Are you ready for 30 June 2024 reporting?

—

21 May 2024

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.

*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?

AASB	ASIC	IASB and IFRS IC
ISSB	Global tax reform	

Climate change and sustainability reporting

Agenda

New standards effective for 30 June 2024

New standards: 30 June 2024 Y/Es

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 + recap today

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

[AASB 101 and AASB 108]

Refer to 31 December 2023 webinar

AASB 2023-2, AASB 2023-4

International Tax Reform – Pillar Two Model Rules

[Amendments to AASB 112]

Recap today

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 (subject to legislation being substantively enacted)

New standards: 30 June 2024 H/Ys

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

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

Refer to 31 December 2023 webinar + recap today

Annual reporting periods beginning on or after 1 January 2024

Other standards available for early adoption

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]

IFRS 18
Presentation and Disclosures in Financial Statements

Annual reporting periods beginning on or after 1 January 2025

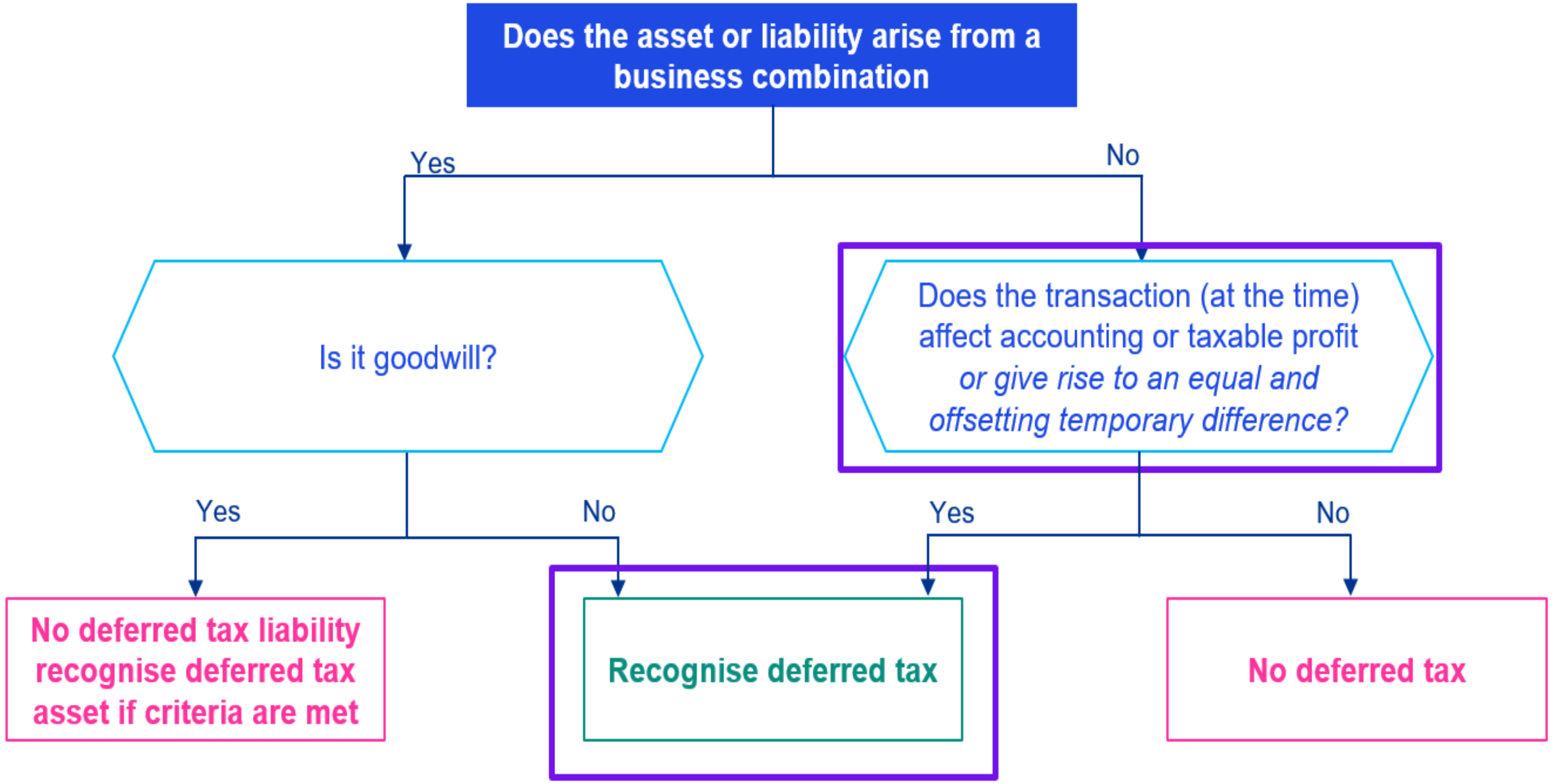
Annual reporting periods beginning on or after 1 January 2027

Explored in detail today

Recap: Deferred tax

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

- Change to deferred tax on assets & liabilities arising from same transaction
- E.g. ROUA & lease liability, decommissioning asset & provision
- Deferred taxes on both asset & liability to be recorded
- Gross presentation of deferred taxes in notes
- Where applicable, deferred taxes netted in statement of financial position



Recap: Deferred tax (continued)

$'000	Right-of-use asset (ROUA)				Lease liability			
	Cost	Tax base	Temp diff	DTL	CA	Tax base	Temp diff	DTA
1 January 2018	500	0	500	**(150)**	(500)	0	(500)	**150**
1 January 2023	200	0	200	**(60)**	(220)	0	(220)	**66**

Before amendment – Net/Nil deferred tax recognised / disclosed in notes and Balance

$'000	**KPMG Net approach** (no IRE)	**Other firms** (applied IRE)
1 January 2018	0 (net)	Nil
1 January 2023	6 – DTA	Nil

After amendment – Gross deferred tax recognised / disclosed in notes

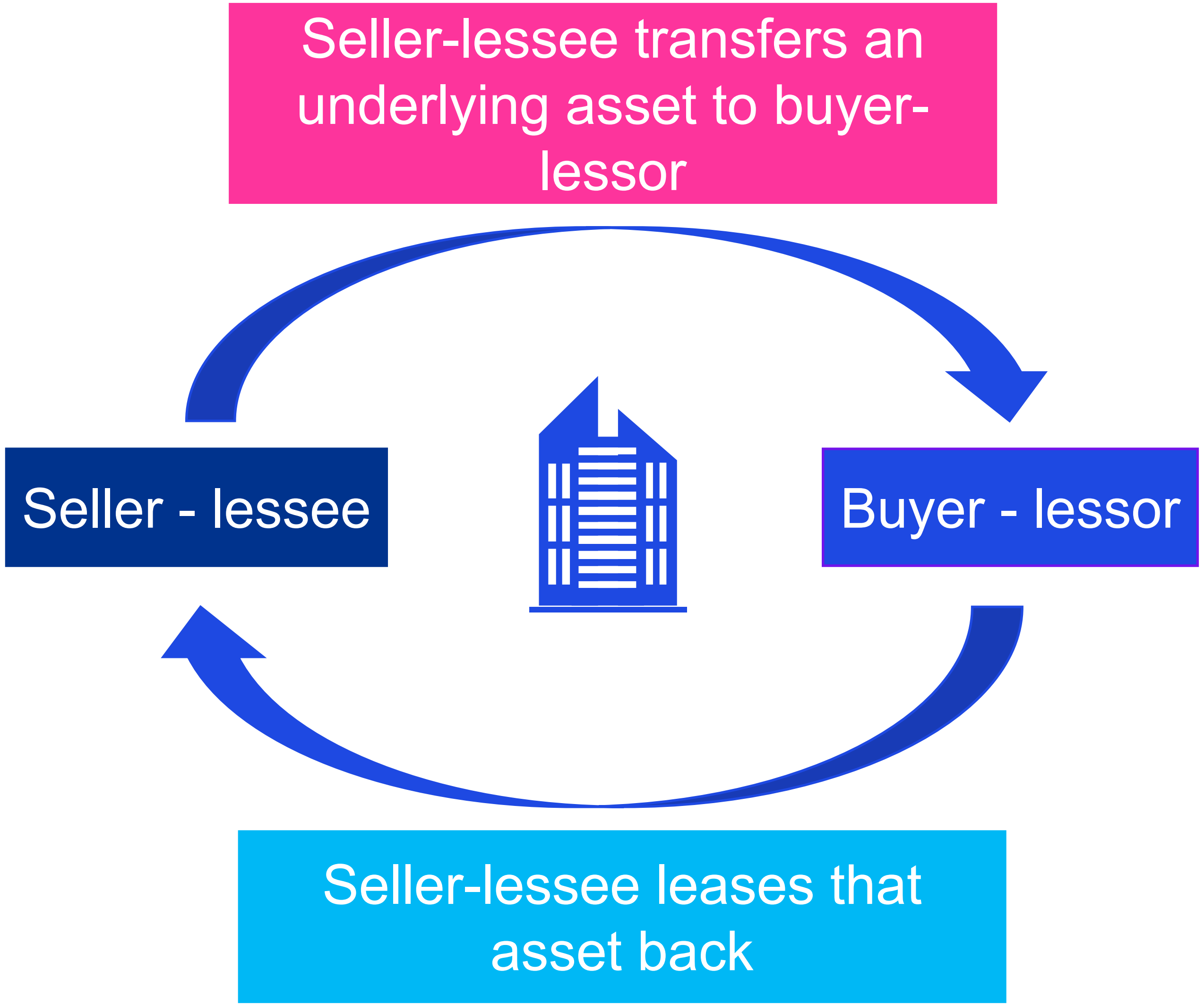
$'000	1 Jan 18	1 Jan 23
ROUA	(150) DTL	60 (DTL)
Lease Liability	150 DTA	66 DTA

Reminder:
Deferred tax asset recoverability assessment on gross DTA

AASB 112 **offsetting requirements for DTA / DTL continue to apply for face of Balance Sheet**
i.e. net $6k DTA on balance sheet at 1 Jan 23

Recap: Sale and leaseback

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



Impact

Variable lease payments estimated & recorded as a part of the sale & leaseback transaction.

Lease liabilities recognised as part of sale **will be higher** than would otherwise have been **resulting in a lower gain on sale** of asset subject to leaseback.

Variable lease payments examples

- Sales / revenue of a building or shop;
- Actual usage of asset e.g. Km's driven;
- Actual output of asset e.g. # widget; or produced per month or X% of carbon credits produced from a plantation.

Includes sale and leasebacks that are solely variable and a mix of fixed and variable lease payments

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

Supplier finance arrangements

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

Finance provider

Supplier finance arrangement

"supply chain finance"
"payables finance"
"reverse factoring"

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

Pays amounts buyer owes to suppliers

Provides goods and/or renders services

Buyer
(Payable)

Supplier
(Receivable)

Not supplier finance arrangements:

- Receivable financing
- Inventory financing
- Credit enhancements for the buyer

Supplier finance disclosures

Disclosure requirement	Initial year of application			Subsequent year ends
	Interim	Year end		
Terms and conditions of supplier finance arrangements	✗	✓		✓
As at the beginning and end of the reporting period		*Opening balances*	*Closing balances*	*Opening + closing balances*
(i) Carrying amounts and line items of financial liabilities that are part of a supplier finance arrangement	✗	✗	✓	✓
(ii) Amount of (i) that suppliers have already received payment from finance providers	✗	✗	✓	✓
(iii) Comparison of payment terms / due dates for payables disclosed under (i) and comparable trade payables	✗	✗	✓	✓

Covenants in loan arrangements

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

Basis for classification

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 are conditions specified in a "loan arrangement"

(In KPMG's view) objective and subjective covenants should be dealt with consistently for term loans and roll over arrangements

Beginning of financial period
1 Jan 2024

Reporting date
31 Dec 2024

Current reporting period

12-months after reporting period

Covenant
Impact classification

Future covenant
DO NOT impact classification

NEW disclosure requirements

Future covenant
DO NOT impact classification
NO disclosures

Example: Term loan with a subjective covenant

Scenario

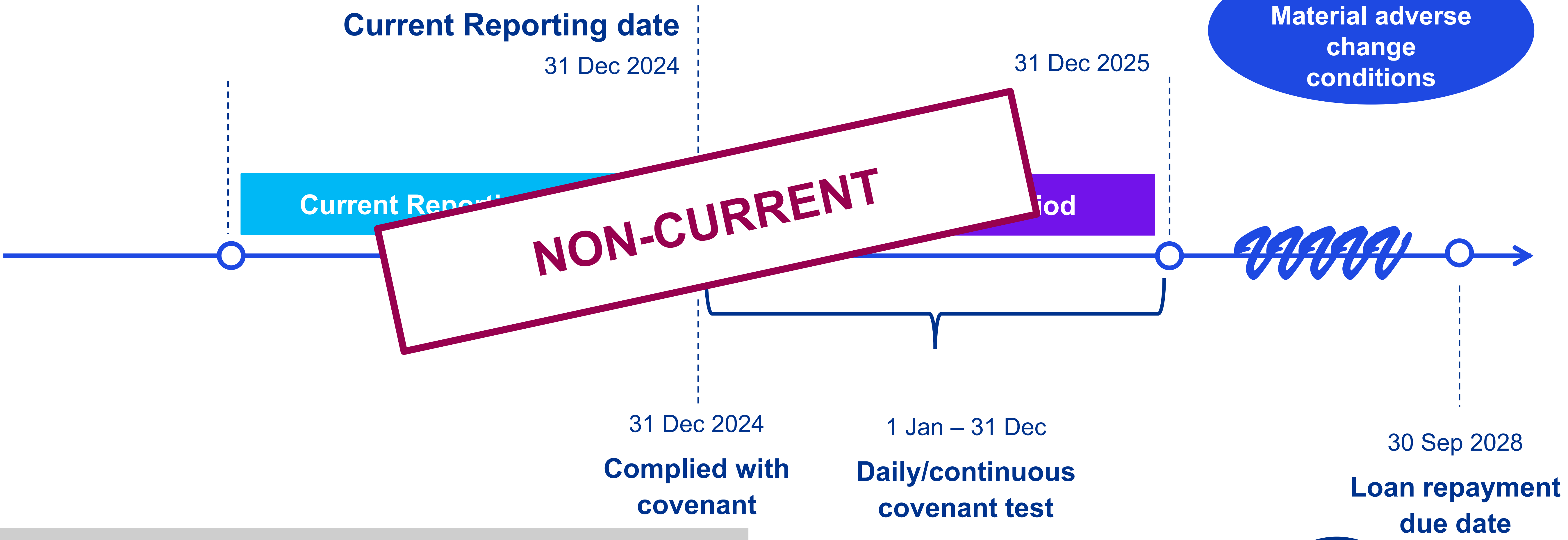
- Five-year term loan, fully drawn down on 1 Oct 2023
- Covenant: Change in ownership/control
- Loan becomes repayable if, at any time:
  - each subsidiary of Sigma Pty is not wholly-owned (directly or indirectly) or
  - a change of control over Sigma Pty
- There was no change in ownership/control on or before 31 Dec 2024
- Sigma Pty does not expect a change of control within 12 months of reporting date

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

A Current **B** Non-current

Example: Term loan with a subjective covenant

Also apply to **Material adverse change conditions**



Future covenants due to be tested after reporting date impact disclosures **not** classification!

New disclosure requirements

Other amendments and complexities

What else changes...

Refer to 30 June 2023 webinar

Classification of convertible debts

Settlement includes cash, equity instruments, and other assets or services

▽

When an organisation classifies the host liability as current or non-current, it can ignore only those conversion options that meet the definition of equity (fixed for fixed)

Currently mixed practice

Judgement is required...

- Which liabilities arise from “loan arrangements”
- Interpretation of ‘substance’ of the right to defer settlement of a liability for at least 12 months
- Classification of complex rollover liabilities

Effective from 1 January 2027

IFRS 18 – Key new requirements

New required categories & sub-totals in Statement of Profit or Loss	**Improved comparability in statement of profit or loss**
Disclosures about management-defined performance measures (MPMs)	**Enhanced transparency of management-defined performance measures**
Enhanced guidance on grouping of information (aggregation & disaggregation)	**More useful grouping of information**

IFRS 18 – New categories and sub-totals

New required categories and sub-totals in Statement of Profit or Loss

Income statement

General model (e.g. manufacturer without specified main business activities[1])

Operating[2]	Revenue	X
	Operating expenses (analysed by nature, function or both as appropriate)	(X)
	Operating profit	**X**
Investing[2]	Share of profit or loss of equity-accounted investees	X
	Income from other investments	X
	Interest income from cash and cash equivalents	X
	Profit or loss before financing and income tax[3]	**X**
Financing[2]	Interest expense on borrowings and lease liabilities	(X)
	Interest expense on pension liabilities	(X)
	Profit before tax	**X**
	Income tax	(X)
	Profit for the year	**X**

1 Companies with specified main business activities of investing in assets (e.g. real estate companies) or providing financing to customers (e.g. banks) classify additional income and expenses in the operating category, which would otherwise be classified in the investing or financing category.

2 The operating, investing and financing categories are not aligned with those for the cash flow statement.

3 Companies providing financing to customers as a main business activity (e.g. banks) typically do not present this subtotal.

IFRS 18 - Management-defined performance measures

Management-defined performance measures (MPMs)

Requirement to disclose in a single note:

- Statement that MPM reflects **management's view**
- **Reconciliation** back to IFRS-defined subtotal
- Explain **why** MPM is reported
- Explain **how** MPM is calculated
- Explain any **changes** to MPM

IFRS 18 – Other changes

Other changes

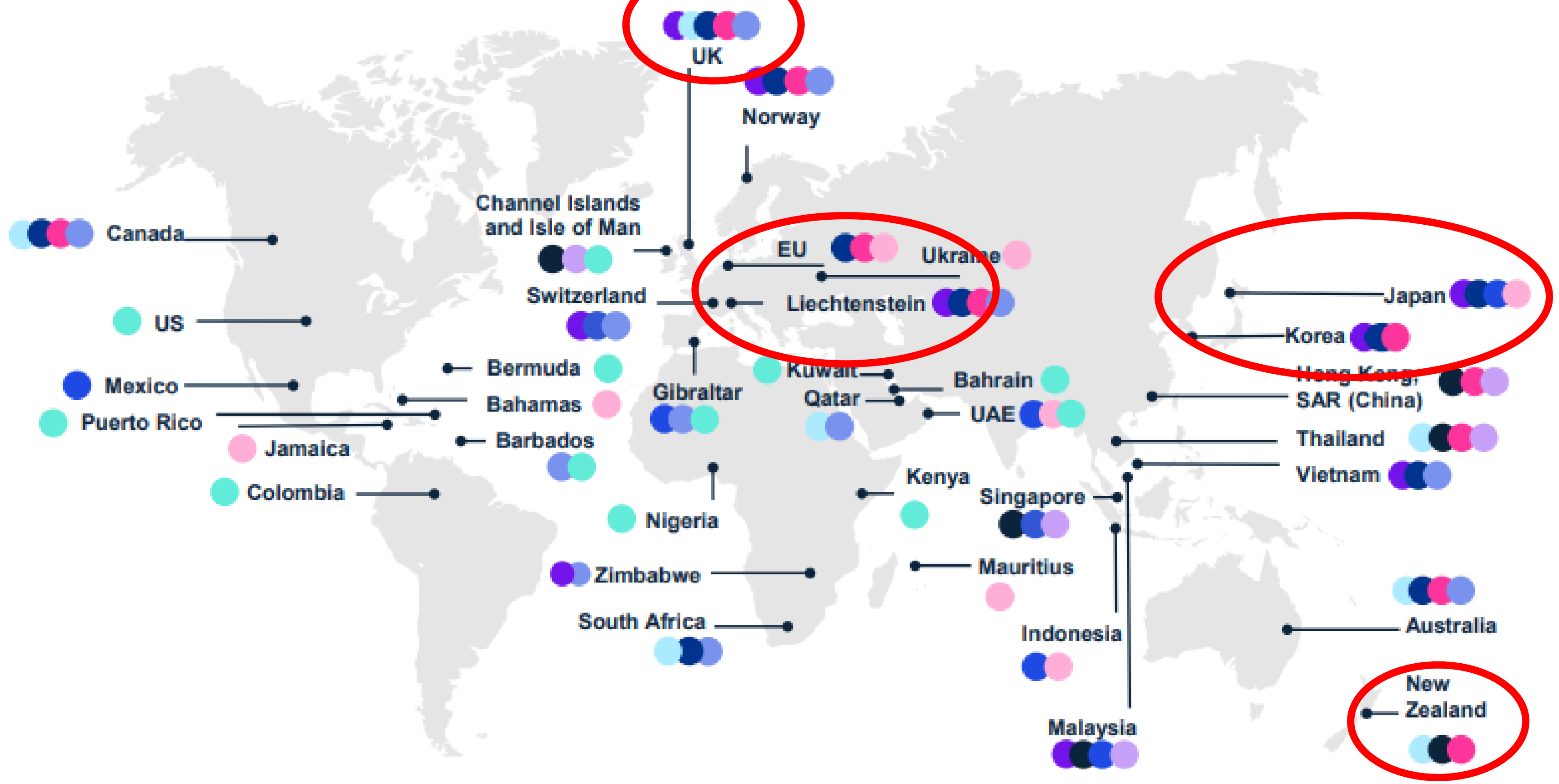
- Criteria for **aggregating/disaggregating**
- Guidance on whether information should be included in the **primary financial statements or notes**
- Removing choice in cash flows **re: dividends**
- Disclosures about items labelled as **‘other’**

BEPS: Pillar 2

Pillar Two: Global overview

Current as at 22 March 2024

For latest refer *State of play* online platform



Enactment date = date legislation passed/approved

Effective date = date legislation applies

Pillar Two applies to:

- Multinational entities
- >/= EUR750 million of global/ consolidated turnover in 2 of preceding 4 years (approx. A$1.2b)

(excludes govt, NFP, pensions, investment funds)

Legend

- Legislation passed/approved
- Draft legislation released
- IIR (2024)
- IIR (2025)
- UTPR (2025)
- Intention to apply IIR/UTPR (timing uncertain or deferred)
- DMTT (2024)
- DMTT (2025)
- Intention/option to apply DMTT (timing uncertain)
- Other related legislation/announcement

Be Prepared!
In case it is enacted by 30 June 2024

Status of Pillar Two in Australia

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

Primary legislation
liability and framework,
imposition,
amendments to tax laws

Sub-ordinate legislation
key operative provisions

Once enacted, to be effective retrospectively from 1 January 2024

Application of Pillar 2 rules – key principles

Who pays top up taxes?

1. DMTT – local low tax entity, if DMTT legislation applies in local entity jurisdiction

2. **IIR – ultimate parent,** if legislation applies in ultimate parent jurisdiction (**or highest intermediate parent**)

3. UTPR - Back stop, if not enough top up tax paid under DMTT or IIR, other group entities will pay

How obligation for top up tax is determined?

Need to calculate **Effective tax rate (ETR) by jurisdiction**, not individual organisation

ETR is calculated based on Pillar 2 rules (not a AASB ETR), i.e. includes complex Pillar 2 adjustments

Jurisdiction can have corporate tax rate >15%, but Pillar 2 ETR < 15%

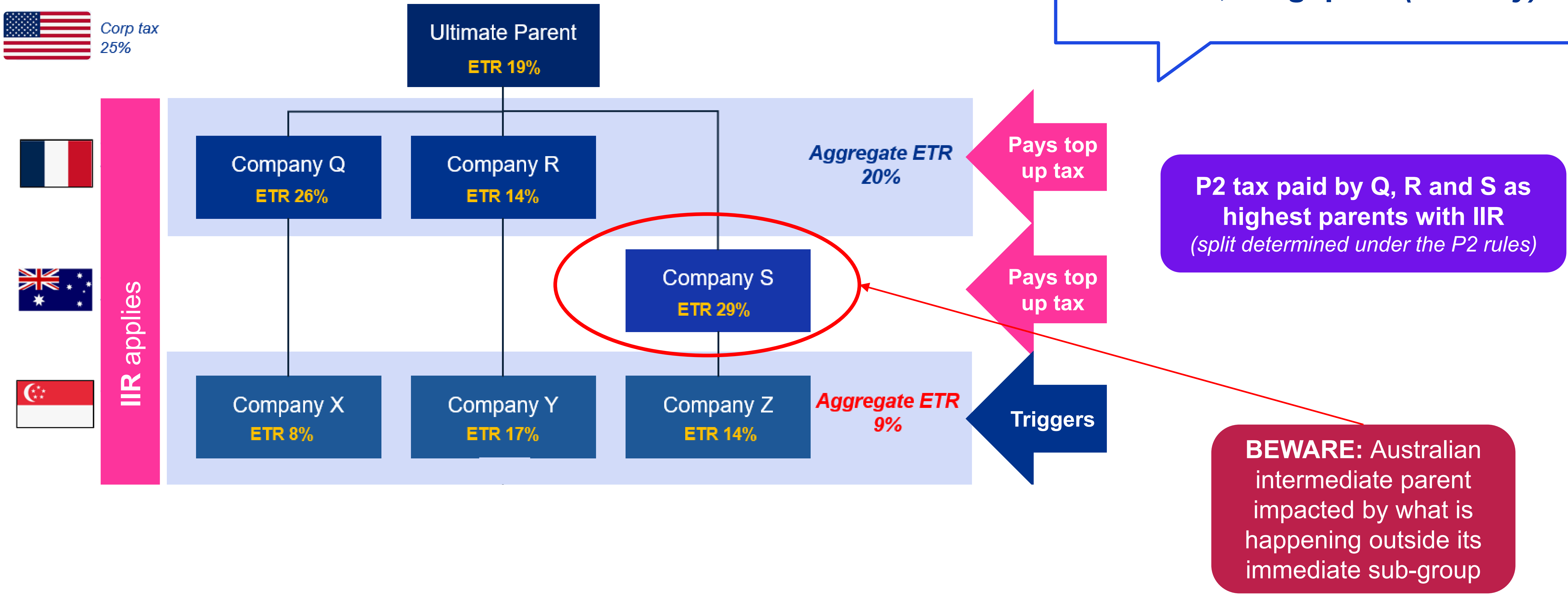
Temporary transitional relief - simplified calculations supporting top up tax of zero (first 3 years)

The Challenge – complex law, modelling and new data requirements

Application of Pillar 2 rules – who pays?

100% owned group

Assume **for FYE 30 June 2024,** Pillar 2 applies in **France, Australia, Singapore *(IIR only)*?**



Pillar 2 tax – Accounting considerations

In scope of AASB 112 Income taxes

Current tax

Entity paying tax to local tax authority recognizes current tax expense in its income statement

Deferred tax

AASB provide **"temporary" mandatory relief** from accounting for deferred tax that arises from legislation implementing the Pillar 2 rules

Other areas

Uncertain tax positions

Pillar 2 rules likely to create new **uncertain tax positions (IFRIC 23)**

Impairment testing

Need to consider upcoming changes to Pillar 2 tax laws **even before substantive enactment:**

- VIU – if sufficient info available
- FVLCD – if market participant would

Disclosures for 30 June 2024 YE

Once tax law is substantively enacted but before Pillar 2 tax is effective, **mandatory** disclosure requirements for 30 June 2024 YE

1. Disclose temporary exception from deferred taxes has been applied

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

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

No Tax law substantively enacted

↓

Disclosures 2 & 3 strongly recommended

Application of AASB 112 deferred tax exemption

Disclosure examples

The Organisation for Economic Co-operation and Development's (OECD) Pillar Two Rules

We have adopted the amendments to IAS 12 issued in May 2023, which provide a temporary mandatory exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules, including tax law that implements qualified domestic minimum top-up taxes described in those rules. Under these amendments, any Pillar Two taxes incurred by the Group will be accounted for as current taxes from 1 January 2024.

Rio Tinto Annual report 31 December 2023

Future tax developments

We continue to monitor and evaluate the domestic implementation by relevant countries of the Organisation for Economic Co-operation and Development's (OECD) Pillar Two which seeks to apply a 15% global minimum tax. Pillar Two was substantively enacted by the United Kingdom on 20 June 2023, with application from 1 January 2024. As the Pillar Two legislation was not operative at the reporting date, the Group has no related current tax exposure.

We have adopted the guidance contained in *International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12* released on 23 May 2023, which provides a temporary mandatory exception from deferred tax accounting for Pillar Two. We estimate that the exposure to additional taxation in 2024 under Pillar Two is immaterial for the Group.

Rio Tinto Annual report 31 December 2023

Sub enacted legislation, effective date and expected exposure

Disclosure examples

Amendments to IAS 12, International Tax Reform – Pillar Two Model Rules	The amendments to IAS 12 are carried out in conjunction with the regulations for a global minimum tax. DHL Group falls under the scope of application of the OECD model provisions for pillar two. The legal provisions for pillar two had only been implemented in some jurisdictions, so the regulations for the global minimum tax were not yet applicable throughout the Group in the year under review. Beginning with the 2024 fiscal year, the Group expects an increase in current taxes by an amount in the low double-digit millions of euros.

Expected exposure

The Group applies the exception to the recognition and disclosure of information regarding deferred tax assets and liabilities in conjunction with income taxes for pillar two, as provided for in the amendments to IAS 12 published in May 2023.

Income taxes

Income tax assets and liabilities are recognized when they are probable. They are measured at the amounts for which repayments from, or payments to, the tax authorities are expected to be received or made. If uncertain tax items are recognized because they are probable, they are measured at their most likely amount. Tax-related fines are recognized in income taxes if they are included in the calculation of income tax liabilities, due to their inclusion in the tax base and/or tax rate.

DHL 31 December 2023

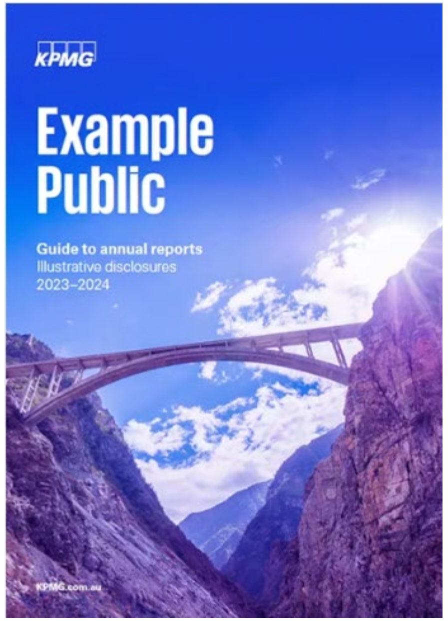
Application of AASB 112 deferred tax exemption

Disclosures for 30 June 2024 HY and 31 Dec 2024 YE

Once Pillar 2 tax is effective, mandatory disclosure requirements:

1. **Current tax expense** in relation to Pillar 2 **is reflected in financial statements and disclosed separately**

2. Continue to disclose application of **deferred tax temporary exemption** each annual reporting period within accounting policies



IF:

Pillar Two is effective for only part of MNE Group and sub enacted in others → Mandatory disclosure requirements (30 June 2024 YE slide) + P2 Current Tax

Regulatory updates

ASIC focus areas for 30 June 2024

Asset values

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

Provisions

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

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

Other matters highlighted as focus areas

- **Grandfathered companies**
- Registered schemes
- Off-balance sheet exposures
- Superannuation funds

ASIC's monitoring programs

- Climate change impacts
- Greenwashing
- Cyber security

Tax developments

Impact assessment ongoing!

Disclose tax residency for subsidiaries

Effective date: Financial year commencing on or after 1 July 2023 (**enacted** 27 March 2024)

Scope: Australian Public companies (listed and unlisted)

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

Required disclosures *(entities in consolidated group)*

- Name of each entity
- Type of entity, e.g. body corporate, partnership, 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 (Australia or foreign)***
- ***Foreign resident – list each foreign jurisdiction***

1. Consolidated entity disclosure statement:
- Include in notes to Financial Statements **OR**
- Separate report in Financial Report[1]

2. Directors' declaration: "*true and correct*"

Both form part of 'Financial Report'

[1] *Repeat of information required by AASB 12 for subsidiaries*

Questions

Accounting for non-recourse loans to acquire shares

Non-recourse vs full recourse loan for acquiring shares

Full recourse loan	Lender has recourse to employee's other asset to fully recover loan	**AASB 9**
Non-recourse loan*	Lender has recourse only to value of the shares	**AASB 2**

Not a financial asset!

* Also referred to as limited-recourse loan

Example: Non-recourse loan for acquiring shares

Scenario

- An employee is invited to purchase shares in Shine Pty at current market price ($1)
- Employee is provided an interest free loan to purchase shares. Lender's recourse against the relevant participants will be limited to the relevant Loan Funded Shares and the proceeds obtained by the relevant Management Shareholder in respect of those Loan Funded Shares.
- Employee is entitled to dividends (forfeitable), but dividends must be used to repay loan
- Loan is repayable after 3 years
- If employee leaves prior to year 3 they must sell shares back to Shine Pty at the lower of $1 or FV at date of sale

Q: How to account for the loan for acquiring shares?

Example: Non-recourse loan for acquiring shares

Key accounting considerations

1 What type of loan has been provided?

Non-recourse loan to acquire shares | AASB 2

2 What is the vesting period of the arrangement?

3 years (period of expense recognition)

3 What is the expiry date?

3 years

4 What is the exercise price?

- Starting exercise price $1
- Factor in expected dividends to reduce exercise price, i.e. 10 cent dividend = 90cent exercise price

Example: Non-recourse loan for acquiring shares

Assume the share-based arrangement is equity-settled

Considerations

- Forfeitable dividends reduce exercise price
- No dividend payable recognised at declaration
- No change to expense recognition over vesting period

1 July 2023

- Non-recourse share loan issued
- Exercise price $1
- 3m shares in employee share loans
- Grant date FV $0.47
- Expected dividends over 3 years is 10c

Dividend Declared

- 10 cents per share
- No journal entry

30 June 2026

Loan repaid *(net approach)*

Dr Cash $2.7m*

Cr Equity $2.7m

** 3m shares x 90 cents*

3 year vesting period – expense incurred

	30 June 2024	30 June 2025	30 June 2026
Dr. Expense	$470k	$470k	$470k
Cr. Equity	$470k	$470k	$470k

Additional complexities

Consult with your advisor

- Existence of an exit event (i.e. IPO) as a performance condition for shares to vest
- Non-recourse loan amount is only for a portion of share issuance
- Portion of dividends paid to employee as dividends declared for them to settle their tax obligations; forfeitable vs nonforfeitable dividends
- Interest charged at market variable rates
- Portion of non-recourse loan balance forgiven when performance conditions are met

IFRIC agenda decisions – Climate commitments

IFRIC agenda decisions

Likely frequency across entities:

High | Medium | Low

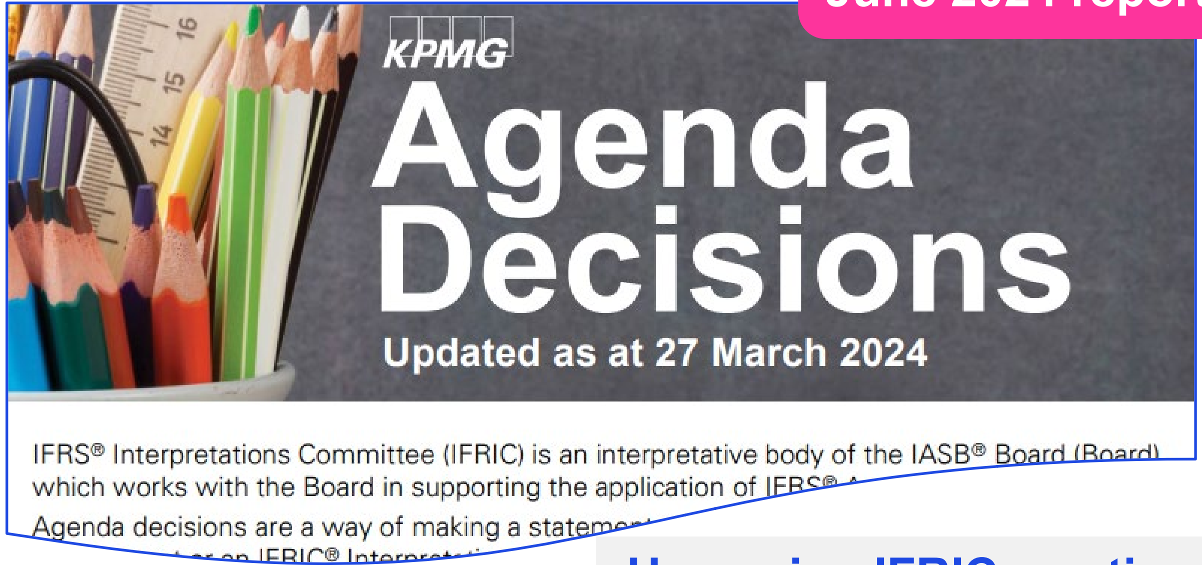
Final

- Insurance premiums receivable from an intermediary (IFRS 9 and IFRS 17) — Low
- Homes and home loans provided to employees (IFRS 9 and IAS 19) — Low
- Guarantee over a derivative contract (IFRS 9) — Low
- Merger between parents and subsidiary – separate financial statements (IAS 27) — Medium
- Payments contingent on continued employment during handover periods (IFRS 3) — Low
- **Climate-related commitments (IAS 37)** — High

Tentative

- Disclosure of revenues and expenses for reportable segments (IFRS 8) — Low

Might apply for 30 June 2024 reporting!



Upcoming IFRIC meetings

- 11-12 Jun 2024
- 10-11 Sept 2024

IFRIC Agenda Decisions – Climate-related commitments

?

Does net zero commitment **create constructive obligation**?

?

Does the constructive obligation **meet recognition criteria for provision?**

?

Is there an **asset or expense** when the provision is recognised?

Assess **each individual activity** that supports climate commitment, **NOT** whole commitment

Recognising a provision for a climate commitment

Test 1

Constructive Obligation

Specific public statement?

No → **No liability or disclosure**

Yes ↓

Creates valid expectation?

No → **No liability or disclosure**

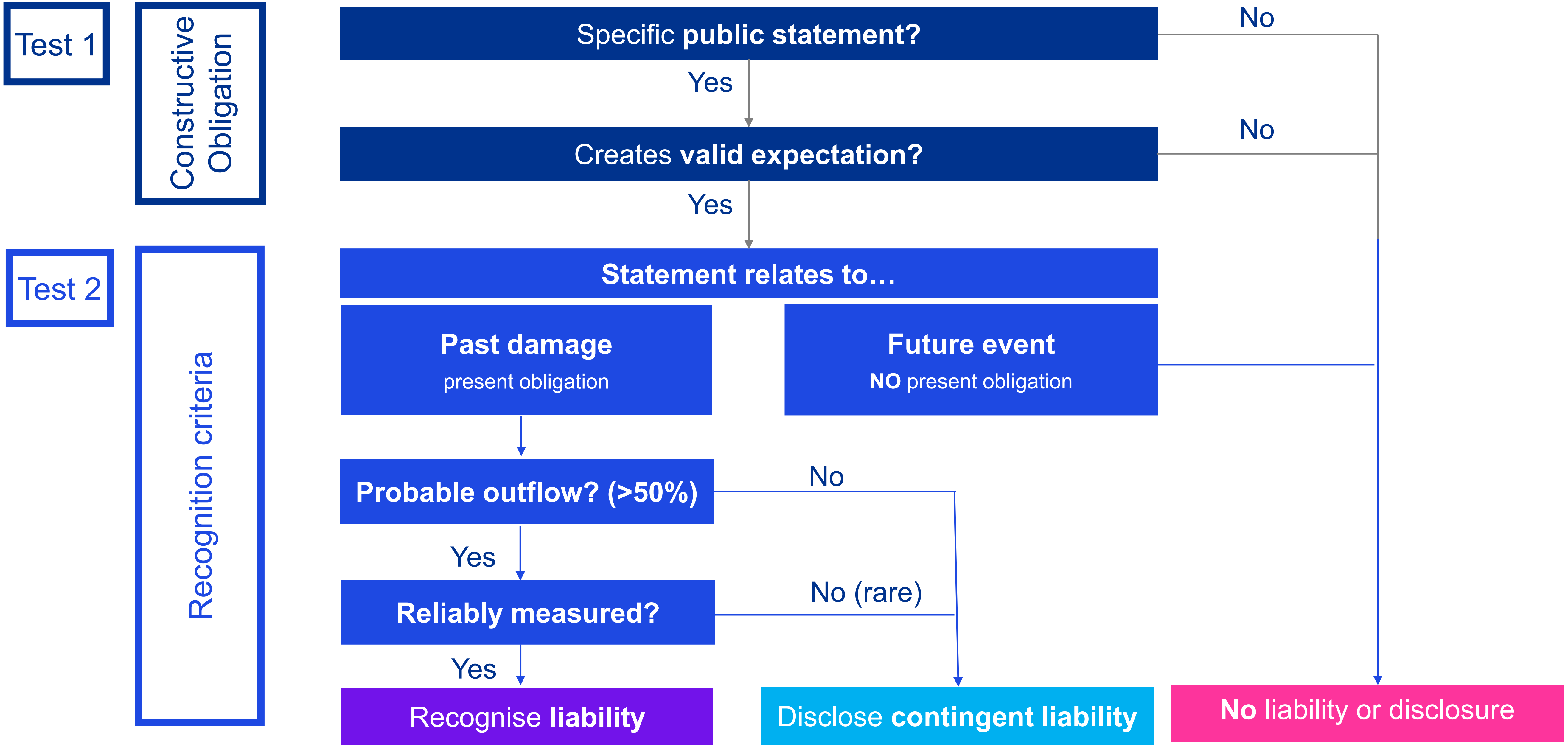
"**established pattern** of past practice, published policies, **or** a sufficiently **specific current statement** the entity has indicated to other parties that it will accept certain responsibilities; **and** as a result, the entity has created a **valid expectation** on the part of those other parties that it will discharge those responsibilities"

KPMG potential factors: valid expectation

- **Nature** of statement
- **Method** of communication
- **Specificity** and **status** of plans
- **Timing** of actions required
- Public **evidence** of progress

No liability or disclosure

Recognising a provision for a climate commitment



Case study

Individual activity for assessment

Alpha Pty, a manufacturer, **publicly commits** in their sustainability report to reduce greenhouse gas emission by at least 60% by 2035 and to offset its remaining emission in 2035 and thereafter utilising carbon credits.

Alpha Pty publishes a plan in their sustainability report that **details the plan**:

A

- **Investing in technology** and modifying its manufacturing method to use energy-efficient processes, buying renewable energy and replacing existing petroleum-based ingredients

B

- Purchasing and surrendering carbon credits from 2035 to **'cancel' any remaining emissions**

Management is confident that Alpha Pty can make all these modifications and continue to sell products at a profit.

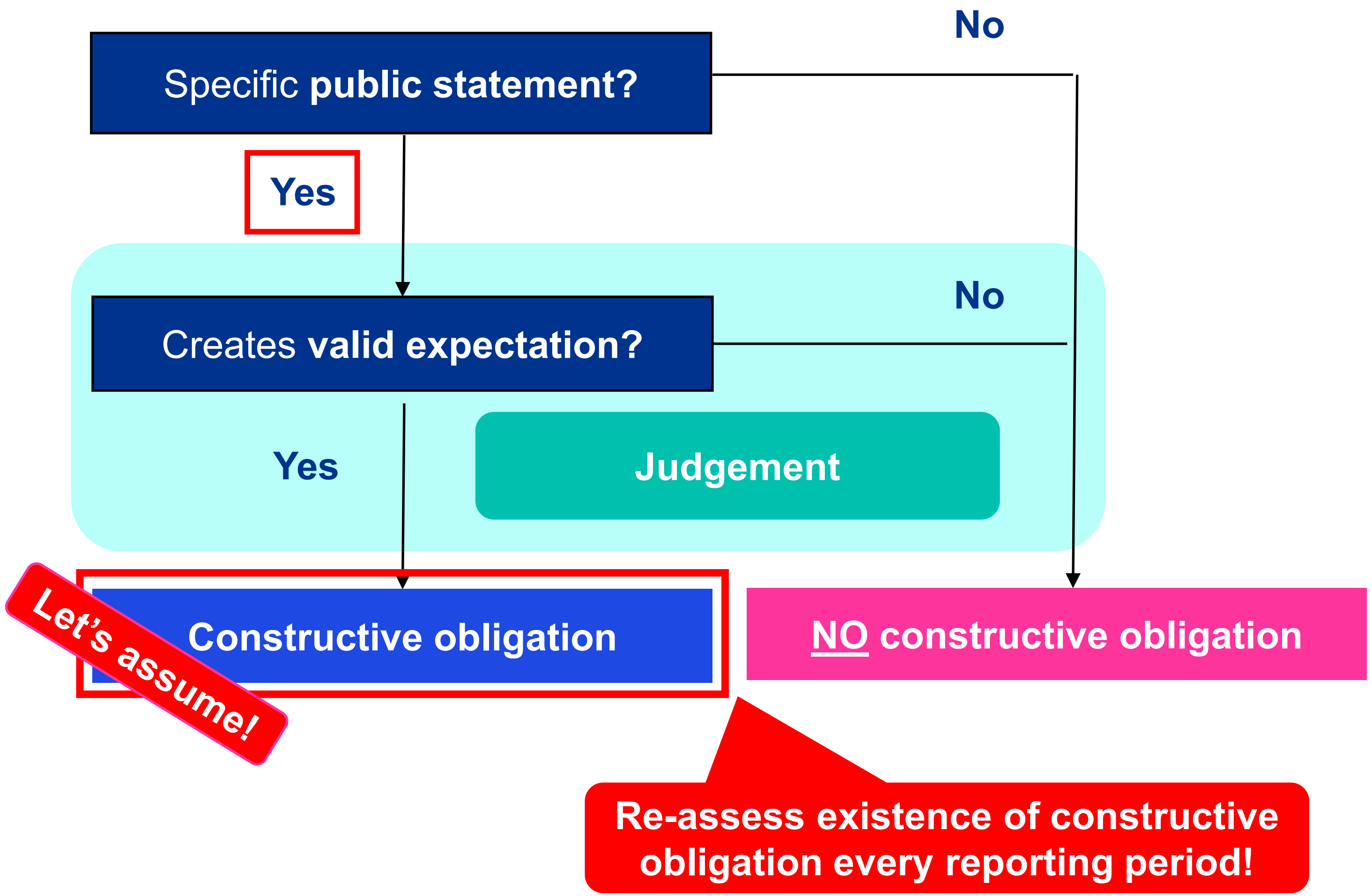
Alpha Pty also makes a certified **carbon neutral statement on a calendar basis** annually since 2020.

C

- **To become carbon neutral**, Alpha Pty tracks and reduces its emissions where possible, with remaining emissions 'cancelled' by carbon credit offsets. Alpha Pty is net negative at 30 June 2024, and generally expects to be in a net negative position at reporting date **requiring use of offsets**.

Case study – Does commitment create a constructive obligation? (Test 1)

Alpha Pty, a manufacturer, **publicly commits** in their sustainability report to reduce greenhouse gas emission by at least 60% by 2035 and to offset its remaining emission in 2035 and thereafter utilising carbon credits.



Factors: valid expectation	
Nature of statement	Commits in **sustainability report**
Method of communication	**Formally** approved plan
Specificity and **status of plans**	**Detailed** plan, timing, amount
Timing of actions required	**10 year - long term plan**
Public **evidence** of progress	Progress updates **provided**

Case study – Does the constructive obligation meet recognition criteria? (Test 2)

A **Investing in technology** and modifying its manufacturing method to use energy-efficient processes, buying renewable energy and replacing existing petroleum-based ingredients

Statement relates to…

Past damage
present obligation

Future event
NO present obligation

Probable outflow? (>50%)

No

Yes

Reliably measured?

No (rare)

Yes

Recognise **liability**

Disclose **contingent liability**

No liability or disclosure

Future actions / operating costs

- Future investment
- Future modification
- Future acquisition of resources
- Future replacement of ingredients

Case study – Does the constructive obligation meet recognition criteria? (Test 2)

B Purchasing and surrendering carbon credits from 2035 to **'cancel' any remaining emissions**

Statement relates to…

Past damage
present obligation

Future event
NO present obligation

Probable outflow? (>50%)

No

Yes

Reliably measured?

No (rare)

Yes

Recognise **liability**

Disclose **contingent liability**

No liability or disclosure

- Future emission reduction
- Emissions in 2035 and beyond

!

Liability is required in year 2035 onwards

Case study – Does commitment create a constructive obligation? (Test 1)

C **To become carbon neutral**, Company A tracks and reduces its emissions where possible, with remaining emissions 'cancelled' by carbon credit offsets. Alpha Pty is net negative at 30 June 2024, and generally expects to be in a net negative position at reporting date **requiring use of offsets**.

Specific **public statement?** → No → **NO constructive obligation**

Yes ↓

Creates **valid expectation?** → No → **NO constructive obligation**

Yes ↓

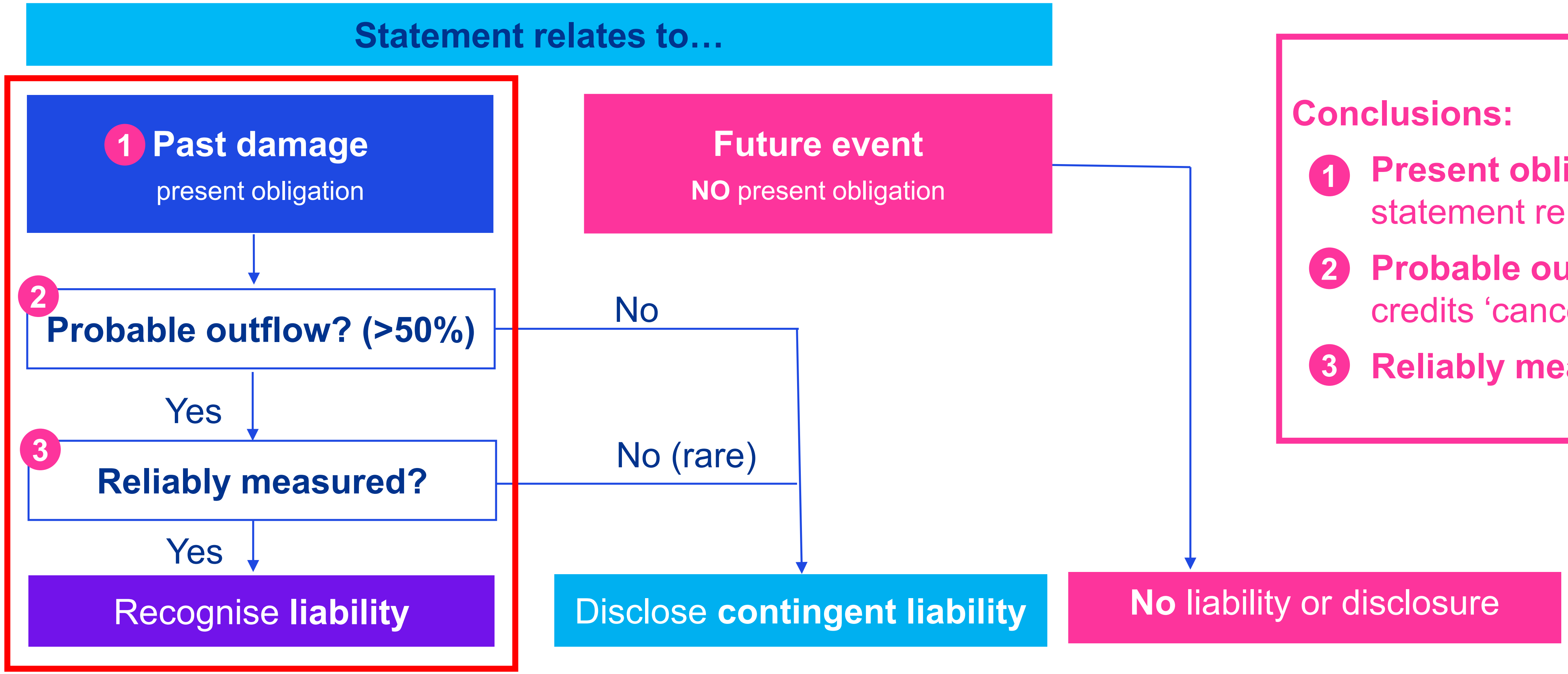
Constructive obligation

- Public statement committing to be carbon neutral
- Has been carbon neutral since December 2020

Factors: Valid expectation	
Nature of statement	Commits in **sustainability report** each year
Method of communication	**Formally** approved plan
Specificity and **status of plans**	**Certified** annually. Remaining emissions 'cancelled'
Timing of actions required	**Short term plan** – each year
Public **evidence** of progress	**Certified** statement each year

Case study – Does the constructive obligation meet recognition criteria? (Test 2)

C **To become carbon neutral**, Company A tracks and reduces its emissions where possible, with remaining emissions ‘cancelled’ by carbon credit offsets. Alpha Pty is net negative at 30 June 2024, and generally expects to be in an overall negative position at reporting date **requiring use of offsets**.



Conclusions:

1. **Present obligation** – carbon neutral statement relating to emissions in 2024
2. **Probable outflow** – net negative, carbon credits ‘cancel’ remaining emissions
3. **Reliably measured** – credits have value

Climate reporting update

Sustainability reporting in Australia

Effective date delayed to 1 January 2025

No approved legislation yet in Australia

2024

Australian Government
The Treasury

January 2024
Treasury released final policy position and exposure draft legislation on climate-related financial disclosure in Australia

Australian Government
The Treasury

March 2024
Bill amending the *Corporations Act 2001* to mandate climate reporting introduced to the Parliament

Australian Government
Australian Accounting Standards Board

August 2024
proposed
ASRS1 and ASRS 2 to be finalised on *Climate-related financial disclosures*

Australian Government
Auditing and Assurance Standards Board

31 December 2024
AUASB expected to release the AU equivalent of ISSA 5000 sustainability assurance standards

2025

1 January 2025
proposed
commencement of first annual reporting period for certain entities under ASRS

Climate-first approach

Regulatory framework – who is in scope?

Proposed

First annual reporting periods beginning on or after	Required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* <u>and</u> falls within one (or more) of the following three categories (sustainability reporting thresholds)				
	Meet two of three reporting thresholds:			**National Greenhouse and Energy Reporting (NGER) Reporters**	**Asset Owners** (Registered schemes, Registrable superannuation entities, retail CCIVs)
	Consolidated revenue (for the financial year)	Consolidated assets (As at the end of financial year)	Employees (As at the end of financial year)		
Group 1 1 January 2025	$500 million or more	$1 billion or more	> 500	Above NGER publication threshold	Scoped out of Group 1
Group 2 1 July 2026	$200 million or more	$500 million or more	> 250	All other NGER reporters	$5 billion or more assets under management
Group 3* 1 July 2027	$50 million or more	$25 million or more	> 100	N/A	Refer to Group 3 thresholds

*** Group 3 materiality exemption**

What about...?

Type of entity	Required to report?	Type of entity	Required to report
Companies limited by guarantee with consolidated revenue >= $1m*		Australian subsidiary of a foreign parent who prepare in the jurisdictions	
Entities exempt by ASIC class order		Entities below the relevant size thresholds	
AFSL holders **only** required to report under Chapter 7 of Corporations Act		Entities registered with the ACNC (i.e. charities)	
State government and state entities/companies		Commonwealth entities and Commonwealth companies	

* Assuming meeting any of the other sustainability reporting thresholds (i.e. consolidated revenue assets or employees or NGER Reporter).

What about...?

Type of entity	Required to report?	Type of entity	Required to report
Companies limited by guarantee with consolidated revenue >= $1m*		Australian subsidiary of a foreign parent who prepare in the jurisdictions	
Entities exempt by ASIC class order		Entities below the relevant size thresholds	
AFSL holders **only** required to report under Chapter 7 of Corporations Act		Entities registered with the ACNC (i.e. charities)	
State government and state entities/companies	?	Commonwealth entities and Commonwealth companies	?

* Assuming meeting any of the other sustainability reporting thresholds (i.e. consolidated revenue assets or employees or NGER Reporter).

Consultation ongoing to mandate reporting

Sustainability reporting thresholds *(consolidated basis as applicable)*

Revenue

- Income arising in the course of an entity's *ordinary activities*.
- Also, consider *main business activities* under IFRS 18.
- Broader than AASB 15.

Judgement required!

Assets

- *Generally*, total assets as recognised on the balance sheet.
- For "assets under management" further clarification / scope definition is anticipated

Employees

- Person is an employee when employer has right of control over the employee's manner of doing work.
- *Part-time* employees taken into account as an appropriate fraction of a full-time equivalent.

For the financial year

As at end of financial year

Proposed

Possible Assurance phasing model

Assurance Standards developments

IAASB

August 2023

IAASB issued a proposed standard for **Sustainability Assurance Engagements** (ISSA 5000)

AUASB

March 2024

AUASB released a **Consultation Paper** on *Assurance over Climate and Other Sustainability Information*.

Objectives:

1) How to adopt the ISSA 5000 standard in Australia
2) Proposed model for phasing in assurance over mandatory climate information

AUASB

May 2024

AUASB consultation period closes May 3

AUASB

July/August 2024

AUASB expected to release an Australian **exposure draft**

IAASB

September 2024

Final approval of ISSA 5000 anticipated

AUASB

End of 2024

AUASB expects to issue a **final** assurance pronouncement by end of 2024

Proposed model for phasing in assurance requirements

Jun YE		Y1 30-Jun-26	Y2	Y3	Y4	Y5	Y6
Dec YE	Y1 31-Dec-25	Y2	Y3	Y4	Y5	Y6	Y7
Group 1	L	R	R	R	R	R	R
Group 2			R[1]	R[1]	R	R	R
Group 3				R[1]	R[1]	R	R

L — **Limited** assurance on Scope 1 and 2 emissions introduced

R — **Reasonable** assurance on governance disclosures and Scope 1 and 2 emissions

Limited assurance on Scope 3 emissions, strategy, scenario analysis (qualitative), risk management, transition plans and climate-related targets

R — **Reasonable** assurance on all climate disclosures

[1] For Group 2 entities, limited assurance on Scope 3 emissions required for 30-Jun-28 and 31-Dec-28 year ends.
For Group 3 entities, limited assurance on Scope 3 emissions required for 30-Jun-29 and 31-Dec-29 year ends.
For Group 2 and 3 entities, limited assurance on quantitative scenario analysis required 30-Jun-28 and 31-Dec-28 year ends.

KPMG

Wrap up

Takeaways

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

2 **Consider impacts of BEPS Pillar 2 and need for disclosures in financial reports**

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

4 **Assess accounting implication of climate commitments made by your organisation to ensure compliance with relevant standards**

5 **Review employee's remuneration arrangements to ensure non-recourse loans are identified and accounted for correctly**

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 30 June 2024 Y/Es and H/Ys

Standards available for early adoption

Standards first effective – 30 June 2024 Y/Es

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 – 30 June 2024 Y/Es (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.

The amendments first immediately applied for 30 June 2023 YEs, however disclosure requirements apply only for annual reporting periods beginning 1 January 2023 (subject to legislation being substantively enacted)

Standards first effective – 30 June 2024 H/Ys

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 first effective – 30 June 2024 H/Ys (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

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

Standards available for early adoption (cont.)

IFRS 18 Presentation and Disclosures in Financial Statements	The Standard introduces three distinct categories of income and expenses (operating, investing and financing), two income statement subtotals and one single note on management performance measures. The standard also includes enhanced guidance on how companies group information in the financial statements.

Annual reporting periods beginning on or after 1 January 2025