ASIC focus areas: 31 December 2023

Reporting update
12 January 2024, 24RU-01

Highlights

- Uncertainties and changing market conditions
- Financial reports and audit surveillance program results
- Focus areas for 31 December 2023
- Quality of disclosures remains crucial

ASIC has released its areas of focus for 31 December 2023 reporting. The areas are largely consistent with those communicated for 30 June 2023 and identified in ASIC's integrated financial reporting and audit surveillance report released in October 2023. All preparers (listed and unlisted) should ensure all relevant aspects are addressed.

Uncertainties and changing market conditions

Geopolitical events, natural disasters, climate effects and inflationary pressures continue to drive uncertainty across the globe. Such uncertainty brings numerous issues and risks for companies, including shifts in consumer demand, disrupted supply chains, staff shortages and increased market volatility.

Useful and meaningful information

In ASIC's media release of December 2023, ASIC highlighted Directors' responsibilities and the need for documentation to support judgements. Kate O'Rourke, ASIC Commissioner, noted: "Directors should ensure that company financial reports provide investors with useful and meaningful information on the impact of changing and uncertain economic and market conditions and other developments on their company's financial position and future performance."

Directors' responsibilities

Directors have the responsibility of applying sufficient resources, skills, and expertise to enhance the quality of the reporting process, ensuring all assumptions for financial reporting are reasonable and supportable.

Documentation

Uncertainties, key assumptions, and sensitivity analysis in a financial report are significant to investors. Directors and management should assess and document how the current and future performance of an entity, the value of its assets and provisions, and business strategies, may be affected by changing circumstances, uncertainties and risks.

Financial reports and audit surveillance program results

OFR, impairment of assets and revenue recognition continue to be of most note

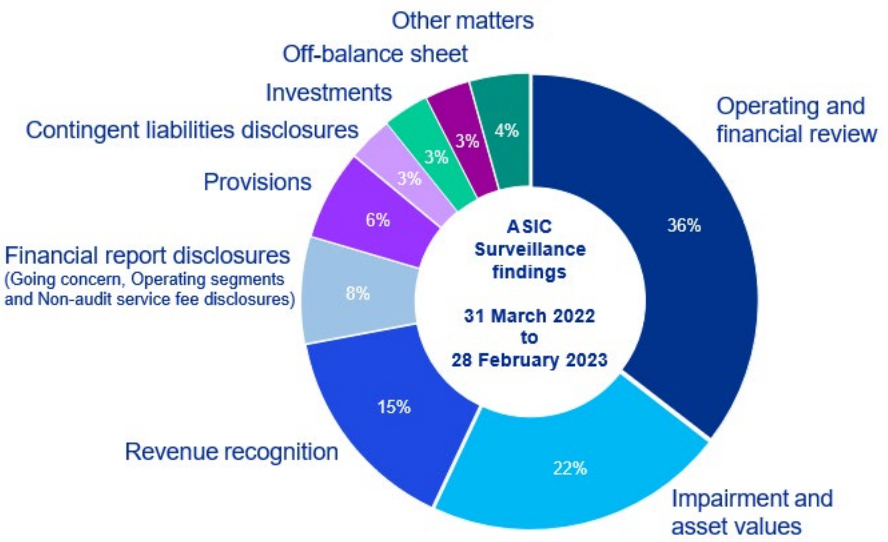
The future focus areas are identified from the results of ASIC's surveillance programs. ASIC has integrated its financial reporting and audit surveillance programs. The new surveillance program continues to adopt a risk-based approach in selecting ASX-listed and large unlisted entities for review. The findings from ASIC's financial reporting surveillances now largely determine the selection of audit files for review by ASIC.

In its October 2023 surveillance report, of the 180 financial reports reviewed for years ended 31 March 2022 to 28 February 2023, ASIC commenced 55 surveillances covering 93 issues. 25 entities made adjustments to previously released financial information as a result of concerns raised by ASIC.

The disclosure of material business risks in the Operating and Financial Review (OFR), impairment of assets and revenue recognition continued to be areas where most queries were raised.

ASIC also focused on the adequacy of disclosures relating to the possible impacts of applying the new insurance accounting standard.

Below is an overview of the areas in which issues were raised as a result of ASIC's recent surveillance program:



Focus areas for 31 December 2023

Focus areas centre on uncertainties and changing market conditions

The areas of focus identified by ASIC are broad, with the four major themes being:

- Asset values
- Provisions
- Subsequent events
- Disclosures – Financial report, OFR, non-IFRS financial information and half-year

Further details are outlined in the Appendix – ASIC focus areas: Guide for directors and preparers.

Other matters highlighted as focus areas

Other matters highlighted by ASIC include:

Insurers

- Insurers with half-years or full financial years ending 31 December 2023 need to apply the recognition and measurement requirements of the new insurance standard which is effective for financial years commencing 1 January 2023. Disclosures on changes in accounting policies on the adoption of the standard will be an ongoing ASIC focus at 31 December 2023.

Off-balance sheet

- Off-balance sheet exposures (for example, has there been a change in circumstances such that an investment that was previously off-balance sheet is now controlled?).

Registered schemes

- Ensuring the recognition of assets, liabilities, income and expenses in registered scheme balance sheets and income statements where individual scheme members have pooled interests in assets and returns with some or all other members in substance.

Grandfathered companies

- Large proprietary companies that were previously 'grandfathered' are now required to lodge financial reports for years ending on or after 10 August 2022.

ASIC ongoing monitoring programs

Climate change impacts

Climate change risk continues to be a topic of ongoing focus for ASIC. Climate-related risks could have a material impact on the future prospects of entities. ASIC continues to encourage listed Australian entities to use the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) as the primary framework for voluntary climate change-related disclosures until such time as mandatory Australian Sustainability Reporting Standards are developed.

Greenwashing

During the current financial year ASIC has taken a number of greenwashing actions resulting from its greenwashing surveillance activities. This program examines representations on environmental, social and governance credentials by listed companies, managed funds and superannuation funds. It extends to any statements included in the OFR or other parts of the annual report.

Cyber security

Cyber security risks could have a material impact for particular entities and, where relevant, are required to be disclosed. Considerations include the impacts of a loss of personal data or a denial of service attack, such as the extent and nature of personal data held and possible impacts on revenue.

Quality of disclosures remains crucial

Disclosures to be useful and meaningful

ASIC continues to emphasise how critical the quality of financial reports and related disclosures are for keeping investors informed.

Companies must ensure that investors and markets are properly informed through financial reports about underlying drivers of results as well as risks, strategies, and future prospects. ASIC continues to highlight the important role the OFR plays in providing this information to users of financial reports and tell the story of how the entity's businesses are performing.

Processes

Directors have prime responsibility for quality of financial report

Directors are primarily responsible for the quality of the financial report. Companies should have well established and appropriate processes, records and analysis to support disclosures in the financial report.

Access to appropriate experience and expertise in the reporting processes, particularly in more difficult and complex areas, such as asset values, provisions, and other estimates, continues to be important.

Given the level of uncertainty and evolving circumstances, documentation is key around judgements on accounting estimates and the basis for those judgements.

Directors need to make appropriate enquiries of management to ensure that key processes and internal controls have operated effectively, including during periods of remote work.

"In the present climate, entities continue to face uncertainties about future economic and market conditions and the impact on their businesses. These uncertainties amplify pressure on various financial reporting aspects particularly judgements, estimates and assessments.

Useful and meaningful disclosures in the financial report about uncertainties, key assumptions and sensitivity analysis therefore continue to be important to investors.

Documenting the basis for judgements is a critical part of the governance process.

We encourage directors to take the time to consider the uncertainties and how these should be reflected in the financial report."

Julie Locke
Director

ASIC FOCUS AREAS

Guide for directors and preparers

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January 2024

ASIC focus areas

01 Asset values I Impairment of non-financial assets

ASIC guidance

Directors must test goodwill, intangible assets not yet available for use and indefinite life intangible assets for impairment annually. It is important for directors to ensure:

- Key assumptions supporting the recoverable amount are appropriate.
- The valuation method used for impairment testing is appropriate, uses reasonable and supportable assumptions, and is cross-checked for reliability using other relevant methods.

An entity's market capitalisation will generally not represent an appropriate fair value estimate for its underlying business but may be useful as an impairment indicator or in a valuation cross-check.

Values from applying the ratio of market capitalisation to revenue for other entities to the entity's own revenue will generally be more appropriately used in valuation cross-checks.

Directors should consider the disclosure of estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios.

Relevant KPMG guidance

Uncertain times reporting guidance

Are assets being carried at an appropriate amount?

Other guidance

Example Public 2023-24 – Notes 21, 22 & 45(L),(M),(S)

Annual Disclosure Checklist (September 2023) – Section 2.8

Insights into IFRS – Chapters:

- 3.3 Intangible assets and goodwill
- 3.10 Impairment of non-financial assets
- 5.11 Extractive activities

Questions to consider

- Are the assumptions used in the calculation of recoverable amounts realistic? If there have been significant variances between prior period cash flow projections and actual results, have the cash flows or the alpha factor in the discount rate been adjusted to reflect this risk?
- Have we considered the impact of rising interest and discount rates on estimating future cash flows and asset valuations?
- Have we considered whether technological advancement, government climate policies, legislative and regulatory changes might result in impairment being triggered?
- Have we updated budgets and cash flow forecasts to reflect the continuing impacts of changing market conditions and uncertainties, including local and global issues?
- Have we considered the need to use a probability-weighted cash flow approach to determining recoverable amounts?
- Have we considered whether other readily available information exists that can be used to calculate recoverable amount using an alternate valuation method or technique which can serve as a point of comparison to the values derived in the primary valuation method selected?
- If in the previous year recoverable amount was determined using a value in use (VIU) model, but is now being determined using a fair value less costs of disposal (FVLCD) technique, have we fully understood and documented the rationale for the change?
- Have we checked the mathematical accuracy of the model?

01 Asset values I Impairment of non-financial assets

Questions to consider (Continued)

- If recoverable amount is determined using VIU, have we ensured the cash flows do not include those from strategic initiatives?
- Have we considered and reflected any increased volatility and uncertainty in impairment model?
- Have we considered the need to update impairment models for events which occur post reporting date?
- If recoverable amount is determined using FVLCD, are there quoted prices or other observable market information that can be used to determine FVLCD? If there is no observable market information to determine FVLCD, and a discounted cash flow or earnings multiple technique is used, are the inputs reliable?
- Have we identified our CGUs appropriately? Are any CGUs greater than an operating segment where material goodwill exists?
- Does the allocation of goodwill to CGUs reflect the level at which goodwill is monitored for internal purposes?
- Have all corporate costs been allocated to CGUs on an appropriate basis?
- Have corporate assets been allocated to CGUs where the allocation can be done on a reasonable and consistent basis?
- Have we disclosed the assumptions that have a significant risk of resulting in a material impairment adjustment in the next 12 months?
- Have we considered our continuous disclosure obligations if an impairment is likely (See also ASX Listing Rules – Guidance Note 8 *Continuous Disclosure*)?
- Have we disclosed any estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios?
- If we have a CGU which includes goodwill or intangible assets with an indefinite useful life and a reasonably possible change in the key assumptions would result in an impairment have we fully disclosed the amount by which the assumptions must change to result in an impairment?
- Where market capitalisation is less than our net asset position, have we fully documented the methodology used to determine recoverable amount, including how we have satisfied ourselves regarding the reliability of the assumptions used, including our understanding of the drivers of the difference?
- Have we only used our market capitalisation as an impairment indicator or in a valuation cross-check?
- Have we considered the appropriateness of using a ratio of market capitalisation to revenue for other entities? Are there limitations in using this? Do those other entities have closely comparable businesses, products, markets, cost structures and funding?

01 Asset values I Values of property assets

ASIC guidance

Directors should ensure there is proper consideration of factors adversely affecting the fair values of commercial and retail property values, despite any absence of market transactions. These factors may include:

- Changes in office space requirements of tenants.
- Online shopping trends.
- Future economic or industry impacts on tenants.
- The financial condition of existing tenants.

In applying the leases standard, lessees and lessors should consider lease accounting requirements; and lessees the impairment of right-of-use assets.

Relevant KPMG guidance

Uncertain times reporting guidance

Have expectations around lease renewal, termination or purchase options changed?

Are fair values appropriately determined and disclosed?

Other guidance

Example Public 2023-24 – Notes 23C & 38

Annual Disclosure Checklist (September 2023) – Section 1.5

Insights into IFRS – Chapters:

- 2.4 Fair value measurement
- 5.1 Leases

Questions to consider

- Have we considered the factors that may adversely affect the fair values of commercial and retail properties such as expected changes in office work practices, and changes in consumer preferences?
- Where there are no market transactions, have we considered the need for changes in valuation techniques?
- Have we updated valuation assumptions and inputs for continuing changes in the market conditions?
- Have we made all the required disclosures under AASB 13 *Fair Value Measurement* in our year-end financial report?

01 Asset values | Expected credit losses on loans and receivables

ASIC guidance

Directors should:

- Consider whether key assumptions used in determining expected credit losses are reasonable and supportable.
- Consider the need for more reliable and up-to-date information about the circumstances of borrowers and debtors.
- Consider short-term liquidity issues, as well as the financial condition and earning capacity of borrowers and debtors.
- Ensure the accuracy of ageing of receivables.
- Consider using forward looking assumptions and not assuming recent debts will all be collectible.
- Consider the extent to which past history of credit loss remains relevant in assessing expected credit losses (ECLs).
- Ensure disclosure of estimation uncertainties and key assumptions used in determining ECLs.
- Have particular regard to the impact of current economic and market conditions and uncertainties on ECLs, including assessing whether there are significant increases in credit risk for particular groups of lenders; adequacy of data, modelling, controls and governance in determining ECLs.

Relevant KPMG guidance

Uncertain times reporting guidance

What are the key financial instruments impacts?

Other guidance

Example Public 2023-24 – Notes 32C

Annual Disclosure Checklist (September 2023) – Section 2.5

Insights into IFRS – Chapters:

- 7.7 Measurement of financial Instruments
- 7.8 Impairment of financial instruments
- 7.10 Presentation and disclosures

Questions to consider

- Have we reviewed the appropriateness of key assumptions and judgements in estimating expected credit losses (ECLs), and ensured that they are reasonable and supportable?
- Have we reviewed the models to ensure inputs used to develop the estimate appropriately reflect any changes in the circumstances since the prior period? Are our assumptions appropriate in determining whether or not there has been a significant increase in credit risk?
- Have we considered the impact of short-term liquidity issues and financial condition and earning capacity of borrowers and debtors in the measurement of loans and receivables? Do we need to seek more reliable and up-to-date information about their circumstances?
- Have we considered the need to update ECLs for events which occur post reporting date?
- Have we disclosed estimates and judgements that form the basis of the measurement of ECLs?
- Have we considered the impact of geopolitical risks including increased market volatility on receivables collectability? In light of changing market and customers activity is historical data still appropriate, or are additional adjustments required by companies?

01 Asset values I Values of other assets

ASIC guidance

Directors should consider the impact of uncertainties resulting from natural disasters, geopolitical events including increased market volatility and other changing economic conditions on the following asset values:

- Net realisable value of inventories, including whether all estimated costs of completion necessary to make the sale have been taken into account in determining net realisable value.
- Recoverability of deferred tax assets.
- Value of investments in unlisted entities.

Relevant KPMG guidance

Uncertain times reporting guidance

What are the key financial instruments impacts?

Other guidance

Example Public 2023-24 – Note 17 and Note 14

Insights into IFRS – Chapters

- 3.8 Inventories
- 3.13 Income Taxes

Questions to consider

- Have we considered whether all costs of completion necessary to make the sale have been included in determining net realisable value of inventories?
- Have we considered the impact on the net realisable value of any obsolete or excess inventory?
- Have we considered whether significant write-downs of inventory should be disclosed?
- Have we reassessed the recoverability of deferred tax assets given changing economic conditions?
- Are the forecasts used to assess the recoverability of deferred tax assets in-line with forecasts used to determine the recoverable amount of intangible assets and other non-current assets?
- Where there are no market transactions, have we considered the need for changes in valuation techniques for investments in unlisted entities?
- Have we updated valuation assumptions and inputs for continuing changes in the market conditions for investments in unlisted entities?
- Have we made all the required disclosures under AASB 13 *Fair Value Measurement* for investments in unlisted entities?

01 Asset values | Financial asset classification

ASIC guidance

Directors should consider if financial assets are appropriately measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss.

Directors should consider whether both criteria for measuring financial assets at amortised cost are met:

- Assets are held in a business model whose objective is to hold the assets to collect contractual cash flows.
- Contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Relevant KPMG guidance

Example Public 2023-24 – Note 45(P) and Note 45(S)(i)

Annual Disclosure Checklist (September 2023) – Section 2.5

Insights into IFRS – Chapter 7.4 Classification of financial assets

Questions to consider

- Have we considered whether financial assets are appropriately measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss?
- Have we considered if the business model is held-to-collect, both held to collect and for sale or another business model including trading, managing assets on a fair value basis and maximising cash flows through sale?
- Are sales integral to achieving the objective of the business model or incidental to the objective of the model?
- Have we considered the level of sales (in frequency and volume)?
- Have we considered whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding?
- Have we assessed hybrid financial instruments as a whole for classification?

02 Provisions I Onerous contracts, restructuring, make good provision, mine restoration and financial guarantees

ASIC guidance

Directors should consider need for recognition of provisions for onerous contracts, leased property make good, mine site restoration, restructuring plans and financial guarantees provided.

Directors should also assess how its current provisions may be affected by changing circumstances, uncertainties and risks such as rising interest rates on future cash flows and discount rates.

Relevant KPMG guidance

Uncertain times reporting guidance

Are all liabilities fully recorded and properly presented?

Other guidance

Example Public 2023-24 – Notes 31

Annual Disclosure Checklist (September 2023) – Section 2.10

Insights into IFRS – Chapter 3.12 Provisions, contingent assets and liabilities

Questions to consider

- Have we assessed the impact of rising interest rates on estimating future cash flows and on discount rates in valuing current provisions?
- Have we considered if any contracts, in particular revenue contracts, have become onerous?
- Have we considered recognising a provision for restructuring where there is a formal restructuring plan in place at the balance date which has raised a valid expectation on those affected that the entity will carry out the plan?
- Have financial guarantees issued been recognised appropriately and have we reassessed the measurement of the liability?
- Have we assessed contractual obligations to perform make good in any lease contracts?
- Have we considered all factors in estimating restoration provisions and have we reassessed the liability in a timely manner?

03 Subsequent events

ASIC guidance

It is important that directors and management evaluate all events that occur after their reporting date and before authorising the financial report for issue and assess:

- Which of those events provide additional evidence of conditions that existed at the reporting date and for which financial statements need to be adjusted?
- Which of those events relate to conditions that arose after the reporting date, and if material, require disclosure only?

Relevant KPMG guidance

Uncertain times reporting guidance

How should companies assess external events after the reporting date?

Other guidance

Example Public 2023-24 – Notes 42

Annual Disclosure Checklist (September 2023) – Section 1.10

Insights into IFRS – Chapter 2.9 Events after the reporting date

Questions to consider

- Have we considered all events that occur after the reporting date and before authorising the financial report? Have we assessed if those events are adjusting or non-adjusting subsequent events?
- Have we adjusted our accounting estimates and judgements for all adjusting subsequent events such as where events affect the assessments relating to impairment of financial and non-financial assets (for example, payments received or missed after year-end may provide more information on the recoverability of receivables)?
- Have we disclosed the nature and estimate of financial effect of all material non-adjusting subsequent events such as sale of a significant business after the reporting date?

04 Disclosures I Disclosures in the financial report

ASIC guidance

Directors should ensure that the disclosures in their financial statements are sufficient to allow investors and other users to understand the sources of estimation uncertainty and significant judgements made in applying accounting policies.

Disclosure of changing key assumptions and a sensitivity analysis are important.

Directors should explain where uncertainties have narrowed or changed since the previous full-year and half-year financial reports.

Directors should also consider the appropriate classification of assets and liabilities between current and non-current categories on the statement of financial position.

Half-year reports should disclose information on significant developments and changes in circumstances since 30 June 2023.

Relevant KPMG guidance

Uncertain times reporting guidance

Impact of external events on the going concern assessment and disclosures

Other guidance

Example Public 2023-24 – Note 4

Annual Disclosure Checklist (September 2023) – Section 1.4

Illustrative disclosures - Guide to condensed interim financial statements

Questions to consider

- Have we explained areas where there is estimation uncertainty and the impact of that uncertainty?
- Have we ensured that the disclosures made are specific to the assets, liabilities, income and expenses of the entity?
- Have we disclosed the assumptions that have a significant risk of resulting in a material change in the carrying amount of assets and liabilities in the next 12 months?
- Have we identified specifically the carrying amount that would be impacted by a change in assumptions and the nature of the assets?
- Have we considered the completeness of disclosures made in relation to estimates?
- Have we explained accounting policy choices that involved significant judgement?
- Have we considered the interrelationships between disclosures of estimates and significant judgements and what is included in key audit matters in the audit report?
- Have we considered the impacts of sensitivity analysis on our calculations and need for disclosure?
- Have we reviewed the classification of assets and liabilities on the statement of financial position to ensure they are appropriately classified as current and non-current?
- Have we disclosed information on significant developments and changes in circumstances since the previous annual report in our half-year report?

04 Disclosures I Disclosures in the OFR

ASIC guidance

Directors should ensure the Operating and Financial Review (OFR) complements the financial report and tells the story of how the entity's businesses are impacted by uncertainties and changing economic circumstances. The overall picture should be clear, understandable, and be supported by information that will enable investors to understand the significant factors affecting the entity, its businesses and the value of its assets.

The OFR should explain the underlying drivers of the results and financial position, as well as risks, management strategies and future prospects.

All significant factors should be included and given appropriate prominence.

Directors should consider disclosing the most significant and entity's specific business risks that could impact the financial outcomes, including a discussion of environmental, social and governance risks. The risks will vary depending upon the nature and businesses of the entity and its business strategies. An exhaustive list of generic risks that might potentially affect a large number of entities would not be helpful.

Relevant KPMG guidance

Example Public 2023-24 – Operating and financial review

Have you disclosed climate-related impacts clearly?

Questions to consider

- Have we explained the underlying drivers of results and financial position, the risks, management strategies to address the risks and future prospects in the OFR?
- Have we identified and given appropriate prominence to all significant factors affecting the entity?
- Have we considered the climate change risk impact on governance, business model, strategy, risk management, performance and prospects?
- Does the OFR complement the information disclosed in the financial report?
- Is the information in the OFR consistent with the key judgements, estimates and assessments made in the financial statements?
- Have we identified the entity's specific business risks and outlined why the risk is significant and assessed its potential impact?
- Have we considered cyber security risk and its potential impact?

04 Disclosures | Disclosures in the OFR

ASIC guidance (Continued)

Risks should be described in context – for example, why the risk is important or significant and its potential impact and, where relevant, factors within the control of management.

Directors should also consider whether to disclose information that would be relevant under the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Given common reporting pillars, following the TCFD recommendations will help position companies for any future reporting under standards developed by the International Sustainability Standards Board.

Directors should consider whether cyber security risks have a material impact and require disclosure. Considerations include the impacts of a loss of personal data or a denial of service attack, such as the extent and nature of personal data held and possible impacts on revenue.

See also Non-IFRS financial information

04 Disclosures I Non-IFRS financial information

ASIC guidance

Directors should ensure any non-IFRS profit measures in the OFR or market announcements are not presented in a potentially misleading manner. Directors should refer to RG 230 *Disclosing non-IFRS financial information*.

Directors should also ensure that reversal of asset impairment losses is excluded from a non-IFRS profit measure where impairment losses were excluded from that measure in a prior period.

See also Disclosures in the OFR

Relevant KPMG guidance

Non-IFRS measures – Re-shaping financial statement presentation

Questions to consider

- Are non-IFRS measures appropriately reconciled to IFRS measures and not presented in a potentially misleading manner?
- Have we ensured that non-IFRS measures are not disclosed in the financial statements, except in segment reporting or earnings per share notes?
- Have we ensured that a reversal of asset impairment loss is excluded from non-IFRS measure where the impairment loss was excluded from that measure in a prior period?

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