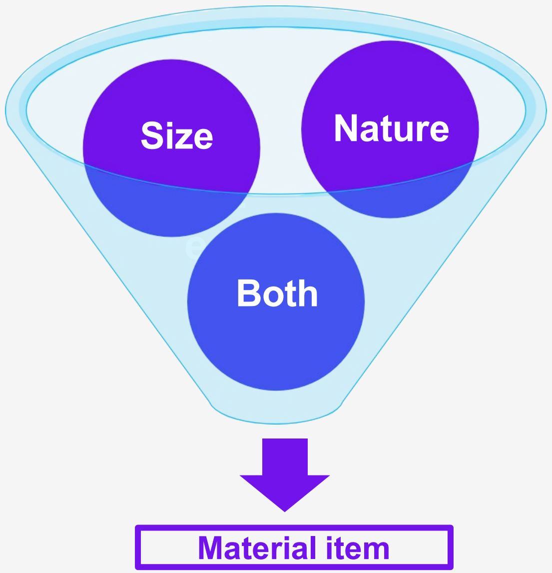
- No → No accounting policy information needs to be disclosed
- Yes → Disclose material accounting policy information

No accounting policy information needs to be disclosed → Disclose material accounting policy information

Disclose material accounting policy information → Go to Step 3

Determine what accounting policy information to disclose (Step 3)

Assessing materiality



Pillar Two model rules

Enactment date is not effective date

AASB 2023-2, AASB 2023-4

International Tax Reform – Pillar Two Model Rules

[Amendments to AASB 112]

Interim periods ending on or before 31 December 2023

Required disclosure:
Adopted temporary exemption to recognising deferred tax

No other required disclosure
for interim periods ending **on or before 31 December 2023**.

KPMG recommends disclosing:
potential exposure and impacts

Pillar Two model rules

AASB 2023-2, AASB 2023-4

International Tax Reform – Pillar Two Model Rules

[Amendments to AASB 112]

Year ending from 31 December 2023
(Once tax law enacted, before tax applies)

Disclose **exposure** to Pillar Two income taxes at the reporting date, both **quantitative and qualitative information**

If exposure **not known** or **reasonably estimable**, disclose that fact including progress made

Other standards available for early adoption

AASB 2020-1, AASB 2022-6
Classification of liabilities as current or non-current
[Amendments to AASB 101]

Fair value measurement of non-financial assets of Not-for-Profit Public Sector Entities (NFP) (PS)
[AASB 13]

AASB 2022-5
Lease liability in a sale-and-leaseback
[Amendments to AASB 16]

Refer to 31 December 2022 webinar

AASB 2023-1
Supplier finance arrangements
[Amendments to AASB 7 & AASB 107]

AASB 2023-5
Lack of Exchangeability
[Amendments to AASB 1, AASB 121 & AASB 1060]

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 2024 (blue)

Annual reporting periods beginning on or after 1 January 2025 (purple)

What is a supplier finance arrangement?

AASB 2023-1
Supplier finance arrangements
[Amendments to AASB 7 & AASB 107]

Effective from 1 January 2024

Finance provider

Agrees to pay according to terms and conditions at the <u>same date</u> as, or a date <u>later than</u>, suppliers are paid

Offers to pay amounts buyer owes to suppliers

Provides goods and/or renders services

Buyer

Supplier

Not supplier finance arrangements:

- Financing receivables
- Financing inventory
- Credit enhancements for the buyer

What are the new disclosure requirements?

No comparative information or interim reporting required in first year of application.

Qualitative information

Terms and conditions (e.g. extended payment terms and security or guarantees provided)

Quantitative information

	End of reporting period 31 Dec 2024	Beginning of reporting period 1 Jan 2024
Carrying amount of liabilities		
Presented within trade and other payables	$xxx	$xxx
- of which suppliers have received payment from finance provider	$xxx	$xxx
Range of payment due dates		
Liabilities that are part of the arrangement	XX-XY days after invoice date	XZ-ZX days after invoice date
Trade payables that not part of an arrangement	YY-YX days after invoice date	YZ-ZZ days after invoice date

Information for disclosures may not be readily available.

Classification of liabilities as current or non-current

AASB 2020-1, AASB 2022-6 Classification of liabilities as current or non-current [Amendments to AASB 101]

Effective from 1 January 2024

Basis for classification

Organisation's **right to defer settlement** for at least 12 months after reporting period **must have substance** and **must exist at the end of the reporting period**.

Covenants on or before reporting date

Impact classification

Covenants after reporting date

DO NOT impact classification

Classification of liabilities as current or non-current

AASB 2020-1, AASB 2022-6 Classification of liabilities as current or non-current [Amendments to AASB 101]

Effective from 1 January 2024

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Covenants on or before reporting date

Impact classification

Covenants after reporting date

DO NOT impact classification

Exception for a roll over obligation

Organisation's **right to roll over an obligation for at least 12 months** after the reporting period under an existing loan facility **must exist at the end of the reporting period.**

What is the impact of future conditions on the classification?

Example: Classification of a roll over obligation

Scenario

- Gemstone has a five-year facility with a bank available until 30 Sep 2028.
- Facility was drawn down in full as a one-year loan in Oct 2023, was rolled over in October 2024, with an intent to rollover again on 1 Oct 2025.
- Loan is subject to annual covenant test at 30 Sep (debt/equity ratio of 2 and above) that if breached renders the loan repayable on demand. Ability to rollover the loan is conditional on compliance with the covenant.
- Gemstone complied with the covenant at 30 Sep 2024.

Q: On 31 Dec 2024, should Gemstone present the loan as current or non-current?

Example: Classification of a roll over obligation

Right to roll over the obligation for at least 12 months exists at 31 Dec 2024

- Gemstone complied with covenants before 31 Dec 2024 (at 30 Sept 2024), next covenant to comply will be assessed after reporting date and irrelevant for classification.
- Right to defer settlement of the roll over obligation for at least 12 months has substance and exists at 31 Dec 2024

Non-current liability at 31 Dec 2024

More judgement is required for roll overs with subjective covenants!

Example: Classification of a roll over obligation

Right to roll over the obligation for at least 12 months exists at 31 Dec 2024

- **Gemstone complied with covenants before 31 Dec 2024 (at 30 Sept 2024), next covenant to comply will be assessed after reporting date and irrelevant for classification.**
- **Right to defer settlement of the roll over obligation for at least 12 months has substance and exists at 31 Dec 2024**

Non-current liability at 31 Dec 2024

More judgement is required for roll overs with subjective covenants!

New disclosures for non-current liabilities subject to future covenants

Information about covenants (including nature of covenants and when company is required to comply with them)

Carrying amount of related liabilities

Any facts and circumstances indicating **difficulty in complying with covenants** (e.g. actions to avoid or mitigate potential breach, potential non-compliance with future covenants 'as if' assessed at reporting date)

Application considerations

ON-GOING INTERNATIONAL DISCUSSION

CLASSIFICATION MAY CHANGE

Straight-forward scenarios
Term loan with objective covenant, e.g. minimum debt/equity ratio
Term facility with rollover arrangement with objective covenant, e.g. minimum debt/equity ratio

Complex scenarios
Long term securitisation facility arrangement with rolling short-term receivables
Loan arrangement, including roll over facility with subjective covenant, for example: • material adverse change clause, • change ownership / control • delivery of unqualified financial statements
Hybrid instrument – discretionary interest, no fixed maturity, liability because redeemable if there is a change in control clause
Timing of substance assessment

Watch out for more guidance!

IFRIC agenda decisions

The IFRIC agenda decisions

Likely frequency across entities:

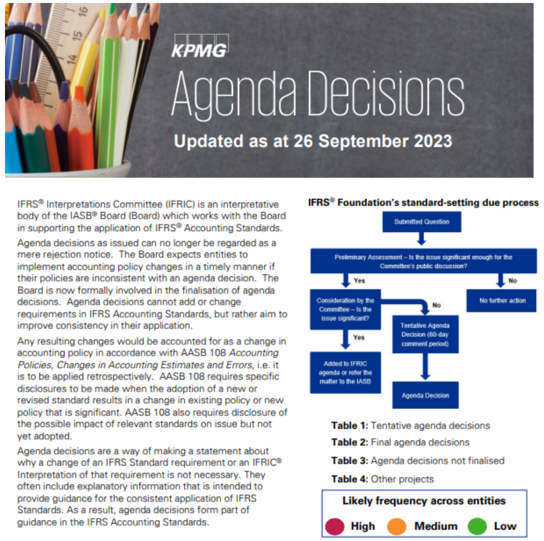
High | Medium | Low

Tentative agenda decisions

- Payments contingent on continued employment during handover periods
- Merger between parents and subsidiary – separate financial statements

Agenda decisions finalised by IFRIC and IASB

- Guarantee over a derivative contract
- Homes and home loans provided to employee
- Insurance premiums receivable from an intermediary



KPMG

Agenda Decisions

Updated as at 26 September 2023

IFRS® Interpretations Committee (IFRIC) is an interpretative body of the IASB® Board (Board) which works with the Board in supporting the application of IFRS® Accounting Standards.

Agenda decisions as issued can no longer be regarded as a mere rejection notice. The Board expects entities to implement accounting policy changes in a timely manner if their policies are inconsistent with an agenda decision. The Board is now formally involved in the finalisation of agenda decisions. Agenda decisions cannot add or change requirements in IFRS Accounting Standards, but rather aim to improve consistency in their application.

Any resulting changes would be accounted for as a change in accounting policy in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, i.e. it is to be applied retrospectively. AASB 108 requires specific disclosures to be made when the adoption of a new or revised standard results in a change in existing policy or new policy that is significant. AASB 108 also requires disclosure of the possible impact of relevant standards on issue but not yet adopted.

Agenda decisions are a way of making a statement about why a change of an IFRS Standard requirement or an IFRIC® Interpretation of that requirement is not necessary. They often include explanatory information that is intended to provide guidance for the consistent application of IFRS Standards. As a result, agenda decisions form part of guidance in the IFRS Accounting Standards.

IFRS® Foundation's standard-setting due process

Table 1: Tentative agenda decisions

Table 2: Final agenda decisions

Table 3: Agenda decisions not finalised

Table 4: Other projects

Likely frequency across entities

High | Medium | Low

Remember:

1. Accounting policy changes required if not consistent with agenda decision
2. Keep up to date with our IFRS IC Agenda Decisions summary

IFRIC next meeting dates

- 28-29 Nov 2023
- 31 Jan 2024
- 5-6 Mar 2024

Hot topic:
CGUs and levels of impairment testing

Levels of impairment testing

Determining the level where each asset is to be tested for impairment <u>does not default to the level of monitoring and decision making</u>

Common error is to start and stop HERE!

Don't forget the levels of testing

Level 3	Groups of CGUs		
Level 2	Individual CGU		Individual CGU
Level 1	Individual Asset	Individual Asset	Individual Asset

Identifying cash generating units (CGUs)

What is a CGU?

Smallest identifiable group of assets that generates cash **in**flows:

- from continuing use;
- are largely independent of cash inflows of other assets or groups thereof (e.g. a plant or division of a larger entity).

Identifying cash generating units (CGUs)

What is a CGU?

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Why is it important?

- CGUs define the level at which assets are to be assessed for impairment
- CGUs often initially identified at too high a level
- Identification of CGUs requires **judgement**

Identifying cash generating units (CGUs)

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Why is it important?

- CGUs define the level at which assets are to be assessed for impairment
- CGUs often initially identified at too high a level
- Identification of CGUs requires **<u>judgement</u>**

What is the risk?

CGU

Operation A: Headroom

Operation B: Impairment

CGU identified at **<u>too high a level</u>**, may mask impairment

CGU A

Operation A: Headroom

CGU B

Operation B: Impairment

CGUs are not expected to change unless business operations and the nature of goods and services change fundamentally.

Identifying CGUs – What do we see that goes wrong?

Corporate or shared assets identified as core assets, resulting in incorrect identification of CGUs

Independent cash flows being identified incorrectly on basis of **decision making**, purchasing, pricing and other corporate functions

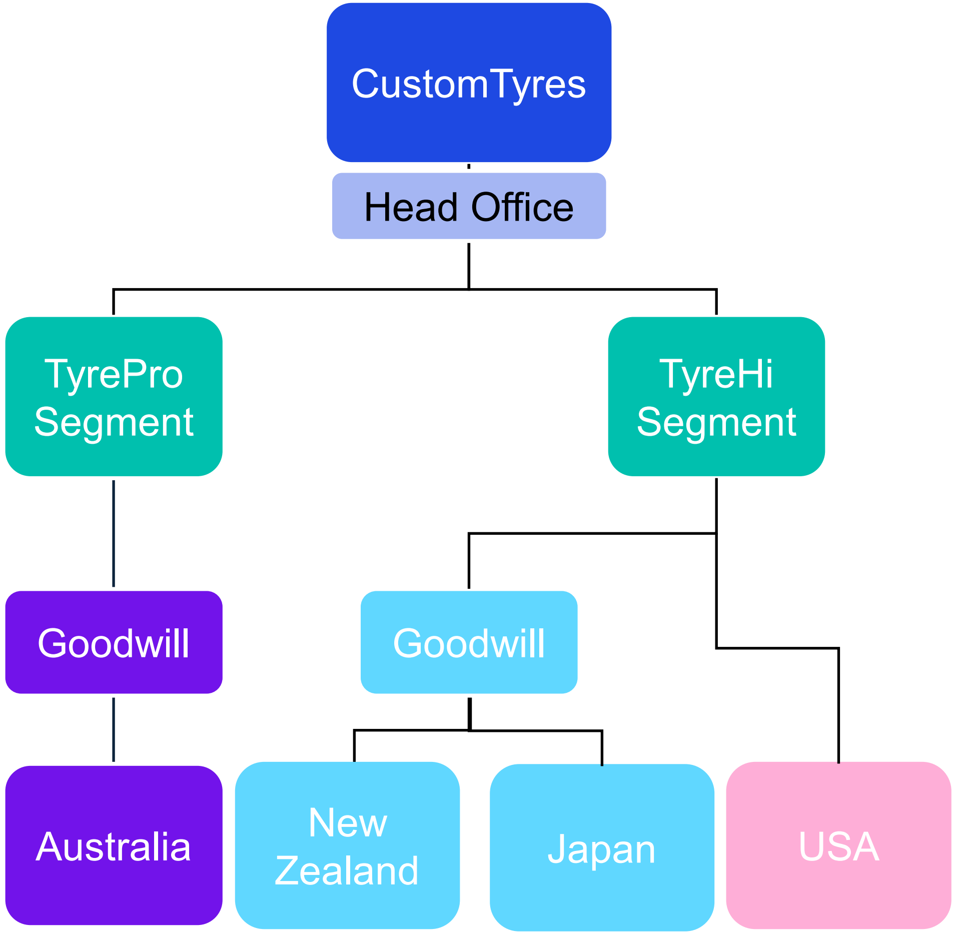
CGUs **defaulting** to level of **monitoring or segments**

Failure to identify **active markets** and apply assessment correctly, particularly in vertically integrated businesses

Example: CGU identification

Scenario - ‘CustomTyres’ manufactures 2 types of car tyres (TyrePro and TyreHi)

- TyrePro sells in the Australian market, and TyreHi sells in New Zealand, Japanese and USA markets
- Each market has its own storage facilities, sales and marketing hubs and associated non-current assets
- Each product is an operating segment, however regional heads exist in each jurisdiction who monitor performance of each market
- Pricing, marketing, human resource policies and financing for both products are decided by Head Office
- Pricing is distinct for each product in each market
- Manufacturing is performed centrally in Australia
- Goodwill from previous acquisitions has been allocated based on the synergies of the acquisition. Goodwill is monitored at Australia market and New Zealand/ Japan market.
- Note: Active market consideration is irrelevant for this example



Q: How many CGUs are there?

Example: CGU identification

Background facts	Consideration
Independent markets with independent customers	Indicates revenue separation with 4 independent sources of cash inflows
Location of storage, sales and marketing facilities	• Indicates asset separation as each market has its own assets that support revenue generation • Judgement whether these are core assets

Example: CGU identification

Background facts	Consideration
Independent markets with independent customers	Indicates revenue separation with 4 independent sources of cash inflows
Location of storage, sales and marketing facilities	• Indicates asset separation as each market has its own assets that support revenue generation • Judgement whether these are core assets
Two operating segments	Indicates there must be at least 2 CGU's as AASB 136 states CGU cannot be higher than an operating segment when there is goodwill
Management and monitoring of each market	Indicates separate sources of cash inflows as each market is managed and monitored separately

Example: CGU identification

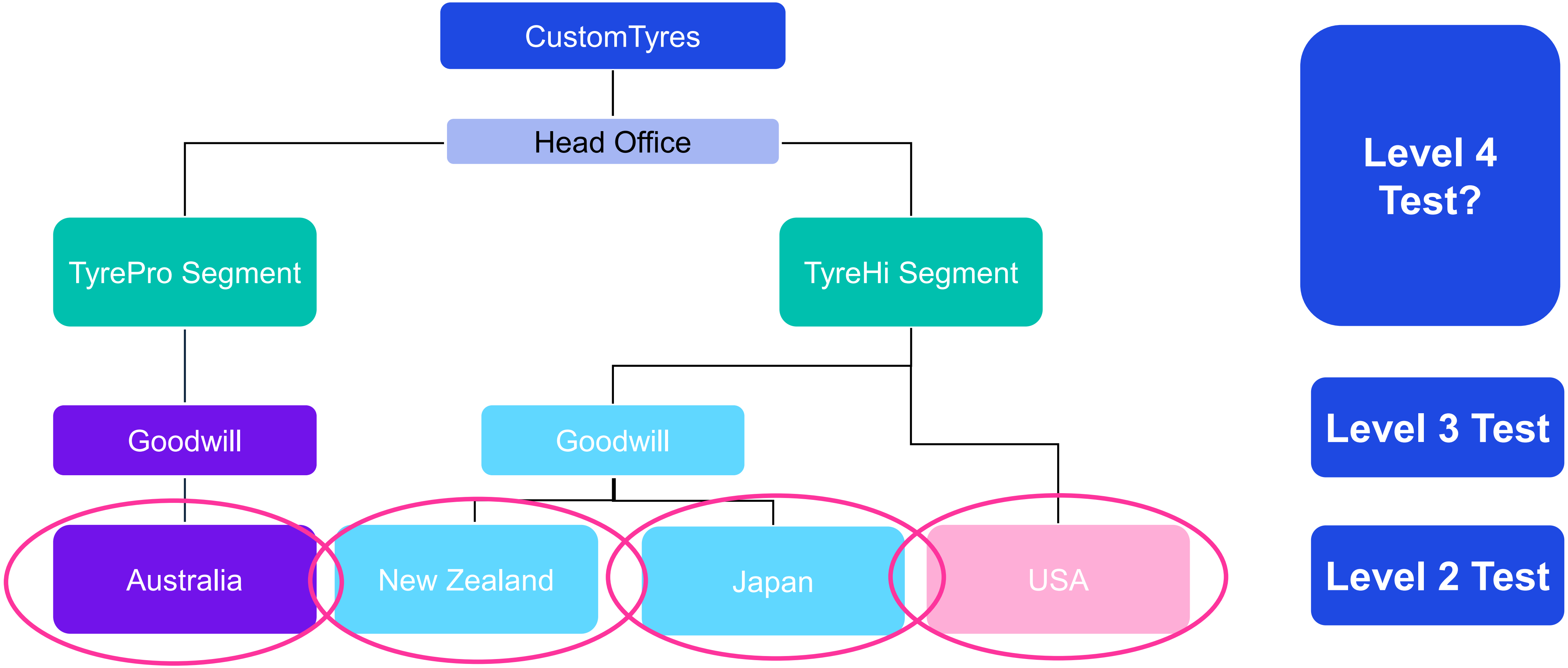
Background facts	Consideration
Independent markets with independent customers	Indicates revenue separation with 4 independent sources of cash inflows
Location of storage, sales and marketing facilities	• Indicates asset separation as each market has its own assets that support revenue generation • Judgement whether these are core assets
Two operating segments	Indicates there must be at least 2 CGU's as AASB 136 states CGU cannot be higher than an operating segment when there is goodwill
Management and monitoring of each market	Indicates separate sources of cash inflows as each market is managed and monitored separately
Centralised pricing, marketing, HR and financing decisions	Centralised decision making does not impact on whether cash inflows are generated
Separate product pricing for each market	Indicates revenue separation with 4 independent sources of cash inflows

Example: CGU identification

Monitoring and decision making are not the only factors in identification of CGUs

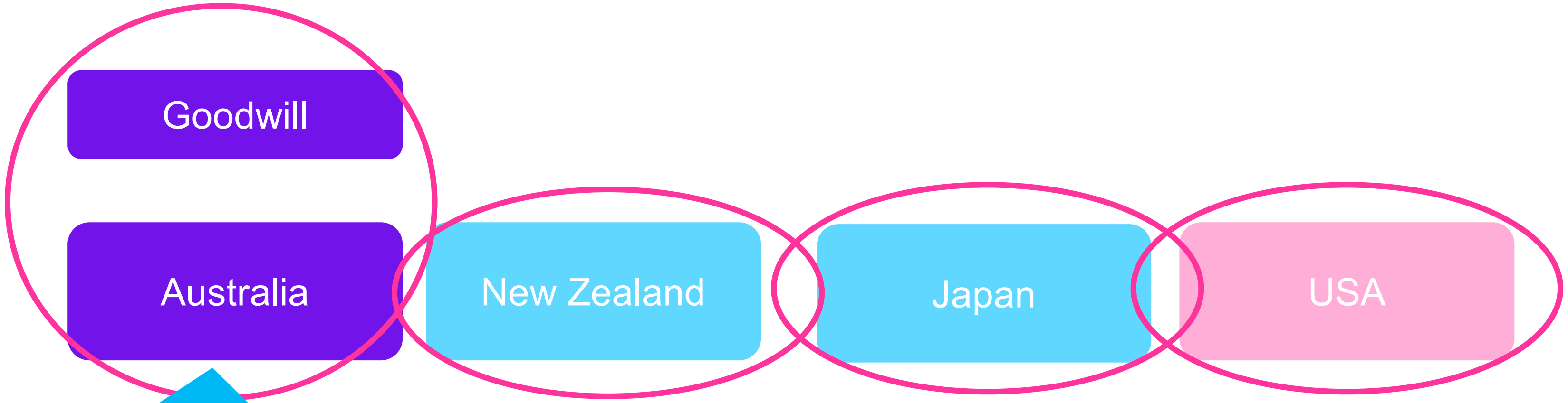
Background facts	Consideration
Independent markets with independent customers	Indicates revenue separation with 4 independent sources of cash inflows
Location of storage, sales and marketing facilities	• Indicates asset separation as each market has its own assets that support revenue generation • Judgement whether these are core assets
Two operating segments	Indicates there must be at least 2 CGU's as AASB 136 states CGU cannot be higher than an operating segment when there is goodwill
Management and monitoring of each market	Indicates separate sources of cash inflows as each market is managed and monitored separately
Centralised pricing, marketing, HR and financing decisions	Centralised decision making does not impact on whether cash inflows are generated
Separate product pricing for each market	Indicates revenue separation with 4 independent sources of cash inflows
Centralised manufacturing	Judgement whether this is core asset (indicating no asset separation and one CGU) or shared asset. Needs to be made in context of all other facts
Goodwill allocation and monitoring	Indicates based on AASB 136 rules, there must be at least 3 CGU's i.e. Australia, combined NZ/Japan and USA.

Example: CGU identification



Each country is a CGU as it generates independent cash inflows – 4 CGUs

Example: CGU identification



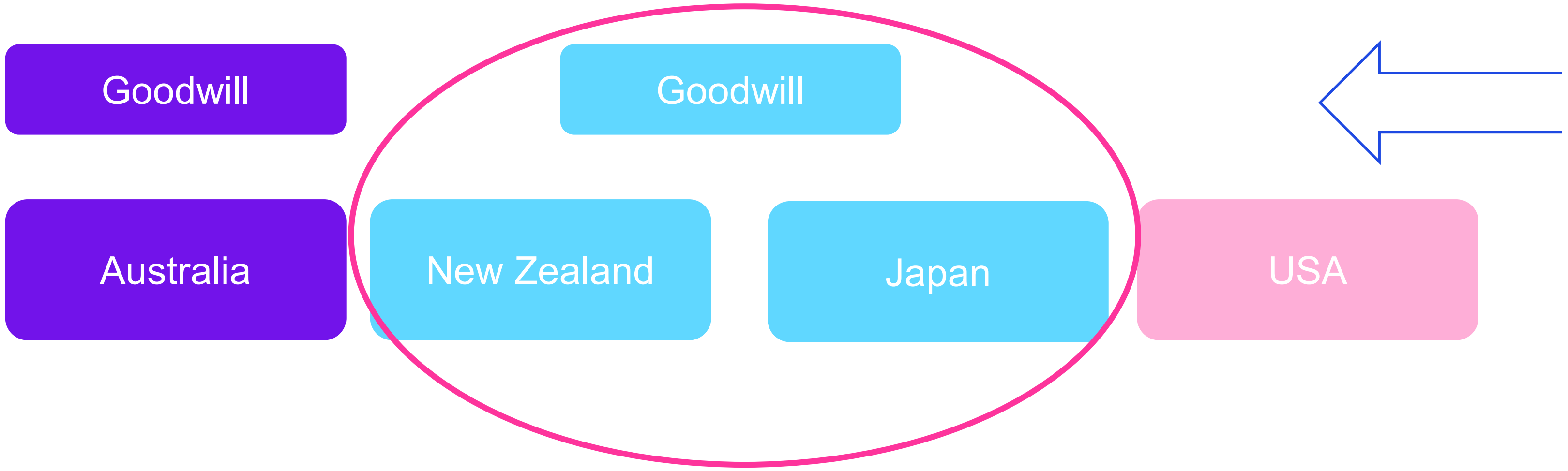
No indicators test, as goodwill allocated to individual CGU

Assess whether there are “Indicators of Impairment”
- **If yes… Perform impairment test**
- **If no… Document considerations**

Level 2 Test

- PP&E in each country
- Leases, warehouses in each country
- Goodwill, if it is allocated & monitored at individual CGU *(relevant for Australia)*
- Corporate/shared assets, if can be allocated to individual CGU

Example: CGU identification



Level 3 Test

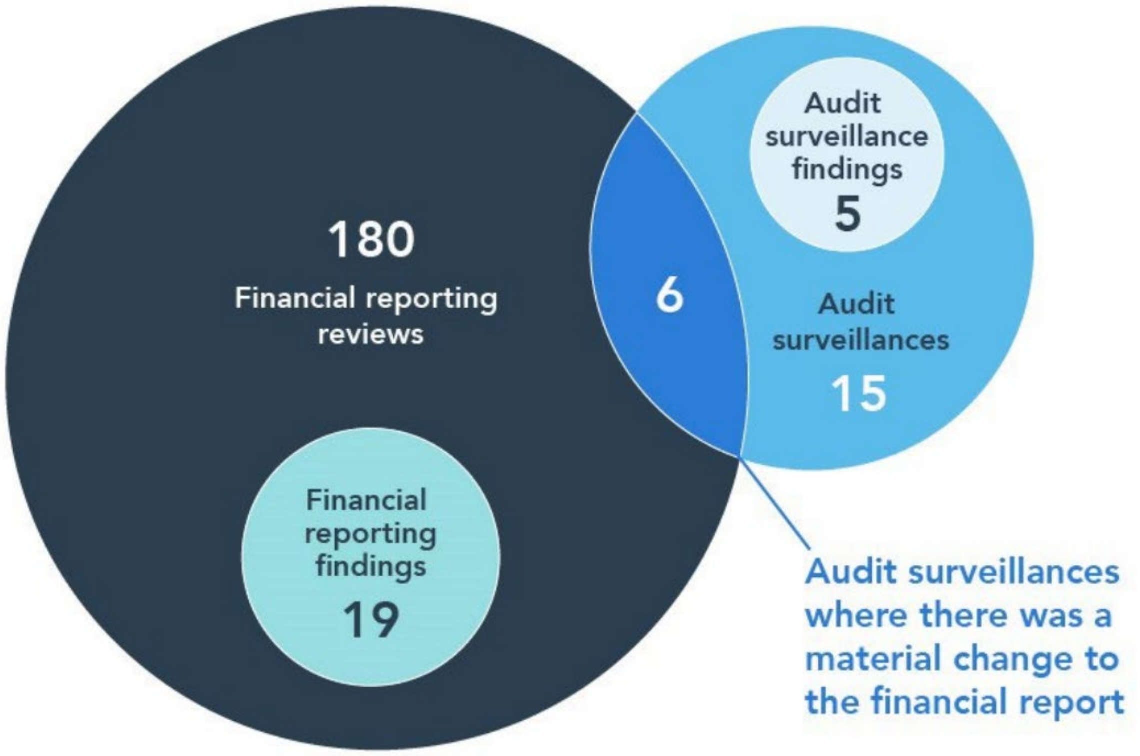
- Assets within NZ & Japan CGU *(after impairment recognised)*
- Unallocated corporate / shared assets if can be allocated to group of CGUs
- NZ/Japan goodwill

Any remaining unallocated Corporate/shared assets?
Undertake Level 4 test at
segment and/or consolidated group level

Questions

Regulatory update

ASIC surveillance results



Source: ASIC *Annual Financial Reporting and Audit Surveillance Report 2022-23*

ASIC focus areas remain largely unchanged

180 financial reporting reviews

25 entities

changed financial reports following ASIC inquiry

Climate and sustainability a focus for impairment and rehabilitation for energy and materials sectors

Areas to focus on at 31 December 2023

Asset values

- Impairment of non-financial assets
- Value of property assets
- Expected credit losses on loans and receivables
- Values of other assets
- **Financial asset classification**

ASIC will publish in Nov/Dec an updated set of focus areas for the 31 December 2023 reporting season. Watch this space!

Provisions

- Onerous contracts
- Restructuring
- Make good provisions
- Mine restoration
- Financial guarantees

Solvency and going concern assessments

- Events providing evidence of conditions that existed as at reporting date
- Events relating to condition that existed after reporting date

Disclosures in the financial report and the OFR

- Financial report: uncertainties and current/non current categories
- Operating and Financial Review (OFR): material business risks
- Assistance and support from others
- Non-IFRS financial information

Events occurring after the reporting date

- Conditions as at the date of finalising the audit report
- Expectations of future events

Tax developments

[23RU-05: Proposals to mandate disclosure of subsidiaries' tax residence]


New Bill to mandate disclosure of subsidiaries' tax residence

Changes to Thin Capitalisation rules – limits on debt related tax deductions

Effective date: 1 July 2023 (once enacted)

Scope: Australian entities with foreign control

Impacts: client restructures, recoverability of DTAs, disclosure

Intangibles - Denial of deductions on related party payments

Effective date: payments made from 1 July 2023 (once enacted)

Scope: Significant Global Entities (SGE) with related party payments/liabilities in low tax jurisdictions (<15% tax rate)

Impacts: Impairment of non-financial assets, recoverability of DTAs, disclosure

Disclose tax residency for subsidiaries

Effective date: Financial year commencing on or after 1 July 2023 (once enacted)

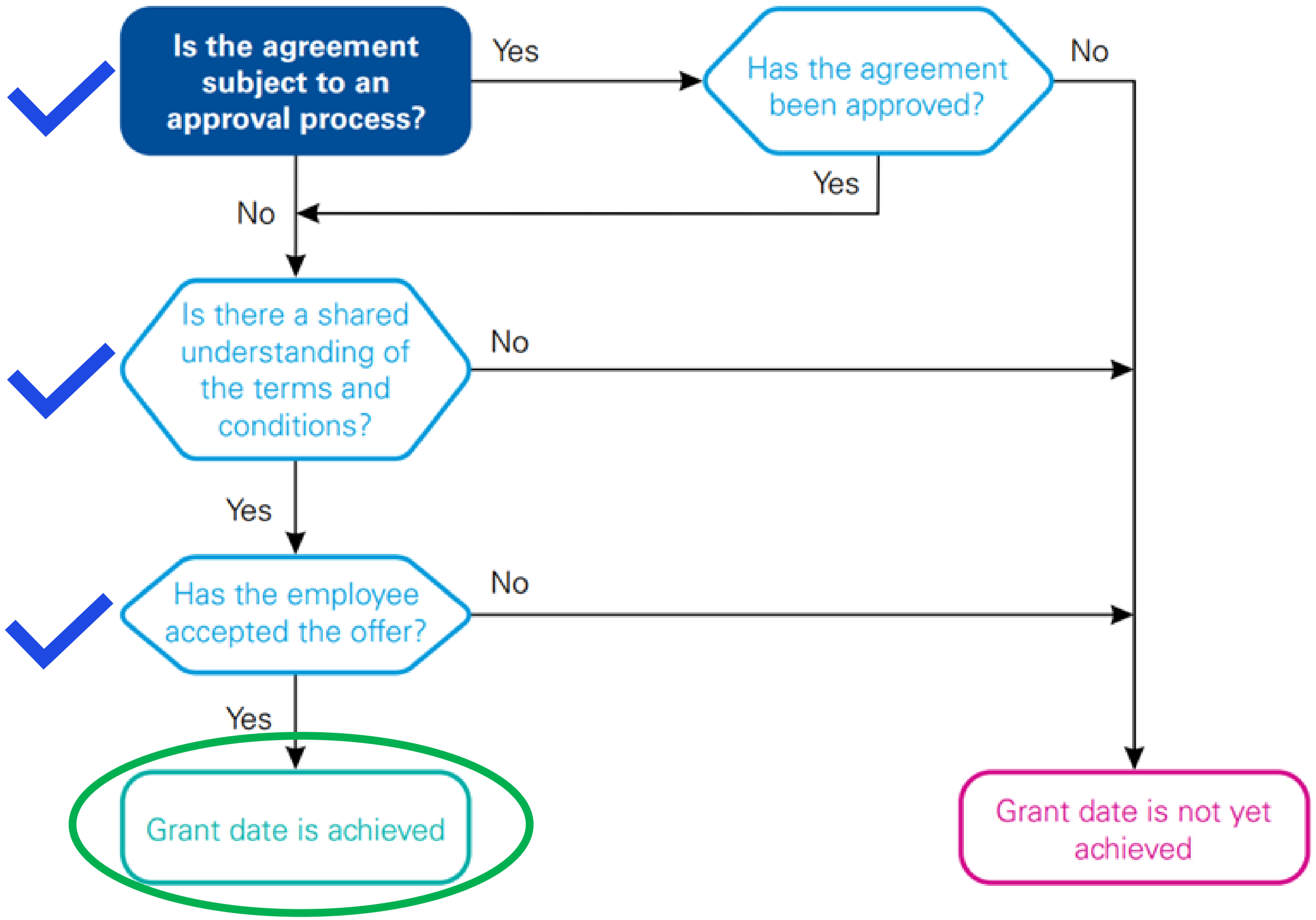
Scope: Australian Public companies (listed and unlisted)

Impacts: Additional processes and controls to fulfill new reporting obligations. Materiality will not apply to these disclosures.

Share-based payments:
Grant date

When is grant date?

Fair value of equity instruments is <u>measured at grant date.</u>



"Expense is recognised as service is provided, which can be <u>earlier</u> than grant date in some instances.

Example: Grant date

Scenario

Aquamarine has an established Long Term Incentive Program (LTIP). LTIP performance period starts 1 Jan each year, ending 31 Dec 3 years later i.e., a 3 year LTIP . Each year Aquamarine grants performance rights under the LTIP. Aquamarine has a financial year ending 31 Dec.

- The 2023 LTIP letter issued to CFO on 28 February 2023 with acceptance of offer to be returned by 31 March 2023.
- Vesting of performance rights are subject to same market and non-market conditions as previous years and as established in the LTIP plan.
- Face value of CFO's LTIP entitlement (50% of fixed remuneration) was agreed as part of her employment agreement in 2022.
- the number of performance rights CFO is entitled to is determined by dividing face value of LTIP by the 5-day volume weighted average price (VWAP) of Aquamarine's shares traded on the ASX for 5 days before date offer letter is issued.

Q: What is grant date and when will expense recognition start?

Example: Grant date

Example: Grant date

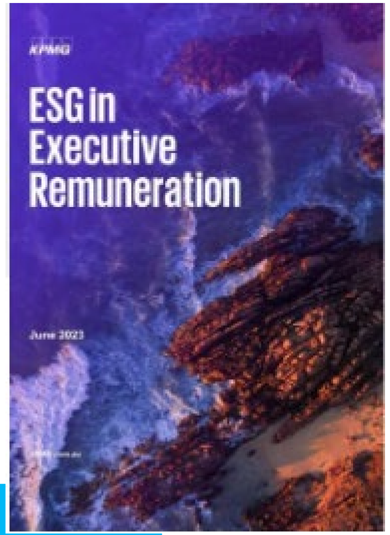
Example: Grant date

Grant date: Other considerations

Changing hurdles

Discretions

Grant date: Other considerations



Changing hurdles

Discretions

ESG measures

***ESG measures*: Indicators grant date may not yet be achieved**

- ESG measure is subjective
- ESG measures are not yet final or are expected to evolve over time
- Process for collecting the data is not yet established or data collected is not reliable
- Remuneration Committee or Board have ability to revise ESG measures
- Remuneration Committee or Board have discretion to determine whether ESG measure has been met

Share-based payments: 'Good leaver' clauses

‘Good leaver’ clauses

- An employee who leaves **before the vesting date** for reasons outside of their control
- Receiving share-based payments **without completing the full service period** either in full or pro rata
- Impact recognition and measurement of share-based payments

Example: ‘Good leaver’ clauses

Scenario

- On 1 Jan of Y1, Lazurite grants 1,000 performance shares to its CEO, subject to a four-year service condition and TSR
- Grant date fair value = $2 for each performance share.
- On 31 Dec of Y2 it was announced the CEO will leave the organisation in three-months time, i.e. 31 Mar of Y3 and treated as a “good leaver”.
- Arrangement contains a “good leaver” clause that entitles the CEO to:
    - Scenario 1 - a full entitlement if they leave before Year 4, subject to TSR
    - Scenario 2 – a pro-rata entitlement if they leave before Year 4, subject to TSR

Q: How is remuneration expense recognised?

‘Example: ‘Good leaver’ clauses

1. Full entitlement

End of	Number of instruments	Total award	Remuneration in the CY	Cumulative remuneration
Year 1	1,000	2,000[1]	500[2]	500
Year 2	1,000	2,000[1]	1,278[3]	1,778
Year 3	1,000	2,000[1]	222[4]	2,000
Year 4	-	-	-	-

Notes: 1. 1,000 x $2 ; 2. 2,000 / 48 months * 12 months ; 3. $2,000 / 27 months * 24 months; 4. $2,000 / 27 months * 3 months

Cumulative catch up is recognised when the status of an employee changes from non-leaver to good leaver, <u>may be earlier than the date they left an organisation</u>

Example: 'Good leaver' clauses

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Cumulative catch up is recognised when the status of an employee changes from non-leaver to good leaver, <u>may be earlier than the date they left an organisation</u>

2. Pro-rata entitlement

End of	Number of instruments	Total award	Remuneration in the CY	Cumulative remuneration
Year 1	1,000	2,000[1]	500[2]	500
Year 2	563[5]	1,126[6]	501[8]	1,001[7]
Year 3	563[5]	1,126[6]	125[9]	1,126
Year 4	-	-	-	-

Notes: 5. 1,000 / 48 months * 27 months; 6. 563 x $2 7. $1,126 / 27 months * 24 months 8. $1,001 - $500 9. $1,126 / 27 months * 3 months

Year 2&3 and cumulative remuneration is <u>lower</u> if 'good leaver' clause entitlement to pro-rata shares

ESG update

Sustainability reporting in Australia

ISSB Sustainability reporting standards (IFRS S1 and S2) issued in June 2023.

2023

Australian Government
Auditing and Assurance Standards Board

Oct2023

AASB released the exposure draft on Australian Sustainability Reporting Standards:

- ASRS 1
- ASRS 2
- ASRS 101

Australian Government
The Treasury

Nov/Dec2023

Expected position paper from Treasury on legislating climate-related financial disclosures in Australia

2024

Australian Government
Auditing and Assurance Standards Board

30 June 2024

ASRS1 and ASRS 2 to be finalised

1 July 2024

Expected effective date for AU climate related financial disclosures *(first reporting 30 June 2025)*

Australian Government
Auditing and Assurance Standards Board

after 30 September 2024

AUASB expected to release the AU equivalent of ISSA 5000 sustainability assurance standards

2025

Climate first

(IFRS S1 & S2 and ASRSs generally aligned)

Australian Sustainability Reporting Standards

IFRS S1 → ASRS 1

IFRS S2 → ASRS 2

ASRS 101

Disclosures located within the general purpose financial report

ASRS 1 — *General Requirements for Disclosure of Climate-related Financial Information* – based on IFRS S1 but **limited to climate-related financial disclosure**

ASRS 2 — *Climate-related Financial Disclosures* – based on IFRS S2 with **Australian-specific requirements**

ASRS 101 — *References in Australian Sustainability Reporting Standards*, a draft service Standard to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.

When and to whom the climate disclosures will apply?

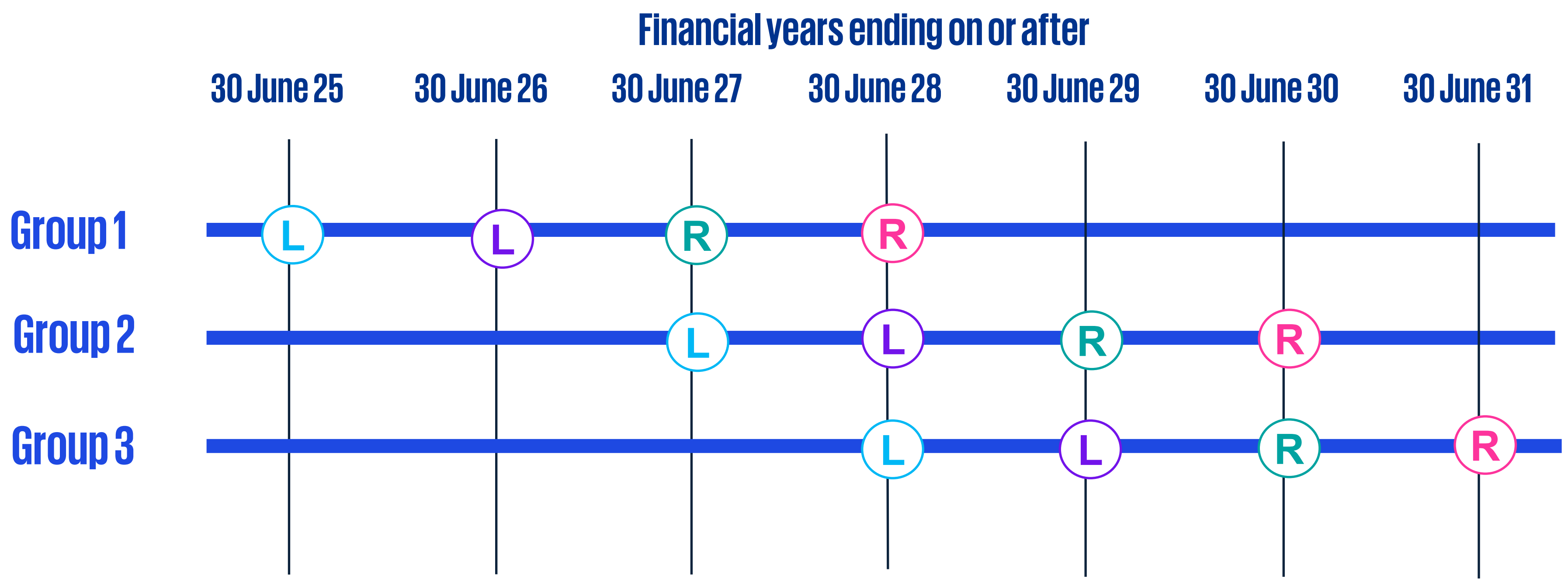
Proposed

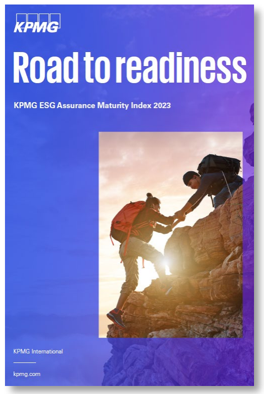
	Entities required to report under Chapter 2M			
	Meet two of three thresholds:			Reporting under NGER Act
	Gross assets	Revenue	Employees	
Group 1 Financial years ending on or after 30 June 2025 onwards	$1 billion or more	$500 million or more	> 500	'controlling corporation' meet NGER publication threshold[1]
Group 2 Financial years ending on or after 30 June 2027 onwards	$500 million or more	$200 million or more	> 250	
Group 3 Financial years ending on or after 30 June 2028 onwards	$25 million or more	$50 million or more	> 100	All remaining 'controlling corporation'[1] under NGER Act

[1]Regardless of size 'controlling corporation' under NGER Act would be in scope

What are the assurance requirements and when required?

Proposed





KPMG ESG Assurance Maturity Index 2023

L — Limited assurance Scope 1 and 2 emissions
Reasonable assurance of governance disclosures

L — Reasonable assurance Scope 1 and 2 emissions
Limited assurance Scope 3 emissions, scenario analysis and transition plans (specific requirements – process/ methodology/ assumption assurance)

R — Reasonable assurance Scope 1 and 2 emissions and other climate disclosures
Limited assurance Scope 3 emissions, scenario analysis and transition plans (full quantitative assurance)

R — Reasonable assurance all climate disclosures

ESRS - Scoping considerations

Scoping can be complex!

Listed companies	Large companies/groups	Ultimate Parent: Non EU
> Listed debt > Listed equity	> 250 employees > €40M net turnover* (revenue) > €20M total assets	> €150m turnover[1,2] in the last 2yrs > One EU "large" subsidiary > Branch > €40m turnover[1] in PY
Entity A operating in Australia with listed debt in the EU ***will*** be in scope.	Entity B in Australia, a subsidiary of EU 1, a large company, will need to provide sustainability data to EU 1 for its consolidated sustainability reporting.	Entity C (not listed in the EU, not a "large" company) but has a branch (physical presence) with €40m revenue turnover in PY ***will*** be in scope.

There is no consistent emerging view as to which subsidiary (or branch) should publish the non-EU parent group level sustainability reporting.

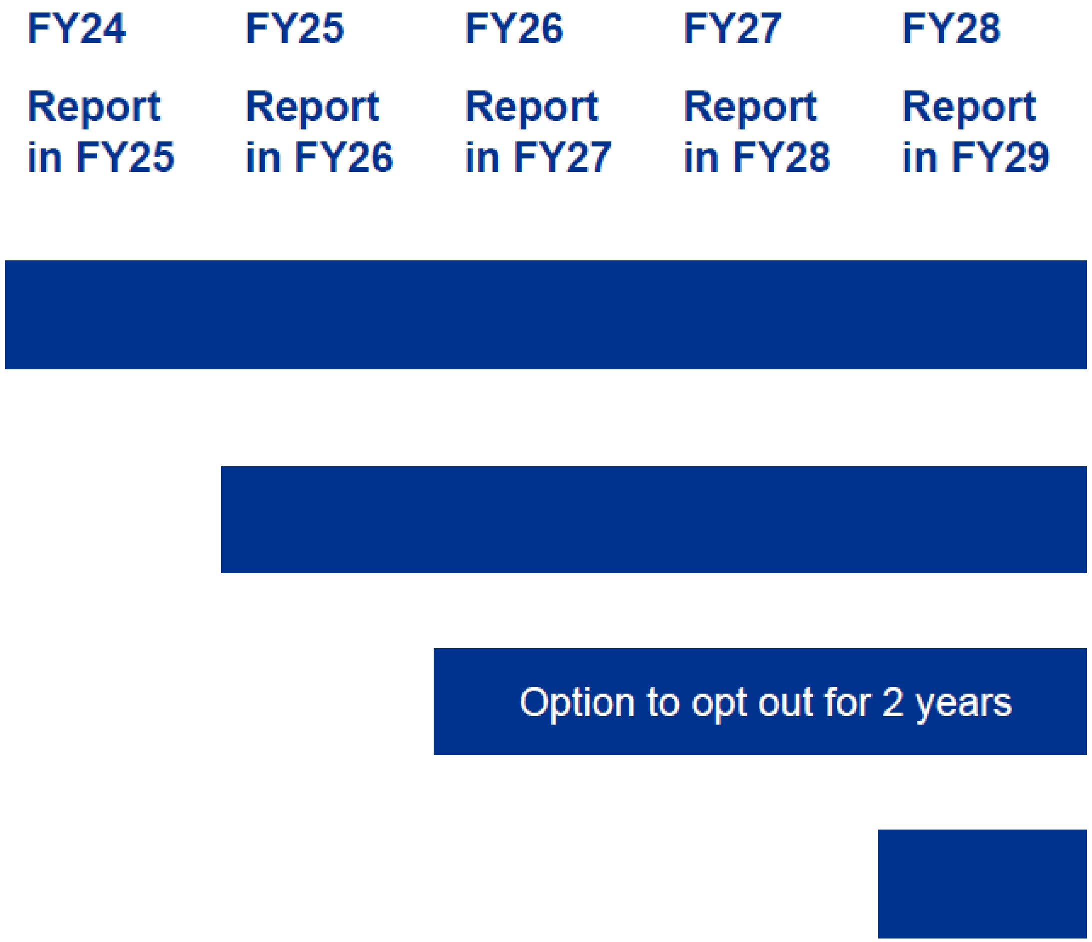
1 Revenue turnover

*2 For non-EU parents, revenue generated in the EU is based on where customer is, **not** where the seller/service provider is located.*

ESRS - Phased adoption

EFRAG will issue sector-specific and standards for non-EU companies by 30 June 2026.

Exemptions may apply!



- Large PIEs[1] (> 500 employees) and large companies listed on an EU-regulated market (> 500 employees)
- Other large companies, including large companies listed on an EU-regulated market
- SMEs, except micro-companies, listed on an EU-regulated market
- Ultimate non-EU parent companies with substantial activity and a presence in the EU

[1]PIEs: Companies with listed securities in the EU, a bank or insurance company, or any company designated as such in the EU

Practical Roadmap

1 **Impact assessment**

- Understand when, where and how these standards will impact your company
  - ISSB / ASRS Gap Analysis
  - GHG inventory (Scope 1, 2 and 3)
- Research and understand current (and emerging) requirements
- Management and Board briefings

Practical Roadmap

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- Leverage gap analysis
- Multi-disciplinary
- Accountabilities, milestones
- Monitoring and management

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- Assess the maturity of processes, the control environment, data model and policies
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- Design the future state of your reporting
- Quantitative and qualitative information
- Coherent and connected narrative

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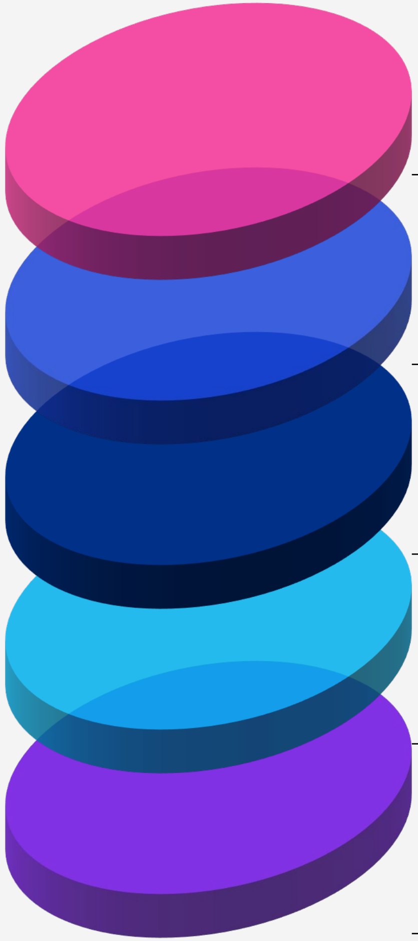
5 **Assurance**

- Holistically assess the control environment, data quality and availability of sufficient documentation to support assurance
- Rectify issues ahead of the formal assurance process
  - Pre-assurance)
  - Internal audit
  - Limited assurance
  - Reasonable assurance

4 **Reporting transformation**

- Design the future state of your reporting
- Quantitative and qualitative information
- Coherent and connected narrative

KPMG's Insights into the current Australian environment



01 Greater scrutiny is being placed on reporting, requiring continual evolution

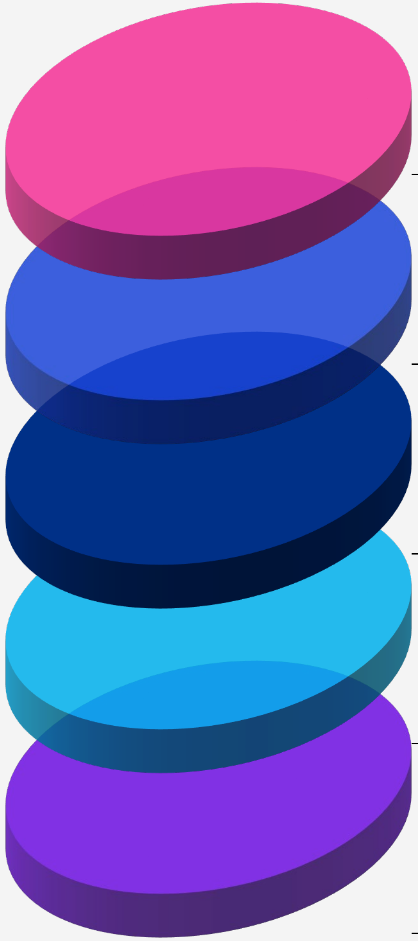
02

03

04

05

KPMG's Insights into the current Australian environment



01 **Greater scrutiny is being placed on reporting, requiring continual evolution**

02 **Organisations need to be prepared for on-going changes over an extended period**

03

04

05

KPMG's Insights into the current Australian environment

01 **Greater scrutiny is being placed on reporting, requiring continual evolution**

02 **Organisations need to be prepared for on-going changes over an extended period**

03 **Responsibility for ESG/Sustainability reporting is shifting within the organisation**

04

05

KPMG's Insights into the current Australian environment

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02 **Organisations need to be prepared for on-going changes over an extended period**

03 **Responsibility for ESG/Sustainability reporting is shifting within the organisation**

04 **Work is needed to fully embed ESG/Sustainability within organisations**

05

KPMG's Insights into the current Australian environment

01 Greater scrutiny is being placed on reporting, requiring continual evolution

02 Organisations need to be prepared for on-going changes over an extended period

03 Responsibility for ESG/Sustainability reporting is shifting within the organisation

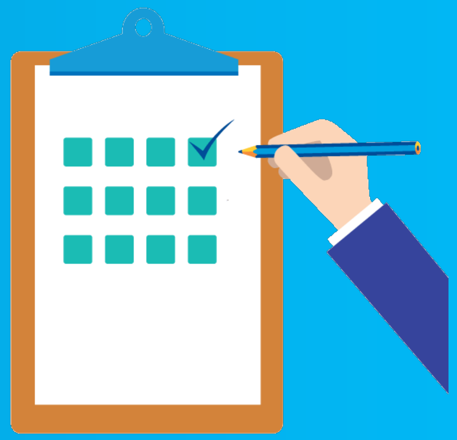
04 Work is needed to fully embed ESG/Sustainability within organisations

05 Strengthening systems, data governance and controls is required

Call to action

- Assess when your organisation needs to implement the ISSB requirements.
- Determine your reporting strategy – compliance focused vs value driven focused.
- Undertake a gap assessment against current disclosures/information available to the requirements of the ISSB or ASRS.
- Confirm ownership and structure within your organisation for ISSB reporting (Finance, Sustainability, General Counsel).
- Start planning your path to implementation, identify key areas of work and determine your strategy for technology (both short term and long term).

Wrap up



Take-aways

1. **Review newly effective standards and amendments and assess impact**

2. **Consider impacts of BEPs Pillar 2 and need for disclosures in Annual Reports**

3. **Review your organisation’s CGU determination and ensure impairment testing is performed at appropriate levels**

4. **Be aware of ASIC’s focus areas, in particular OFR, and consider whether they impact preparation of financial reports**

5. **Review determination of grant date for your organisation’s share-based payment arrangements and assess an impact of ‘good leaver’ clauses**

6. **Stay up-to-date with developments in relation to sustainability reporting and start preparing for upcoming changes now**

Questions


Thank you

Appendix 1:

Standards effective for 31 December 2023 Y/Es and H/Ys

Standards available for early adoption

Standards first effective – 31 December 2023 Y/Es and H/Ys

AASB 17 Insurance contracts and amendments to AASB 17 Insurance Contracts*[1,2]*	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 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.
AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates **AASB 2021-6 Disclosure of Accounting Policies: Tier 2 and other Australian Accounting Standards** **[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.

Annual reporting periods beginning on or after 1 January 2023

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

2 AASB 2022-9 makes public-sector modifications to AASB 17 and defers its application for public sector entities to 1 July 2026.

Standards first effective – 31 December 2023 Y/Es and H/Ys (cont.)

AASB 2023-2 | 2023-4 International tax reform – Pillar two model rules	Amends AASB 112 Income Taxes to introduce: (a) a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD); and (b) targeted disclosure requirements to help financial statement users better understand an entity's exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect.
AASB 2022-7 Editorial corrections and repeal of superseded and redundant standards	Makes editorial corrections to AASB 7 *Financial Instruments Disclosures*, AASB 116 *Property, Plant and Equipment*, AASB 124 *Related Party Disclosures*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 134 *Interim Financial Reporting*, AASB 1054 *Australian Additional Disclosures* and AASB Practice Statement 2 *Making Materiality Judgements*. The amendments do not change the requirements of Australian Accounting Standards.

Standards available for early adoption

Supplier Finance Arrangements [Amendments to AASB 107 and AASB 7]	Amends AASB 107 *Statement of Cash Flows* and AASB 7 *Financial instruments: Disclosures* to require an entity to provide additional disclosures about its supplier finance arrangements to enable users of financial statements to assess how supplier finance arrangements affect an entity's liabilities, cash flows and exposure to liquidity risk. The amendments require an entity to disclose the terms and conditions of the arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.
Classification of Liabilities as Current or Non-current [Amendments to AASB 101 and AASB 1060]	Amends AASB 101 *Presentation of Financial Statements* 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. Specifies that only covenants with which an entity must comply on or before the reporting date affect the classification of a liability as current or non-current. Amendments deferred until annual reporting periods beginning on or after 1 January 2024

Annual reporting periods beginning on or after 1 January 2024

Standards available for early adoption (cont.)

Lease liability in a sale-and-leaseback [Amendments to AASB 16]	The amendments impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction, including introducing a new accounting model for variable payments on initial recognition and subsequent measurement of the lease liability.
Fair value measurement of non-financial assets for Not-for-Profit Public Sector Entities (NFP) (PS) [Amendments to AASB 13]	The amendments modify the application of AASB 13 in relation to non-financial assets of NFP public sector entities not held primarily for their ability to generate net cash inflows.

Annual reporting periods beginning on or after 1 January 2024

Standards available for early adoption (cont.)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture **[Amendments to AASB 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).
Lack of Exchangeability **[Amendments to AASB 121]**	Amend AASB 121 *The Effects of Changes in Foreign Exchange Rates* to change the accounting requirements and to add new disclosures relating to non-exchangeable currencies affecting an entity’s financial statements. Amends AASB 121 and AASB 1 *First-time Adoption of Australian Accounting Standards* to improve the usefulness of information provided to users of financial statements. The amendments require entities to apply a consistent approach to determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not exchangeable.

Annual reporting periods beginning on or after 1 January 2025