KPMG

Are you ready for 31 December 2024 reporting?

—

12 November 2024

Your facilitators are...

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Department of Professional Practice

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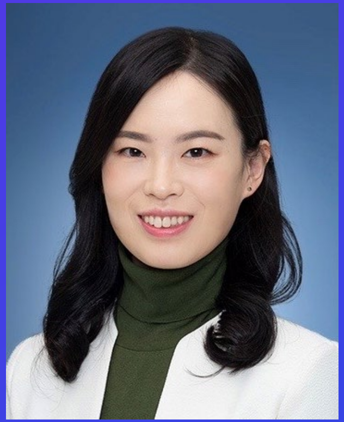

Soo Lee

Senior Manager,
Department of Professional Practice

What is our reporting context?

AASB

ASIC

IASB & IFRS IC

ISSB

Changes in legislation

Climate change & sustainability reporting

Agenda

New standards effective for (or available for early adoption on) 31 December 2024

Recent IFRIC agenda decisions

Regulatory update - Part 1

Q&A

Regulatory update - Part 2

ESG update

Hot topic - Classification of purchased carbon credits under voluntary schemes

Hot topic - Impact of climate change on impairment testing

Wrap up

Q&A

New standards

effective for (or available for early adoption on) 31 December 2024

New standards: 31 December 2024 Y/Es and H/Ys

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

Refer to 31 December 2023 webinar + recap today

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 + recap today

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

Refer to 31 December 2023 webinar + recap today

Annual reporting periods beginning on or after 1 January 2024

Other standards available for early adoption

AAASB 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]

AASB 2024-2
Classification and Measurement of Financial Instruments
[Amendments to AASB 7 & AASB 9]

AASB 2024-3
Annual Improvements Volume 11
[Amendments to various AASBs]

AASB 18
Presentation and Disclosures in Financial Statements

Refer to 30 June 2024 webinar + recap today

★ Explored in detail today

Annual reporting periods beginning on or after 1 January 2025

Annual reporting periods beginning on or after 1 January 2026

Annual reporting periods beginning on or after 1 January 2027

Supplier finance arrangements

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

Effective from 1 January 2024

Finance provider

Buyer pays according to terms and conditions at the same date as, or a date later than, suppliers are paid

Finance provider pays **amounts buyer owes to suppliers**

31 December 2024 YE
the **first time new disclosures required** to be made in the annual financial report

Provides goods and/or renders services

Buyer
(Payable)

Supplier
(Receivable)

What are the new disclosure requirements?

Qualitative

Terms and conditions of arrangements (e.g., extended payment terms and security or guarantees provided)
If terms and conditions are dissimilar, they should be disclosed separately.

Quantitative

In thousands of EUR	2024	2023
Carrying amount of financial liabilities		
Presented within trade and other payables	5,515	4,900
– of which suppliers have received payment from the bank	3,860	-
Range of payment due dates		
Trade payables subject to supplier finance arrangement (days after invoice date)	50–65	-
Comparable trade payables (days after invoice date)	45–60	-

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Terms and conditions of arrangements (e.g., extended payment terms and security or guarantees provided)
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In thousands of EUR	2024	2023
Carrying amount of financial liabilities		
Presented within trade and other payables	**5,515**	4,900
– of which suppliers have received payment from the bank	**3,860**	-*
Range of payment due dates		
Trade payables subject to supplier finance arrangement (days after invoice date)	**50–65**	-*
Comparable trade payables (days after invoice date)	**45–60**	-*

* The Group applied transitional relief available under *Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7* and has not provided comparative information in the first year of adoption.

Relief is not applicable for subsequent year ends!

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

Loans with covenants

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

New mandatory disclosures!

- Information about covenants (including nature of and compliance requirements)
- Carrying amount of related liabilities
- Facts and circumstances indicating difficulty in complying with covenants

Classification of liabilities as current or non-current

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

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Covenants on or before reporting date	Covenants after reporting date
Impact classification	**DO NOT impact classification**

New mandatory disclosures!

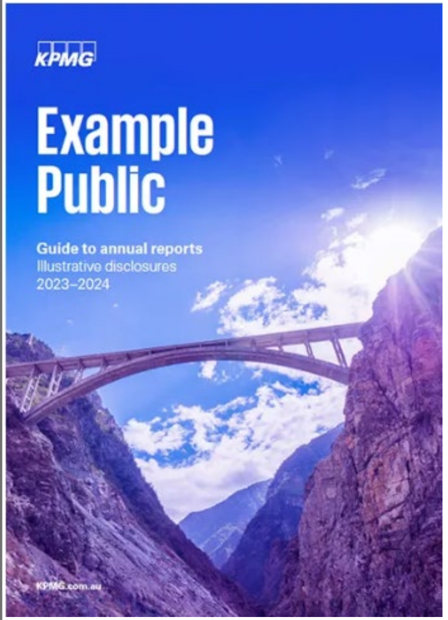
- Information about covenants (including nature of and compliance requirements)
- Carrying amount of related liabilities
- Facts and circumstances indicating difficulty in complying with covenants

Example disclosure for liabilities subject to future covenants

Under the terms of the loan agreement, which has a carrying amount of $203,000 (2023: $178,000), the Company is required to comply with a net finance cost to total revenue ratio covenant which must not exceed 1% at the end of March and September each year.

As the loan bears interest at a variable interest rate, the Company experienced a significant increase in interest costs in the financial year due to the high interest rate environment. As a result, at 31 December 2024 the Company's ratio of net finance costs to revenue is 1.5%.

There is therefore a risk that the Company will not comply with the covenant when tested at the end of September, in which case the loan will become immediately repayable. The Company is currently in negotiations with the bank to revise the covenant.



Example: Classification of a liability as current vs non-current

Scenario

Moon Music Ltd has a five-year loan facility with a bank repayable on 30 September 2028.

Facility was fully drawn down on 1 October 2023.

Loan is subject to annual covenant test at 30 September (debt/equity ratio of 2 and above) that if breached renders the loan repayable on demand.

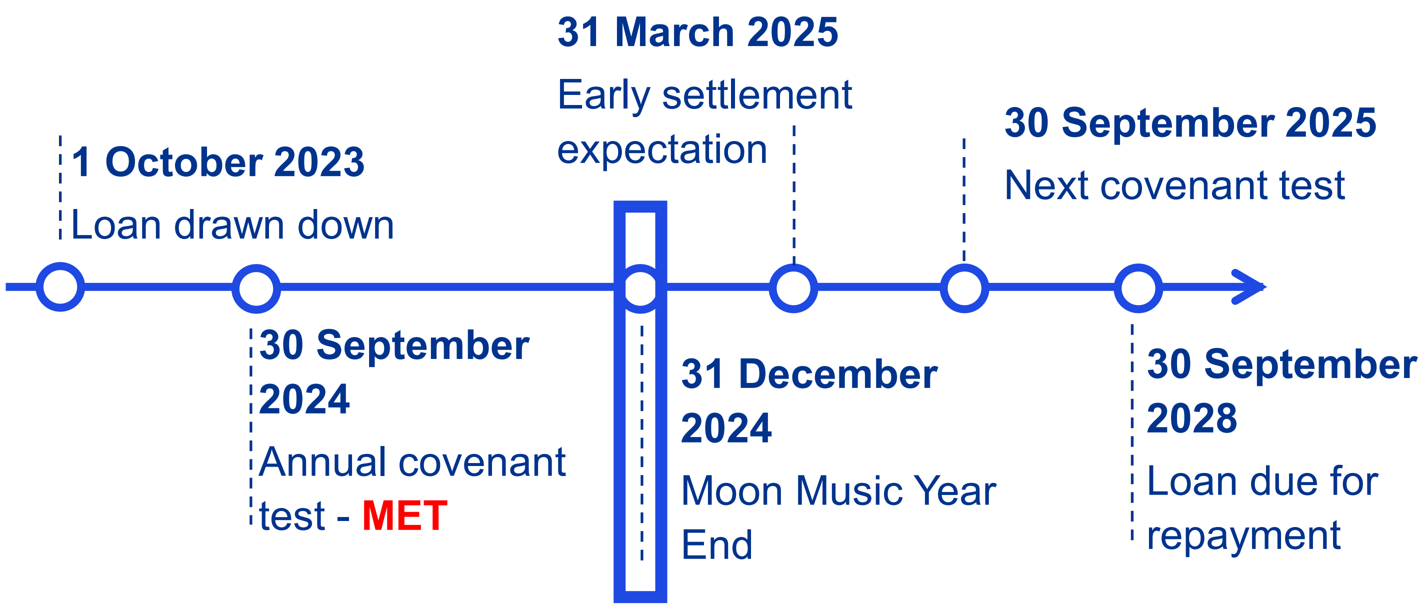
Moon Music Ltd complied with the covenant at 30 September 2024.

Moon Music Ltd expects to make an early repayment of the loan in March 2025.

Q: How should the loan be classified at 31 Dec 2024?

A Current **B** Non-current

Example: Classification of a liability as current vs non-current



B. Non-current liability at 31 Dec 2024

Expectations do not affect classification!

Example: Classification of a liability as current vs non-current

1 October 2023
Loan drawn down

30 September 2024
Annual covenant test - **MET**

31 March 2025
Early settlement expectation

31 December 2024
Moon Music Year End

30 September 2025
Next covenant test

30 September 2028
Loan due for repayment

B. Non-current liability at 31 Dec 2024

Expectations do not affect classification!

New disclosures for non-current liabilities subject to future covenants (as covered on previous slides)

New disclosure about the timing of the early settlement expectation

New disclosure if a liability classified as non-current at reporting has been settled post reporting date, but before the accounts are authorised for issue

Where classification of a liability <u>may</u> change as a result of applying the amendments?

My organisation has a **roll over facility** that is subject to a covenant test in the next 12 months and was classified as current liability under old requirements

My organisation has a complex roll over liability (e.g. securitisation arrangement)

My organisation has a liability that can be settled with the company's own shares (e.g. convertible debt).

Refer to 30 June 2023 webinar

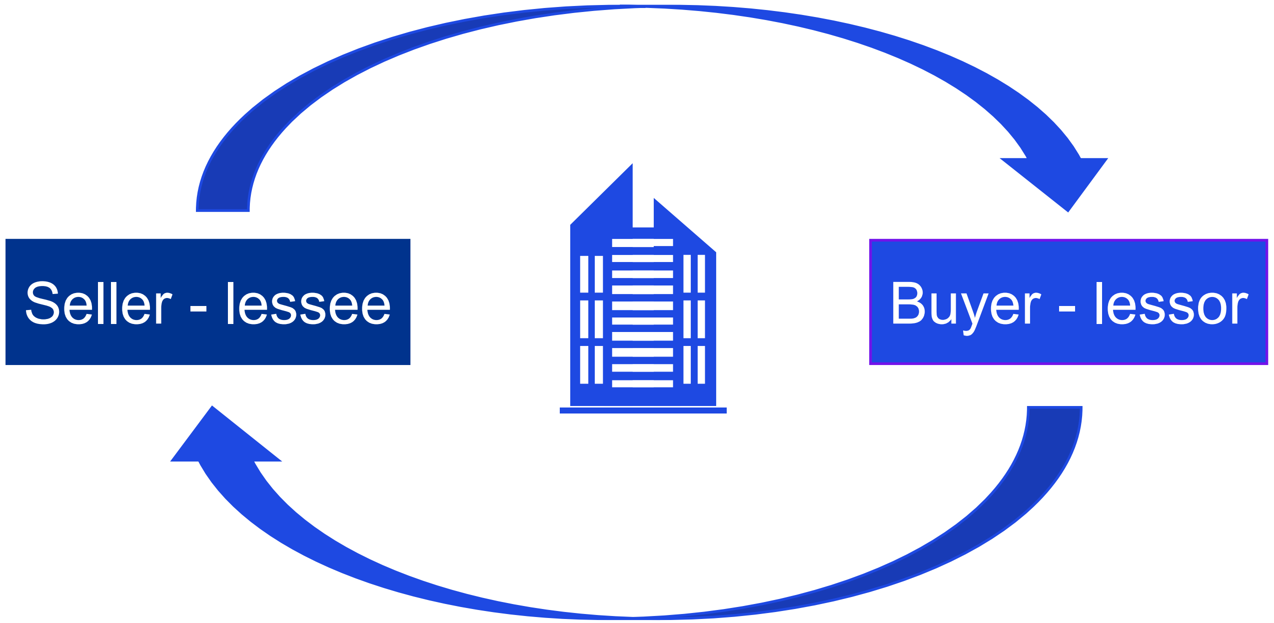
Consult with your auditor or advisor

Lease liability in a sale and leaseback

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

Effective from 1 January 2024

Seller-lessee transfers an underlying asset to buyer-lessor –
SALE under AASB 15



Seller-lessee leases that asset back
ONLY that are solely **variable** or a mix of fixed and variable lease payments

Lease liability in a sale and leaseback

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

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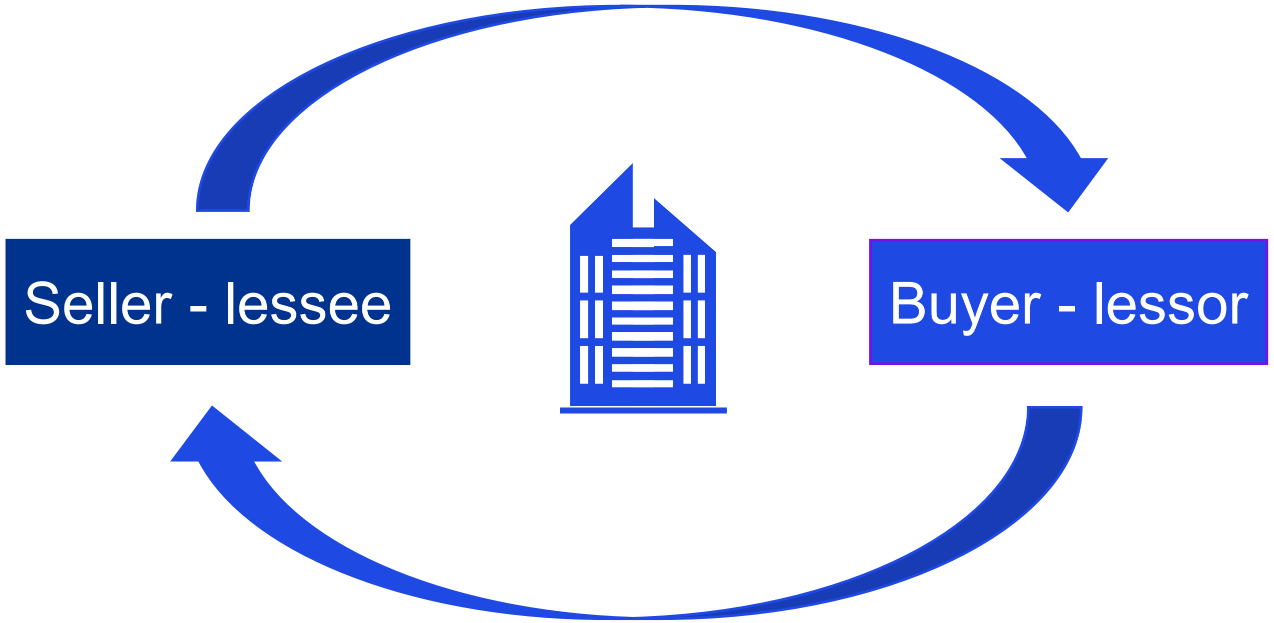
Seller-lessee transfers an underlying asset to buyer-lessor – **<u>SALE under AASB 15</u>**



Seller-lessee leases that asset back **<u>ONLY</u>** that are solely **<u>variable</u>** or a mix of fixed and variable lease payments

Lease liability

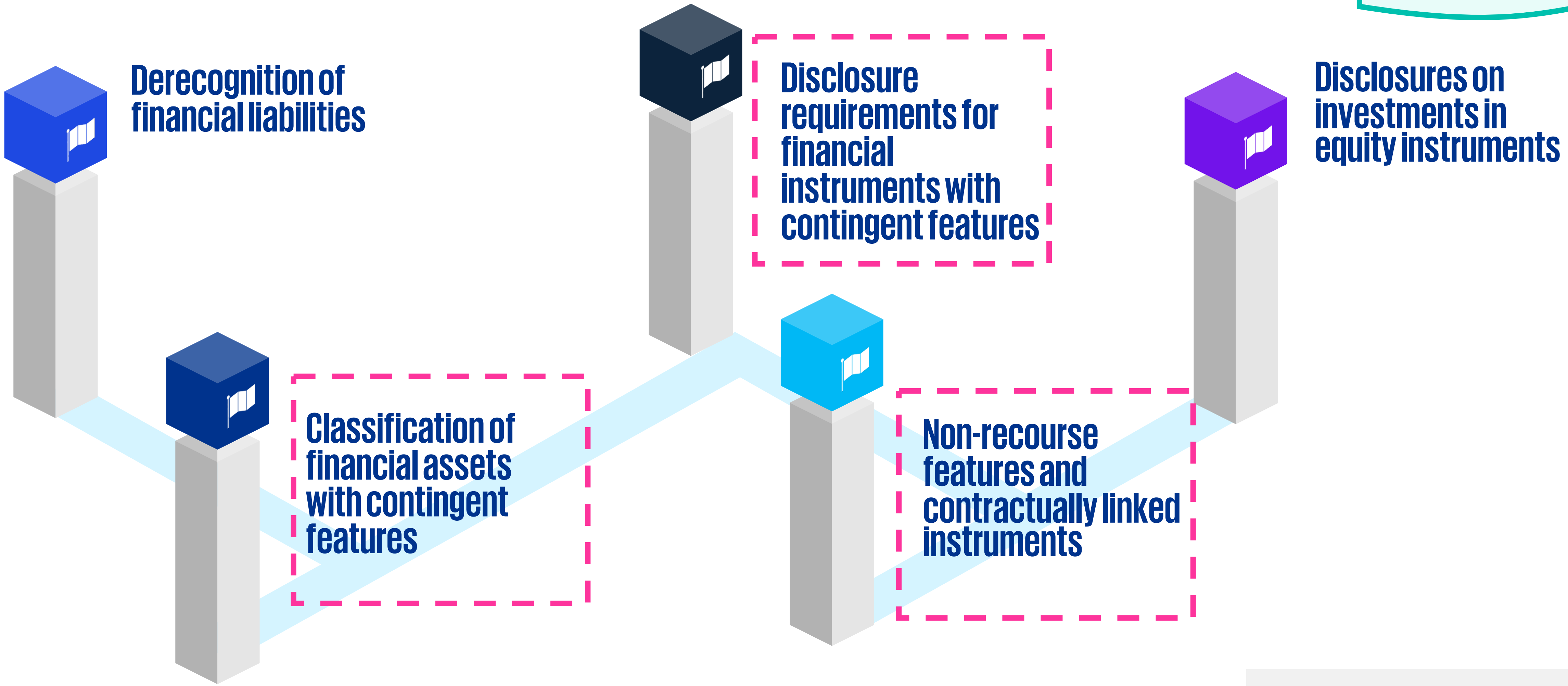
- Variable lease payments estimated & recorded as a part of sale & leaseback transaction.
- Management judgment included in estimate.
- Liability not subsequently remeasured for changes in estimated variable lease payments

Retrospective to all sale and lease back transactions since adoption of AASB 16!

Classification and Measurement of Financial Instruments

AASB 2024-2
Classification and Measurement of Financial Instruments
[Amendments to AASB 7 & AASB 9]

Effective from 1 January 2026

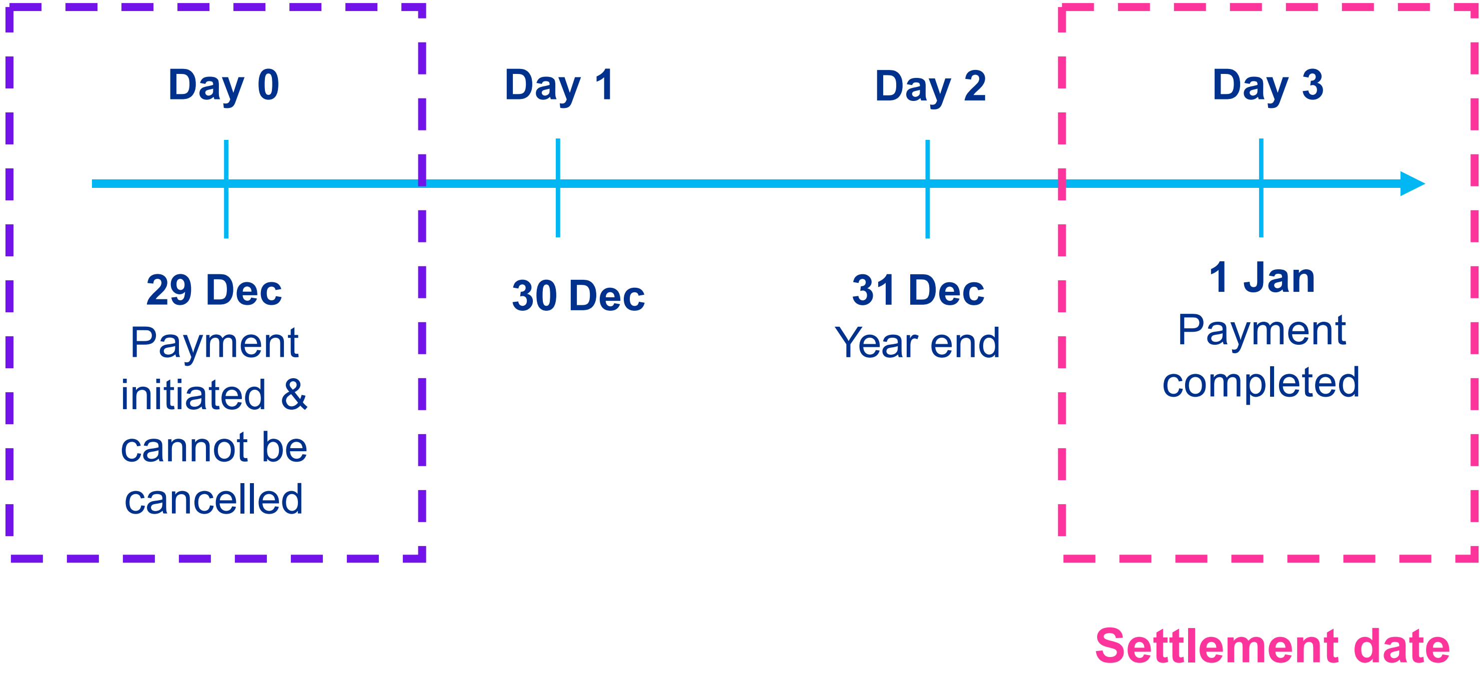


These amendments can be early adopted separately.

Example - Settlement using electronic payment system (EPS)

Scenario

- Silver Co. owes $2,000 to its supplier**.**
- Payment initiated on 29 December using an EPS.
- Payment takes 3 days to be received by the supplier.



Example - Settlement using electronic payment system (EPS)

Scenario

- Silver Co. owes $2,000 to its supplier.
- Payment initiated on 29 December using an EPS.
- Payment takes 3 days to be received by the supplier.

Derecognition exemption (ALL criteria to be met)

1. No practical ability to cancel payment
2. No practical ability to access the cash, e.g. $2,000
3. Settlement risk associated with the EPS is insignificant

Day 0
29 Dec
Payment initiated & cannot be cancelled

Day 1
30 Dec

Day 2
31 Dec
Year end

Day 3
1 Jan
Payment completed

Impact of the amendments

If all exemption criteria have been met, organisation can derecognise the liability on this date.

Settlement date

If the derecognition exemption criteria does not apply, derecognition can only occur on this date.

On-going discussion on interpretation and application issue

Might impact derecognition of financial assets

Classification for financial assets with contingent features

Scope

Financial assets with contingent features that are not related directly to a change in basic lending risks or costs.

What is new?

Additional SPPI test to allow certain financial assets with contingent features to meet the SPPI criterion.

Who will be impacted?

Impacts the lenders, not the borrowers.

AASB 2024-3
Annual Improvements Volume 11
[Amendments to various AASBs]

Annual Improvements to Australian Accounting Standards

Effective from 1 January 2026

AASB 1 *First-time Adoption of International Financial Reporting Standards*

- ***Hedge accounting by a first-time adopter***

AASB 7 *Financial Instruments: Disclosure*

- ***Gain or loss on derecognition***
- ***Disclosure of deferred difference between fair value and transaction price***
- ***Credit risk disclosures***

AASB 9 *Financial Instruments*

- ***Derecognition of lease liability***
- ***Transaction price***

AASB 10 *Consolidated Financial Statements*

- ***Determination of 'de-facto agent'***

AASB 107 *Statement of Cash Flows*

- ***Cost method***

Derecognition of lease liability

Derecognition of lease liability	Profit or loss?
	Right-of-use asset?

After the amendment

If a lease liability is derecognised under AASB 9	The difference between the carrying amount and the consideration paid is recognised in profit or loss

How to distinguish derecognition (AASB 9) and modification of lease liability (AASB 16)?

WATCH THIS SPACE!

Derecognition of lease liability

Derecognition of lease liability	Profit or loss?
	Right-of-use asset?

Initial measurement of trade receivables*

At transaction price , which may be differ from the amount under AASB 15 *Revenue from contracts with customers*

After the amendment

If a lease liability is derecognised under AASB 9	The difference between the carrying amount and the consideration paid is recognised in profit or loss

At the amount determined by AASB 15

How to distinguish derecognition (AASB 9) and modification of lease liability (AASB 16)?

WATCH THIS SPACE!

** applies to trade receivable without a significant financing component only.*

AASB 18 - Presentation and Disclosures in Financial Statements

Profit & Loss Statement

- 3 categories – main business activities
- New subtotals
- FX/derivative gains/losses

Management Performance Measures

- New note – P&L measures only
- RG 230 type disclosures

Aggregation

- Similar characteristics
- Limits "other" category

Other amendments

- Cash flow statement – interest and dividends
- Balance sheet - goodwill

Effective date 1 January 2027, comparatives restated

AASB 18 – Profit & Loss Statement

Three new categories

Operating

Income and expenses from
- an entity's **main business activities** and
- any income and expenses not classified in other categories.

Investing

Income and expenses from investments made individually and largely independently of the entity's main business activities – e.g. share of profits of equity accounted investees.

Financing

Income and expenses relating to obtaining finance to fund entity's main business activities and/or investing activities.

Two new subtotals

Operating Profit

Profit before financing and income taxes

AASB 18
Presentation and Disclosures in Financial Statements

AASB 18 - Profit & Loss Statement

Profit & Loss statement

Consolidated statement of profit or loss

Example corporate

Continuing operations	2024	2023
Revenue	xxx	xxx
Cost of sales	xxx	xxx
Gross profit	**xxx**	**xxx**
Other income	xxx	xxx
Selling and distribution expenses	xxx	xxx
Administrative expenses	xxx	xxx
Research and development expenses	xxx	xxx
Impairment loss on trade receivables and contract assets	xxx	xxx
Other expenses	xxx	xxx
Operating profit	**xxx**	**xxx**
Finance income	xxx	xxx
Finance costs	xxx	xxx
Net finance costs	xxx	xxx
Share of profit of equity-accounted investees, net of tax	xxx	xxx
Profit before tax	**xxx**	**xxx**
Income tax expense	xxx	xxx
Profit from continuing operations	xxx	xxx
Discontinued operation	**xxx**	**xxx**
Profit (loss) from discontinued operation, net of tax	**xxx**	**xxx**
Profit for the period	**xxx**	**xxx**

Categorisation

'Other income' or 'Other expense' relating to investing or financing will be excluded from operating profit
(e.g. FVTPL equity investments)

Following items will need to be classified as investing:
- Share of profits from equity accounted investees (EAI)
- Gains/losses on disposal of investment in EAIs
- Interest income

FX gains/losses and gains/losses on derivatives will need to be split between operating, investing and financing

AASB 18
Presentation and Disclosures in Financial Statements

AASB 18 - Profit & Loss Statement

Profit & Loss statement

Consolidated statement of profit or loss

Example corporate

Continuing operations	2024	2023
Revenue	xxx	xxx
Cost of sales	xxx	xxx
Gross profit	**xxx**	**xxx**
Other income	xxx	xxx
Selling and distribution expenses	xxx	xxx
Administrative expenses	xxx	xxx
Research and development expenses	xxx	xxx
Impairment loss on trade receivables and contract assets	xxx	xxx
Other expenses	xxx	xxx
Operating profit	**xxx**	**xxx**
Finance income	xxx	xxx
Finance costs	xxx	xxx
Net finance costs	xxx	xxx
Share of profit of equity-accounted investees, net of tax	xxx	xxx
Profit before tax	**xxx**	**xxx**
Income tax expense	xxx	xxx
Profit from continuing operations	xxx	xxx
Discontinued operation	**xxx**	**xxx**
Profit (loss) from discontinued operation, net of tax	**xxx**	**xxx**
Profit for the period	**xxx**	**xxx**

Subtotal

Now a required one

Need a new subtotal "*Profit (or loss) before financing and income tax*"

Will need to move up so that it is before "*Profit (or loss) before financing and income tax*"

Categorisation

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The following items will need to be classified as investing:
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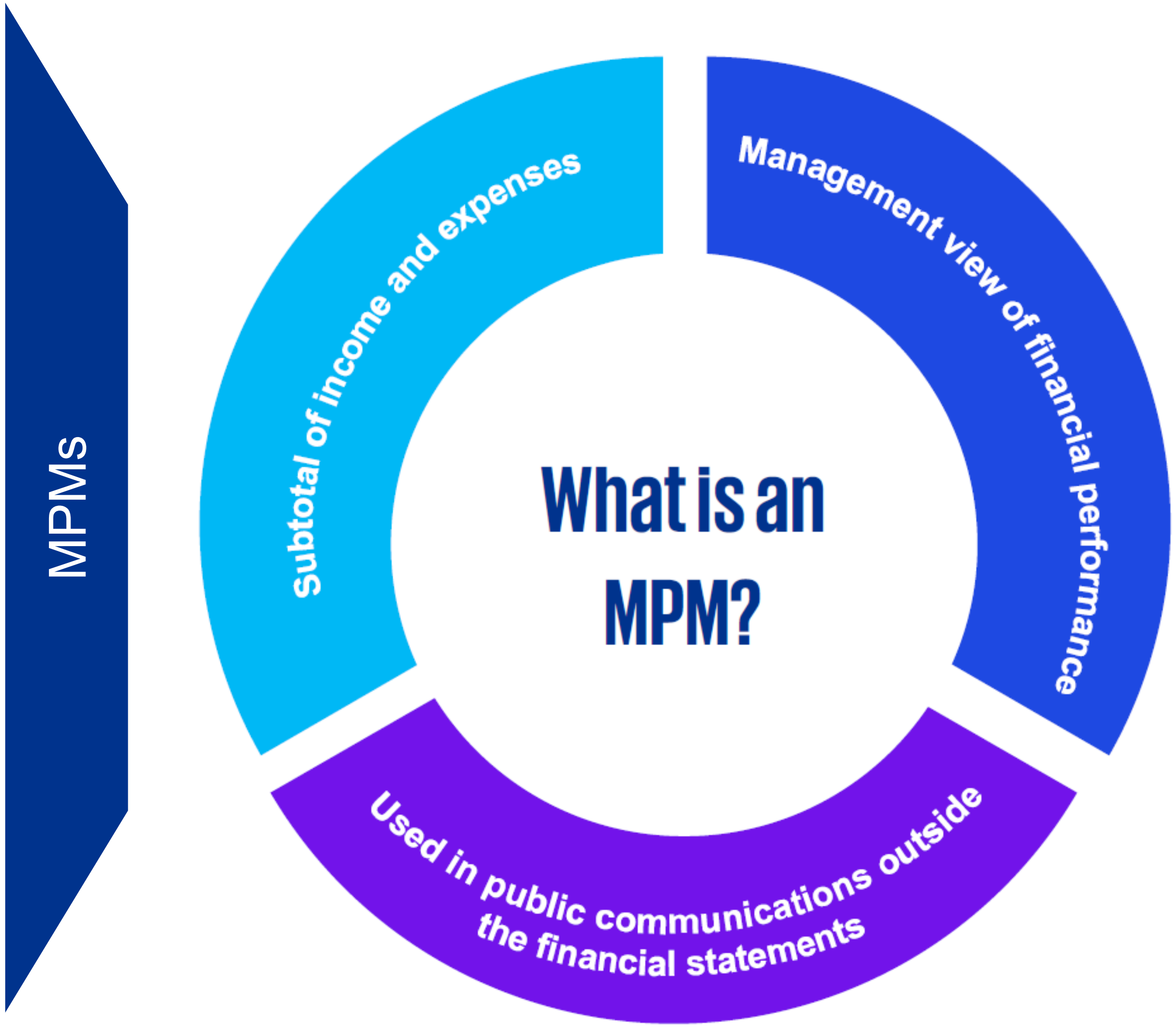
AASB 18 - Management Performance Measures (MPMs)



Disclosures required in a single note		
State	**Describe**	**Reconcile**
• that MPMs provide management's view of an aspect of the entity's financial performance • that MPMs are not necessarily comparable with other entities' measures	• aspect of financial performance being communicated • why MPM provides useful information about the entity's performance • how MPM is calculated	• between MPM and most directly comparable common subtotal listed in AASB 18 or total/subtotal required

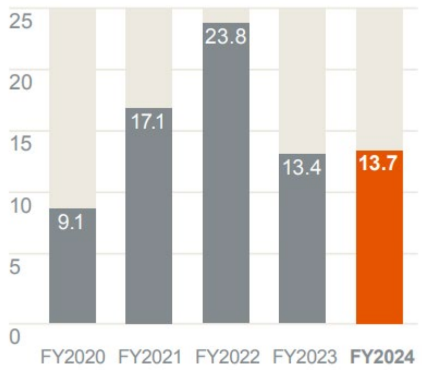
AASB 18 - Management Performance Measures (MPMs)

MPMs

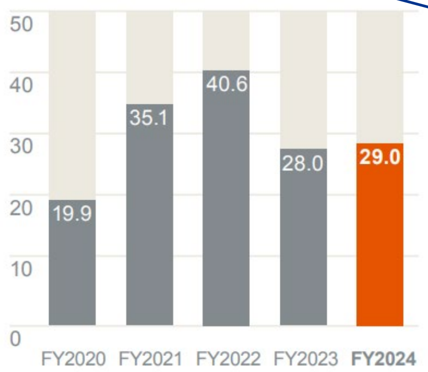
4.2 Key performance indicators

Our key performance indicators (KPIs) enable us to measure our development and financial performance. These KPIs are used to assess performance of our people throughout the Group.

Underlying attributable profit[1,3]
US$ billion



Underlying EBITDA[2,3]
US$ billion



1. Includes data for Continuing and Discontinued operations for the financial years being reported.
2. Excludes data from Discontinued operations for the financial years being reported.
3. For more information on non-IFRS financial information refer to OFR 10.

Extract from *BHP Billiton 2024 Annual Financial Report*

Why the measure is useful

Non-IFRS financial information	Reasons why we believe the non-IFRS financial information are useful
Underlying EBITDA	Used to help assess current operational profitability excluding the impacts of sunk costs (i.e. depreciation from initial investment). Each is a measure that management uses internally to assess the performance of the Group's segments and make decisions on the allocation of resources.

Reconciliation

	Revenue US$M	Total expenses, Other income and Profit/(loss) from equity accounted investments US$M	Profit from operations US$M	Depreciation, amortisation and impairments and Exceptional Items US$M	Underlying EBITDA US$M
Year ended 30 June 2024					
Revenue	55,658				
Other income		1,285			
Expenses excluding net finance costs		(36,750)			
(Loss)/profit from equity accounted investments, related impairments and expenses		(2,656)			
Total other income, expenses excluding net finance costs and (loss)/profit from equity accounted investments, related impairments and expenses		(38,121)			
Profit from operations			17,537		
Depreciation, amortisation and impairments[1]				9,185	
Exceptional item included in Depreciation, amortisation and impairments				(3,800)	
Exceptional items				6,094	
Underlying EBITDA					29,016

3 Exceptional items

Exceptional items are those gains or losses where their nature, including the expected frequency of the events giving rise to them, and impact is considered material to the Financial Statements. Such items included within the Group's profit from Continuing operations for the year are detailed below. Exceptional items attributable to Discontinued operations are detailed in note 28 'Discontinued operations'.

Year ended 30 June 2024	Gross US$M	Tax US$M	Net US$M
Exceptional items by category			
Samarco dam failure	(3,677)	(85)	(3,762)

AASB 18 - Aggregation

Aggregation

Aggregation and disaggregation

Guidance on whether information should be included in **primary statements or notes**

Enhanced guidance on **grouping information in statements and notes** – aggregation based on similarity in characteristics

Limits **'other'** category, use more informative label
(+ Additional disclosures when items labelled as 'other')

Consolidated statement of profit or loss — Example corporate

Continuing operations	2024	2023
Revenue	xxx	xxx
Cost of sales	xxx	xxx
Gross profit	**xxx**	**xxx**
Other income	xxx	xxx
Selling and distribution expenses	xxx	xxx
Administrative expenses	xxx	xxx
Research and development expenses	xxx	xxx
Impairment loss on trade receivables and contract assets	xxx	xxx
Other expenses	xxx	xxx
Operating profit	**xxx**	**xxx**

May need to re-organise / disaggregate into line items with more informative labels – e.g.:

- Increase / decrease in fair value of investment property
- Gain/loss on disposal of PPE
- Government grants
- Impairment of goodwill

AASB 18 - Other changes

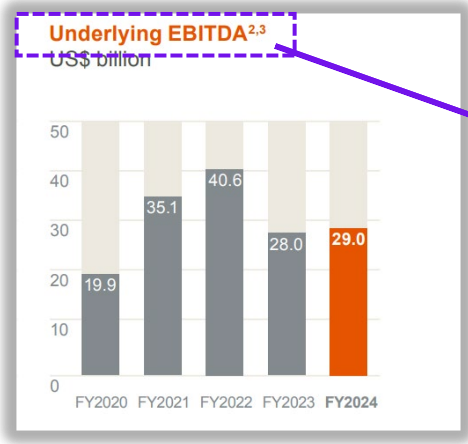
Other changes

Consolidated statement of financial position

Assets	2024	2023
Property, plant and equipment	xxx	xxx
Intangible assets and goodwill	xxx	xxx
Equity-accounted investees	xxx	xxx
Other investments, including derivatives	xxx	xxx
Deferred tax assets	xxx	xxx
Non-current assets	**xxx**	**xxx**

Goodwill

Will need to be presented separately from other intangible assets on face of balance sheet



Classification of interest and dividend cash flows

Eliminates classification options for **interest and dividend** cash flows for many* entities:

Corporates under AASB 18	
Interest paid	Financing
Interest received	Investing
Dividend received	Investing
Dividend paid	Financing

*depends on main business activity

Additional EPS disclosure

Permitted to provide additional AASB-18-subtotal- or MPM-per-share information in the notes:

Underlying EBITDA per share		
Basic Underlying EBITDA	$x.x	$x.x
Diluted Underlying EBITDA	$x.x	$x.x

AASB 18
Presentation and Disclosures in Financial Statements

AASB 18 - Presentation and Disclosures in Financial Statements

Profit & Loss Statement

- 3 categories – main business activities
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Management Performance Measures

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Other amendments

- Cash flow statement – interest and dividends
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Effective date 1 January 2027, comparatives restated

Recent IFRIC agenda decisions

IFRIC agenda decisions

Likely frequency across entities:

High | Medium | Low

Final

- Merger between parents and subsidiary – separate financial statements (IAS 27)
- Payments contingent on continued employment during handover periods (IFRS 3)
- Climate-related commitments (IAS 37)
- Disclosure of revenues and expenses for reportable segments (IFRS 8)

Tentative

- Classification of cash flows related to variation margin calls on 'collateralized-to-market' contracts (IAS 7)
- Guarantee issued on obligations of other entities (IFRS 9, 15, 17 & IAS 37)
- Recognition of revenue from tuition fees (IFRS 15)

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 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 provi
application of IFRS Standards. As a result, agenda decis
Accounting Standards.
resulting changes would be accounted

Upcoming IFRIC meetings

- 26 November 2024
- 4 February 2025
- 11-12 March 2025

Disclosure of revenues and expenses for reportable segments

AASB 8 *Operating Segments* requires to disclose…

- Specific items included in measures of profit or loss reviewed by Chief Operating Decision Maker (CODM)
- Material items of income and expense in accordance with AASB 101.97

IFRIC agenda decision clarifies…

- Disclose **specified amounts** for each reportable segment when those amounts are **included in the measure of segment profit or loss** reviewed by the CODM, even if they are not separately provided to the CODM
- **Does not require** an entity to disclose by reportable segment **each item of income or expense** presented in its statements or notes

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- **Does not require** an entity to disclose by reportable segment **each item of income or expense** presented in its statements or notes

Management of Gold Co. uses "earnings before interests and tax' (EBIT) as their profit or loss segment measure.

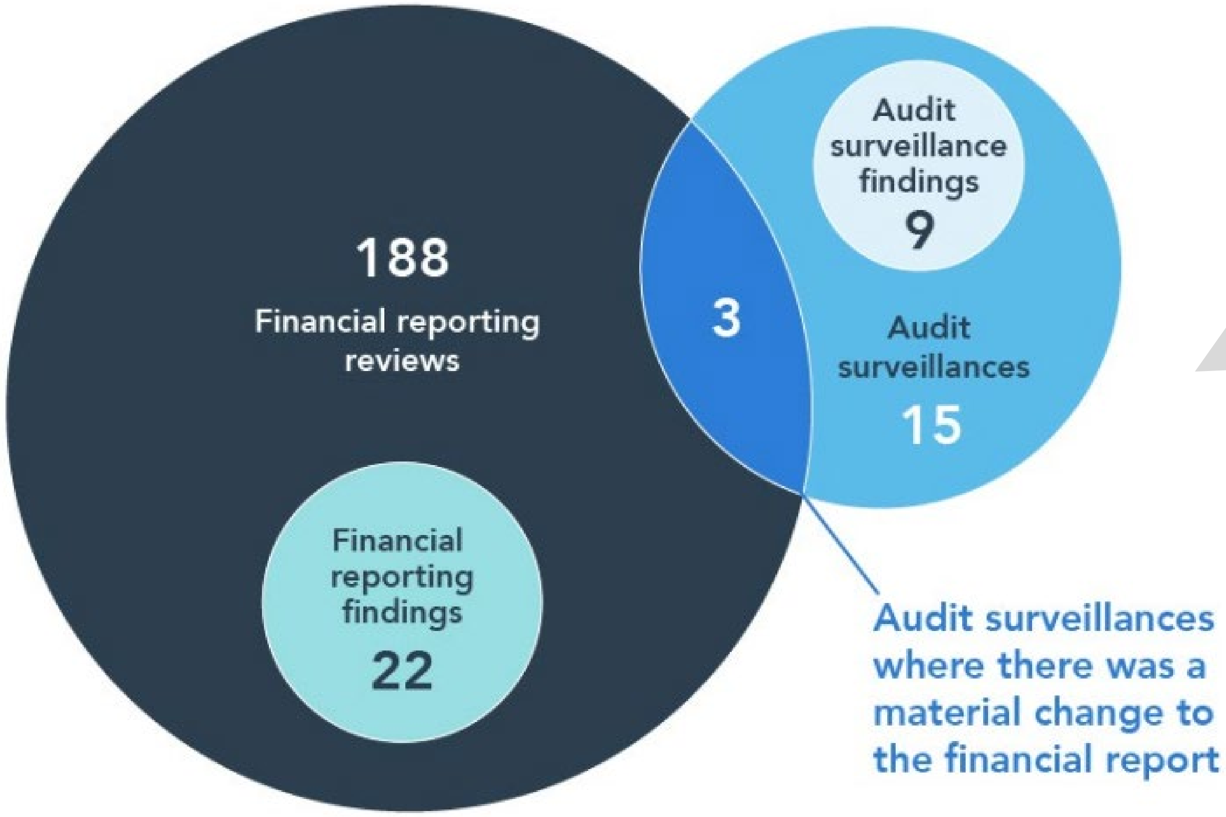
Which items are required to be disclosed for each reportable segment, even if they are not separately provided or reviewed by the CODM?

- Interest expense ✗
- Depreciation ✓
- Amortisation ✓
- Income tax expense ✗
- Material impairment losses on trade receivables ✓

Regulatory update

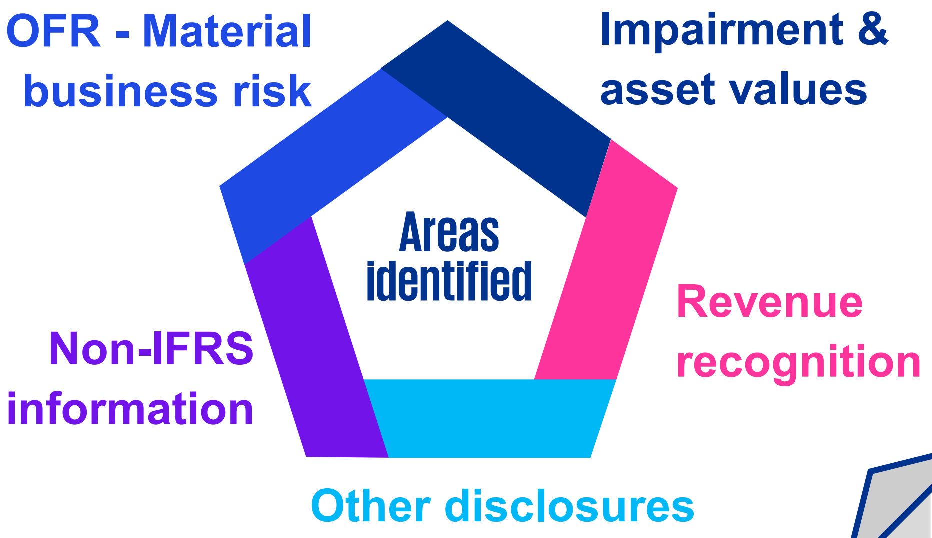
Part 1

ASIC financial statement surveillance results



39 **entities contacted** covering 61 issues

25 **entities made adjustments** to previously released financial information



Source: ASIC *Annual Financial Reporting and Audit Surveillance Report 2023-24*

Updated ASIC focus areas
for **31 December 2024** coming soon.
Watch this space!

ASIC Focus Areas

Enduring focus areas

Asset values

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

Provisions

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

Events occurring after the reporting date

- Conditions as at the date of finalising the audit report
- Expectations of future events
- New conditions requiring disclosure

Disclosures in financial report and OFR

- Financial report: Uncertainties and current / non-current classification
- Operating and Financial Review (OFR): material business risks
- Non-IFRS information
- Disclosures in half-year reports

Particular focus areas

- 'Grandfathered' large proprietary companies
- Registrable superannuation entities

Topical reminders

- Climate-related financial disclosures
- Cyber security
- Greenwashing
- Consolidated entity disclosure statement (CEDS)

Mandatory disclosure of subsidiaries' tax residence

Consolidated entity disclosure statement (CEDS)

- Name of each entity (including the parent) that is consolidated
- Type of entity, e.g. body corporate, partnership or trust
- Role of entity, e.g. trustee, partner or JV participant
- Location body corporate incorporated or formed
- Percentage ownership (direct or indirectly held)
- Tax residency (AU or foreign)
- Foreign resident – list of each foreign jurisdiction

Must be a separate statement

+ Basis of preparation

Effective date:

- Financial year commencing on or after 1 July 2023
- December YEs - First time disclosing, 31 December 2024

Scope:

- Australian Public companies (listed and unlisted)
- Materiality will not apply

Directors Declaration :

- Information is "*true and correct*"

Mandatory disclosure of subsidiaries' tax residence

Reporting update
Updated 9 July 2024, 24RU-06

KPMG

Applicable – 30 June 2024 year end onwards for public companies

Highlights

- In brief
- Unpacking the Amendments
- Other implications

In brief

The *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Act 2024* (Amendments) passed both houses of parliament on 27 March 2024 and received Royal Assent on 8 April 2024. The new requirements will apply to financial reports prepared by public companies for each financial year commencing on or after 1 July 2023, i.e. annual financial reports for 30 June 2024.

Mandatory disclosure of subsidiaries’ tax residence

Consolidated entity disclosure statement (CEDS)

- Name of each entity (<u>including the parent</u>) that is consolidated
- Type of entity, e.g. body corporate, partnership or trust
- Role of entity, e.g. trustee, partner or JV participant
- Location body corporate incorporated or formed
- Percentage ownership (direct or indirectly held)
- **Tax residency (AU or foreign)**
- Foreign resident – list of each foreign jurisdiction

Must be <u>a separate statement</u>

Proposed amendments to Consolidated Entity Disclosure Statement (CEDS)

Reporting update
4 October 2024, 24RU-13

KPMG

Highlights

- Current requirements
- Proposed amendments and clarifications

Current requirements

CEDS is required in annual financial reports of public companies with Chapter 2M reporting obligations

The *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Act 2024* (Amendments) was enacted in April 2024.

The Amendments changed the *Corporations Act 2001* (Corps Act) and introduced new mandatory disclosures for inclusion in annual financial reports. These changes require Australian public companies (both listed and unlisted) to disclose details for each subsidiary in their consolidated financial statements – the ‘Consolidated Entity Disclosure Statement’ (CEDS) – including the tax residency of each of those entities at the end of the financial year.

See our Reporting Update (24RU-06 | Mandatory disclosure of subsidiaries’ tax residence) for a detailed discussion unpacking the Amendments, considerations of other implications and illustrative disclosures.

These requirements apply to annual financial reports prepared by public companies for each financial year commencing on or after 1 July 2023, i.e. annual financial reports for 30 June 2024 and onwards.

Proposed amendments to CEDS

Key proposals:

- Tax residency disclosures where entities are resident in more than one jurisdiction.
- Inserting a definition of ‘Australian resident’ for Partnerships and Trust.

for 30 June 2025 year-end onwards

Questions?

Regulatory update

Part 2

BEPS Pillar Two: state of legislation in Australia and Globally

What is the status of BEPS legislation in Australia?

Draft Legislation Released March 2024
(1 Jan 2024 effective date)

Primary legislation Introduced to the Parliament

liability and framework, imposition, amendments to tax laws

Sub-ordinate legislation Unknown timing of registration (may be registered by 31 Dec 2024)

key operative provisions

Proposed effective date 1 Jan 2024

What is the status of BEPS legislation around the globe?

KPMG State of play online platform

Disclosures at 31 December 2024 (incl. interims)

Status of Pillar Two rules

<u>Not</u> substantively enacted
at 31 December 2024
(nor at date of authorisation of FS)

Strongly recommended disclosures

1. **Exposure** to Pillar Two income taxes at reporting date, both **quantitative and qualitative information**
2. If exposure **not known or reasonably estimable,** disclose that fact including progress made

Disclosures at 31 December 2024 (incl. interims)

Status of Pillar Two rules

<u>Not</u> substantively enacted at 31 December 2024 *(nor at date of authorisation of FS)*	Substantively enacted **<u>but not</u>** effective at 31 December 2024 (i.e. no top up tax to pay)
Strongly recommended disclosures	**Mandatory disclosures**
1. Exposure to Pillar Two income taxes at reporting date, both **quantitative and qualitative information** 2. If exposure **not known or reasonably estimable,** disclose that fact including progress made	1. Temporary exception from deferred tax accounting has been applied **2. Exposure** to Pillar Two income taxes at reporting date, both **quantitative and qualitative** If exposure **not known or reasonably estimable,** disclose that fact including progress made

Disclosures at 31 December 2024 (incl. interims)

Status of Pillar Two rules

Not substantively enacted at 31 December 2024 *(nor at date of authorisation of FS)*	Substantively enacted **but not** effective at 31 December 2024 (i.e. no top up tax to pay)	Substantively enacted **and** effective at 31 December 2024 (i.e. top up tax payable)
Strongly recommended disclosures	**Mandatory disclosures**	**Mandatory disclosures**
1. Exposure to Pillar Two income taxes at reporting date, both **quantitative and qualitative information** 2. If exposure **not known or reasonably estimable,** disclose that fact including progress made	1. Temporary exception from deferred tax accounting has been applied **2. Exposure** to Pillar Two income taxes at reporting date, both **quantitative and qualitative** If exposure **not known or reasonably estimable,** disclose that fact including progress made	1. Disclose separately current tax expense recognised in relation to Pillar Two 2. Continue to disclose application of **temporary exception from deferred tax accounting** each annual reporting period within accounting policies

Disclosures at 31 December 2024 (incl. interims)

Status of Pillar Two rules

Not substantively enacted at 31 December 2024 *(nor at date of authorisation of FS)*	Substantively enacted **but not** effective at 31 December 2024 (i.e. no top up tax to pay)	Substantively enacted **and** effective at 31 December 2024 (i.e. top up tax payable)
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All scenarios could apply in one set of financials, depending on status of Pillar Two in different jurisdictions Group operates in!

ESG update

What has been issued?

Australia's sustainability reporting framework is now in place.

Climate-related financial disclosures reporting legislation *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures)* Act 2024 (Act) received Royal Assent in early September 2024.

The Act requires **relevant entities to disclose their climate-related** plans, financial risks and opportunities.

These must be in accordance with **Australian Sustainability Reporting Standards** (ASRSs) made by the Australian Accounting Standards Board (AASB)

1. **AASB S1** General Requirements for Disclosure of Sustainability-related Financial Information – a **voluntary** Standard

2. **AASB S2** Climate-related Disclosures – a **mandatory** Standard

AASB S1 and AASB S2 are **based on IFRS Sustainability Disclosure Standards** with minimal variations

Who must prepare climate-related disclosures?

Corporations Act Chapter 2M financial report obligation?

No → For example:
Charity registered with ACNC
ASIC relief

Yes ↓

Included in Australian consolidated climate report?

Yes → Australian subsidiaries

No ↓

Prepare climate-related disclosures

- **Public company:** Listed / unlisted, Limited by guarantee
- Large proprietary company
- **Asset owner:** Registered scheme, Superfund (RSE), Retail CCIV

No climate-related disclosures required

When must an entity report?

Annual financial year ending | **31 Dec 2025** | **30 Jun 2026** | **30 Jun 2027** | **30 Jun 2028**

Group 1

Meet **two** of **three** thresholds:
- Consolidated revenue >= $500m
- Consolidated assets >= $1b
- Employees > 500

OR
NGER reporter above NGER reporting threshold (in s13(1)(a) of the NGER Act)

Group 2

Meet **two** of **three** thresholds:
- Consolidated revenue >= $200m
- Consolidated assets >= $500m
- Employees > 250

OR
NGER reporter not in Group 1
OR
Asset owner with Assets under management >= $5b

Group 3

Meet **two** of **three** thresholds:
- Consolidated revenue >= $50m
- Consolidated assets >= $25m
- Employees > 100

More information - watch our sustainability webinar

Julia Bilyanska
Partner in Charge
Climate Change &
Sustainability

Julie Locke
Director
Department of
Professional Practice

Adrian King
Partner In Charge
ESG Advisory & Assurance
AASB Board Member

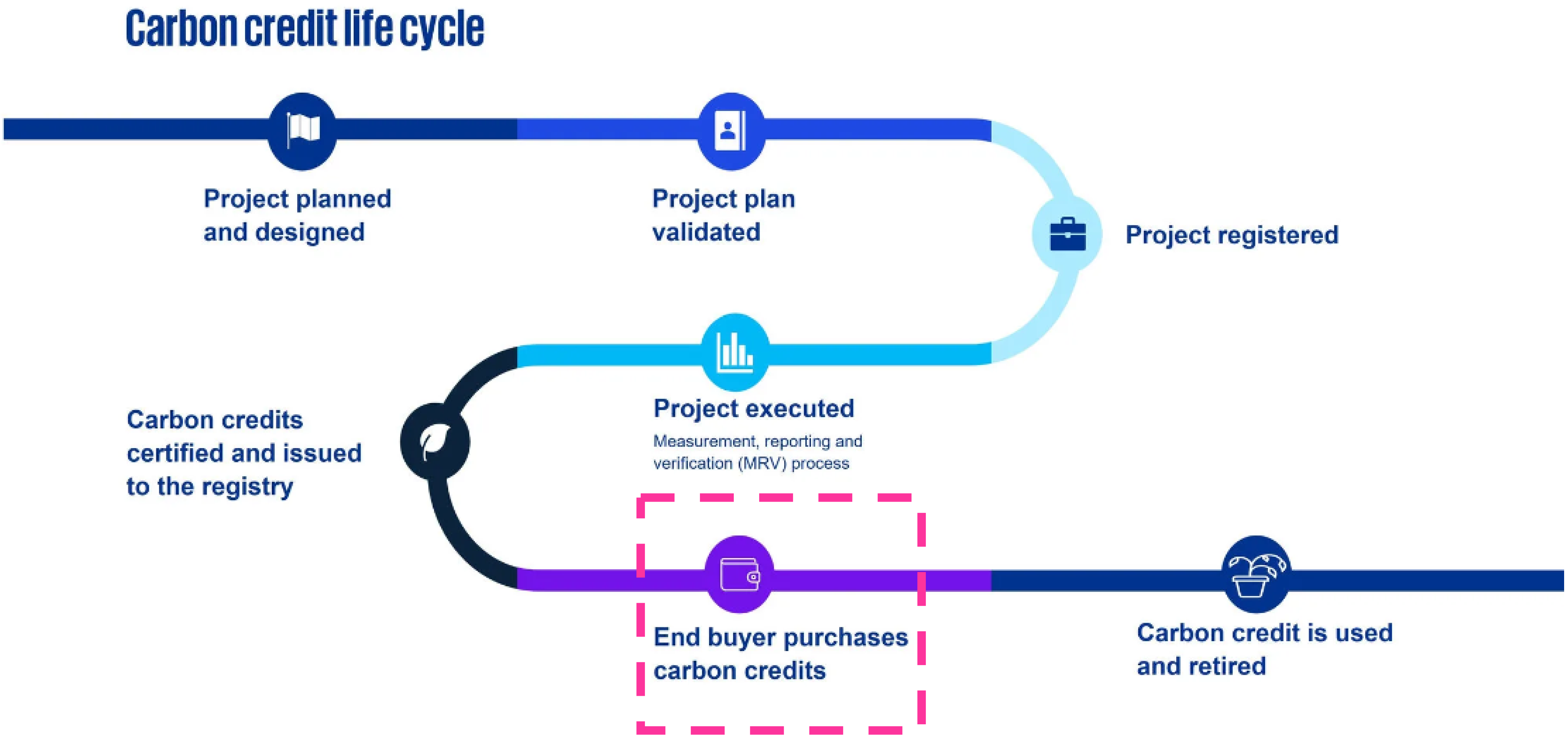
Peter Trace
Partner
Finance Advisory

Daniel Camilleri
Partner
Audit & Assurance

Andrew King
Partner
Climate Change
& Sustainability

Classification of purchased carbon credits under voluntary schemes

Classification of purchased carbon credits under voluntary schemes



Classification of purchased carbon credits under voluntary schemes

Organisations need to consider the nature of the arrangement and its business purpose for purchasing the credits

Is credit purchased together with other goods or services?	Consider if credit is part of the cost of another good or service or if it is a separate unit of account.

Classification of purchased carbon credits under voluntary schemes

Organisations need to consider the nature of the arrangement and its business purpose for purchasing the credits

Is credit purchased together with other goods or services?	Consider if credit is part of the cost of another good or service or if it is a separate unit of account.
Is credit purchased with intention of selling it in ordinary course of business? **Is credit purchased to fulfil contracts with customers?**	Account for credit as **inventory** and consider whether the guidance for commodity broker-traders applies.

Classification of purchased carbon credits under voluntary schemes

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Is credit purchased for advertising or promotional activities?	**Expense** is recognised for advertising and promotional activities when benefit of those goods or services is available.

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Is credit purchased for advertising or promotional activities?	**Expense** is recognised for advertising and promotional activities when benefit of those goods or services is available.

If none of the considerations applies - carbon credit generally a separate unit of account purchased to offset the organisation's own emissions

Example: purchased carbon credits under voluntary schemes

Scenario

- BeGreener Ltd is a manufacturing company.
- BeGreener Ltd **voluntarily** decides to compensate for its carbon emissions from it's manufacturing process by purchasing Australian Carbon Credit Units (ACCUs) from a green project developer. ACCUs have been certified and issued by Clean Energy Regulator.
- BeGreener Ltd purchased the ACCUs to offset a specified amount of carbon emissions to be able to make a voluntary carbon neutral statement that is specific to its manufacturing plant.
- ACCUs will be retired and removed from the registry when BeGreener Ltd 'uses' them to offset their emissions.

Q: How should BeGreener classify the ACCUs?

Example: purchased carbon credits under voluntary schemes

Is credit purchased together with other goods or services? ✗

Is credit purchased with intention of selling it in ordinary course of business? ✗

Is credit purchased to fulfil contracts with customers? ✗

Is credit purchased for advertising or promotional activities? ✗

Carbon credit <u>purchased to offset Be Greener Ltd's own emissions</u> ✓

→

Can the asset be recognised? ✓
Ability to offset = economic benefit

Example: purchased carbon credits under voluntary schemes

- Is credit purchased together with other goods or services? ✗
- Is credit purchased with intention of selling it in ordinary course of business? ✗
- Is credit purchased to fulfil contracts with customers? ✗
- Is credit purchased for advertising or promotional activities? ✗
- Carbon credit purchased to offset Be Greener Ltd's own emissions ✓

Can the asset be recognised? ✓
Ability to offset = economic benefit

Does it meet the definition of **inventory** under AASB 102? ✓

If does not meet a definition of inventory, likely to be an Intangible asset under AASB 138

BeGreener should classify the ACCUs as inventory under AASB 102 as they will be "consumed in the production process"

Emissions and green schemes in financial reports Hub

Polluting company

Subject to mandatory targets under an emissions scheme or voluntarily sets targets and purchases carbon credits – e.g. as part of its net-zero plan.

Green company

Generates carbon credits by undertaking green projects and sells them to third parties.

Intermediary

Buys carbon credits from green companies and sells them to polluting companies.

Investor

Invests in green projects for returns, including in the form of carbon credits.

Find more guidance on KPMG Emissions and green schemes in financial reports Hub

Impact of climate change on impairment testing

Potential impact on non-current assets and cashflows

Impact on **useful life**

Impact on **residual value**

Fair value of PPE and investment property

AASB 136 contains a list of **impairment indicators**.

Transitioning to a lower-carbon economy or a change in climate-related legislation **may trigger** these indicators.

Potential impact on non-current assets and cashflows

Impact on **useful life**

Impact on **residual value**

Fair value of PPE and investment property

AASB 136 contains a list of **impairment indicators**.

Transitioning to a lower-carbon economy or a change in climate-related legislation **may trigger** these indicators.

01 Customer and supplier behaviour

02 Sourcing

03 Investor and lender behaviour

04 Government policies and legislation

05 Technological developments

06 Physical impacts

Reflecting climate-related matters in impairment models

Should the cashflows or discount rate be adjusted?

VIU

Reasonable and **supportable**

That represent **'best estimate'** of the range of economic conditions

Consider **'traditional'** vs **'expected cash flow'** approach

FVLCD

Sufficient data available to market participants

Adjust cash flows if:
(preferred approach)

Reflecting climate-related matters in impairment models

Should the cashflows or discount rate be adjusted?

VIU

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Consider **'traditional'** vs **'expected cash flow'** approach

FVLCD

Sufficient data available to market participants

Adjust cash flows if:
(preferred approach)

Adjust discount rate if:
(alternative approach)

Sufficient data not available

Not possible to **reliably quantify impact on cashflows**

Adjustments can be supported (e.g. market multiples)

Don't forget terminal value!

Capital expenditure (CAPEX) – improvement vs maintenance

CAPEX in response to climate-related matters

Future CAPEX that will **improve** or **enhance?**

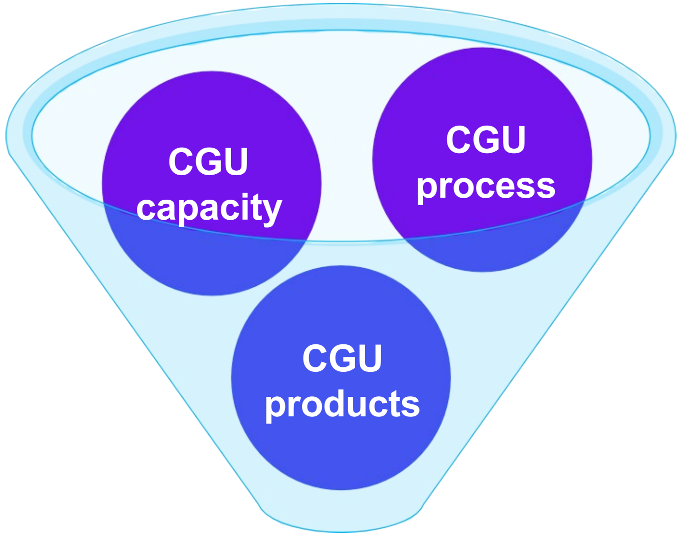
Future CAPEX that will **maintain?**

Capital expenditure (CAPEX) – improvement vs maintenance

CAPEX in response to climate-related matters

Future CAPEX that will **improve** or **enhance?**

Exclude from cashflows



Judgement

Future CAPEX that will **maintain?**

Include in cashflows

Capital expenditure (CAPEX) – improvement vs maintenance – example

Scenario

- BetaCo has budgeted to acquire a carbon dioxide capturing device next year to reduce GHG emissions.
- The device will be added to BetaCo's existing production line.
- Assume a single cash generating unit (CGU) tested annually for impairment using VIU model

Q: Should we include investment in the device in the cashflow forecast:

A Yes – include **B** No – exclude

Capital expenditure (CAPEX) – improvement vs maintenance – example

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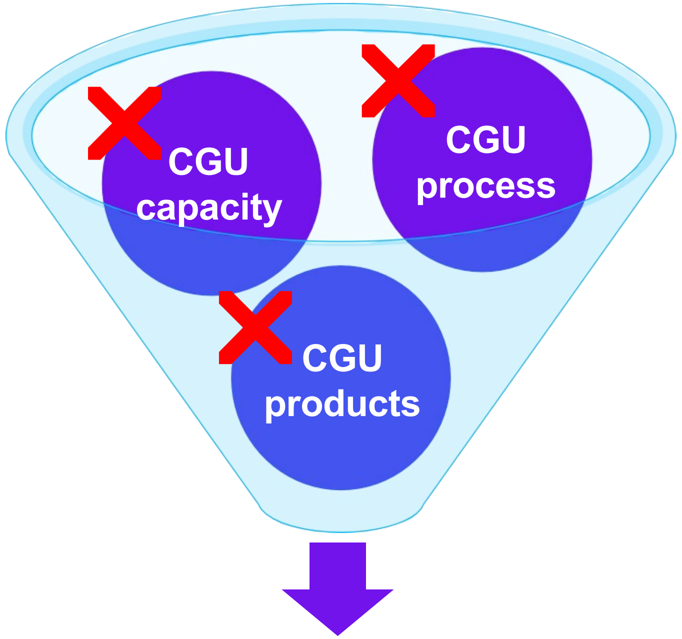


A **Yes – include**

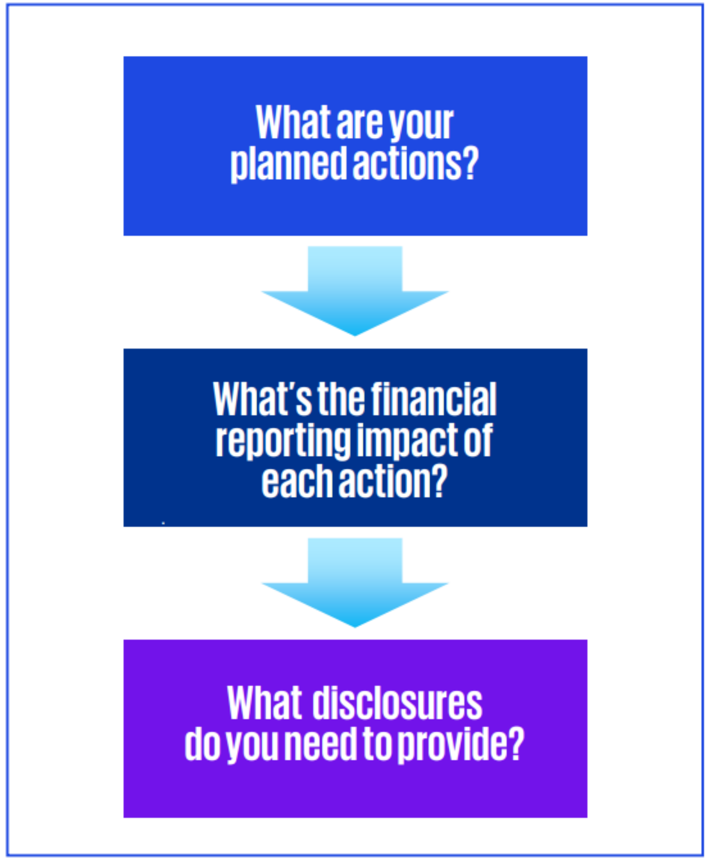
Disclosures – climate-related and other uncertainties

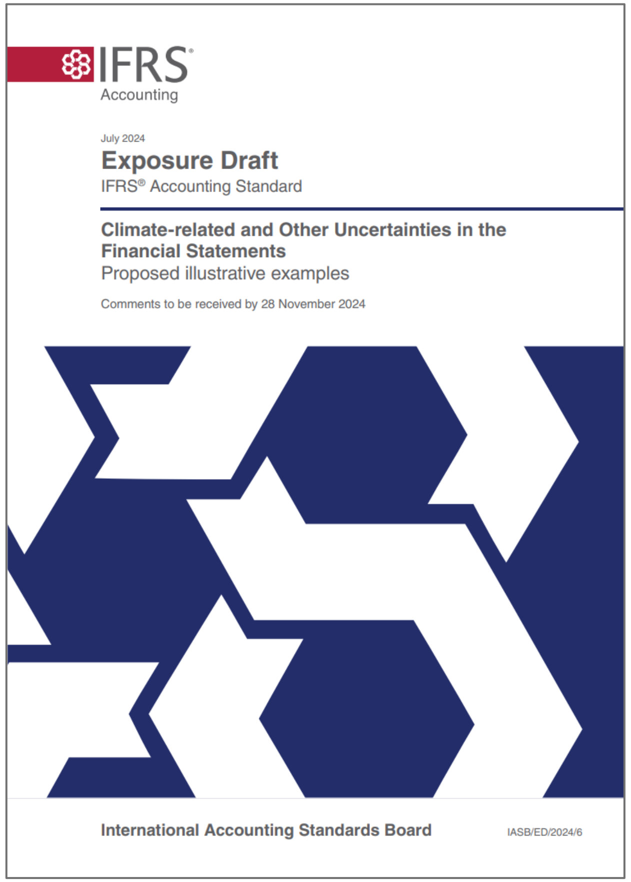
AASB 101 additional disclosures

AASB 108 disclosure of estimates

AASB 136 impairment disclosures

Disclosures – climate-related and other uncertainties





AASB 101 additional disclosures

AASB 108 disclosure of estimates

AASB 136 impairment disclosures

Disclosures – climate-related and other uncertainties - example

Scenario

- CementCo has a single CGU, a cement plant in France, that produces significant GHG emissions
- France has introduced regulation that requires CementCo to acquire emission allowances, resulting in additional emission allowance costs (EAC). Future regulation is considered likely
- EAC is a key assumption for testing goodwill – that is, an assumption that the CGU's recoverable amount is most sensitive

Disclosures – climate-related and other uncertainties - example

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- France has introduced regulation that requires CementCo to acquire emission allowances, resulting in additional emission allowance costs (EAC). Future regulation is considered likely
- EAC is a key assumption for testing goodwill – that is, an assumption that the CGU's recoverable amount is most sensitive

Proposed disclosure assessment

CementCo discloses:

- The EAC key assumption, including the future price of emission allowances and future scope of regulations
- Its approach to determining EAC value
- Any impairment from a reasonable possible change in EAC

AASB 108

AASB 136

Wrap up

Take-aways

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

2. **Be aware of regulatory developments and ASIC's focus areas, and consider whether they impact preparation of financial reports**

3. **Consider impacts of BEPS Pillar 2 and need for disclosure in financial reports**

4. **Prepare for wider reporting obligation relevant to your organisation (including sustainability reporting and disclosure of subsidiaries' tax residence), and monitor ongoing developments**

5. **Assess accounting and disclosure implication of climate-related initiatives and uncertainties faced by your organisation**

Questions?

Thank you

BEPS Pillar Two: example disclosures in 31 December 2024 financial statements

During the period, [country K] in which the Parent Company operates has enacted new tax legislation to implement the top-up tax. The legislation is effective from 1 January 2024. Because of the Group's operation in in [country F] where the statutory tax rate is 10% and in [Country G], where Subsidiary β receives government support through additional tax deductions that reduce the effective tax rate to below 15%, the Group recognised a current tax expense of $xxx (2023: $nil) in relation to the top up tax which was levied on the Parent Company.

The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

In March 2024, [Country G] enacted new tax legislation to implement a domestic minimum top-up tax, which is effective from 1 January 2025. As a result, from 2025 Subsidiary β will be liable for the top-up tax in relation to its operations instead of the Company.

In October 2024, a Bill was introduced to the Parliament of [Country F] to introduce a domestic minimum top-up tax. Management is closely monitoring legislative developments, but as at the authorisation of these financial statements, the Bill is still waiting for hearing in the Parliament. If the proposed Bill is passed as drafted, the expected impact is that Subsidiary θ, intermediate parent of the subsidiaries in [Country F], will be liable for the top-up tax in relation to the operations in [Country F] instead of the Parent Company.

Disclosures required for substantively enacted **and** effective Pillar Two rules at 31/Dec/2024

Disclosures required for substantively enacted **but not** effective Pillar Two rules at 31/Dec/2024

Disclosure for **not substantively enacted** Pillar Two rules at 31/Dec/2024