KPMG

Are you ready for 30 June reporting?

Tuesday 3 May 2016

Your facilitators are…

Kim Heng

Ben Seumahu

Zuzana Paulech

Carolyn Ralph

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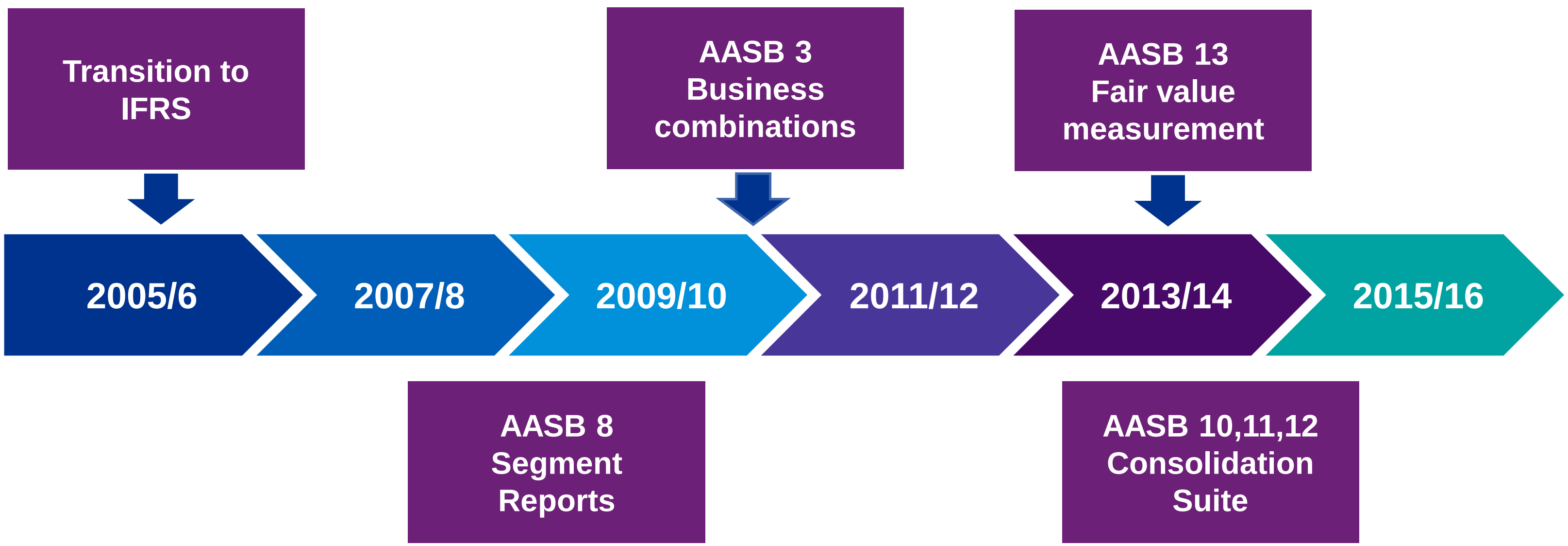
Looking back

“No one likes change – least of all accountants. Yet, despite these challenges, more than 90 per cent of respondents … took a positive attitude towards IFRS”

– Hans Hoogervorst, Chairman, IASB, November 2015



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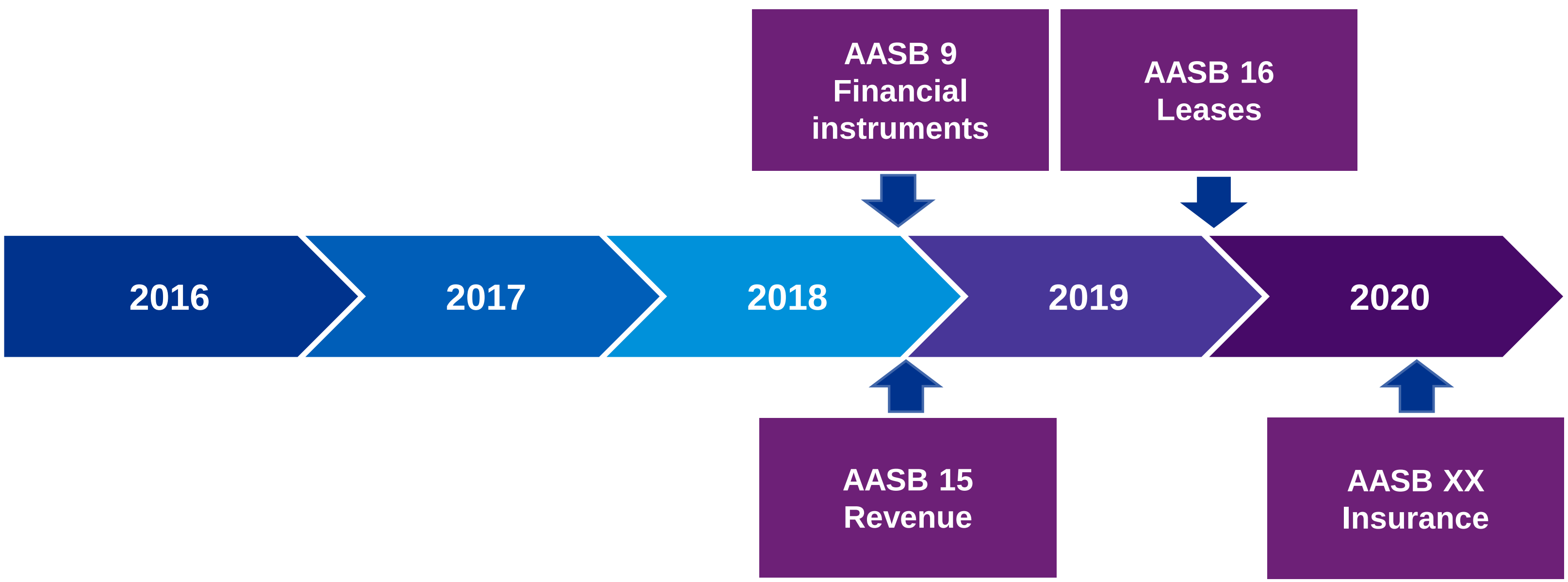
Looking forward

“Change is the law of life. And those who look only to the past or present are certain to miss the future. ”

– John F. Kennedy, President of the USA



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Agenda

Impact of changes to accounting standards

Through the eyes of the regulators

The brave new world – Enhanced auditor reporting

Wrap up

Agenda

Impact of changes to accounting standards

- Standards effective for the first time at 30 June
- Standards and interpretations available for early adoption
- Looking ahead

Standards effective for the first time at 30 June

What accounting standards have changed for June 2016 HY And FYs?

Annual Improvements (2012 – 2014)	AASB 2015-5: Investment entities: Applying the Consolidation Exception	AASB 2014-3: Accounting for Acquisitions of Interests in Joint Operations	AASB 2014-9: Equity method in Separate Financial Statements
AASB 2015-2: Disclosure Initiative (AASB 101)	AASB 2014-4: Clarification of Acceptable Methods of Depreciation and Amortization	AASB 2014-6: Agriculture: Bearer Plants (AASB 116 & AASB 141)	Application of Australian Accounting Standards (AASB 1057)
AASB 14 Regulatory Deferral Accounts & AASB 2014-1 (Part D): Amendment to AASB 14	AASB 2015-3: Withdrawal of AASB 1031	AASB 2015-4: Financial Reporting Requirements for Australian Groups with a Foreign Parent	

Half-years only (not yet applicable for year-ends)

Year-ends and Half-years

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Annual Improvements (2012-14)

Do any of the forthcoming annual improvements impact you?

1	Hold non-current assets held for sale or distribution? (AASB 5)
2	Service a debtor that has been derecognised from your balance sheet? (AASB 7)
3	Have financial assets and liabilities subject to offsetting arrangements? (AASB 132)
4	Have employees in different countries in Europe? (AASB 119)
5	Refer to information outside the financial statements in your interim accounts? (AASB 134)

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Cross-referencing outside the financial report

Only explicit disclosures set out in the standards can be cross-referenced

Financial report

- ***Employee benefits –*** certain disclosures on defined benefit plans that share risks between entities under common control
- ***First time adoption of IFRS –*** Reconciliations of reported balances from previous GAAP to IFRS

1 Jan 2016 but can early adopt

- ***Interim financial reporting –*** significant event and transaction disclosures
- ***Financial instruments and Insurance contracts –*** nature and extent of risks arising from financial statements

Upcoming

Cross-reference to documents outside Financial Report

Other published documents

Risk reports

Management commentary

Disclosures clearly marked to indicate they are part of complete financial statements

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Consolidation suite of amendments

Who do the consolidated suite amendments impact?

AASB 10, 12, 128 – Investment entities applying the consolidation exceptions	Managed funds
AASB 127 – Equity method in separate financial statements	Countries that do not permit investments in associates to be carried at cost
AASB 11 – Accounting for acquisitions of interest in a joint operation that constitutes a business	Entities where operations are undertaken through unincorporated joint arrangements

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AASB Disclosure Initiative: Amendments to AASB 101

- Standard applies to annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted
- Removed reference to a ‘summary of significant accounting polices’
- Removes minimum disclosure requirements from AASB 101, such as line items to be presented in statement of financial position
- Encourages companies to no longer disclose information that is not material
- Provides alternative examples of how notes to financial statements should be grouped - giving prominence to areas most relevant to understanding the organisation

> “
> *…With the issue of these amendments and given the supportive statements from the corporate regulator, the Australian Securities and Investment Commission, this is an opportune time for directors and CFOs to take action to address disclosure overload in their financial statements…*
>
> **Kris Peach**
> AASB Chair
> AASB Media Release – 2 Feb 2015

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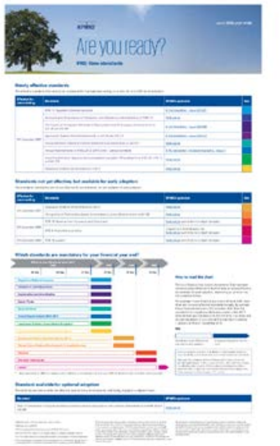
Standards and interpretations available for early adoption

Standards and interpretations available for early adoption

AASB 2015-6: Extending Related Party Disclosures to Not-for-Profit Public Sector Entities	AASB 2015-7: Fair Value Disclosures of Not-for-Profit Public Sector Entities1	AASB 107: Statement of Cashflows: Disclosure Initiative
Superannuation Entities (AASB 1056)	AASB 2016 – X: Removal of DRC as a value in use measure	AASB 112: Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
AASB 2014-10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Revenue from Contracts with Customers (AASB 15)	Financial Instruments (AASB 9)
		Leases (AASB 16)

- Beginning on or after 1 July 2016
- Beginning on or after 1 January 2017
- Beginning on or after 1 January 2018
- Beginning on or after 1 January 2019



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Revenue recognition – Is the top-line changing under IFRS 15?

Headline changes	Control replaces risks and rewards	New guidance on identifying performance obligations	New over time criteria

Key publications:

- Issues In-Depth
- Revenue for sectors – construction, consumer goods, housebuilders, insurance, oil and gas, power and utilities, telecommunications, transport
- First Impressions
- Revenue Transition Options
- IFRS 15 Illustrative Disclosures

Resources available at:

- KPMG's Global IFRS Institute

Webinar recording available at:

- KPMG's Australia website

Any specific question or other assistance:

- Reach out to your KPMG contact

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Leases - A more transparent balance sheet under IFRS 16

Headline changes	All leases on balance sheet	Front loading of lease expense	Focus on definition of lease

Key publications:

– SlideShare presentation

– KPMG Webinar

– Web article

– First Impressions

– Transition options

Resources available at:

– KPMG's Global IFRS Institute

Webinar recording available at:

– KPMG's Australia website

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Looking ahead

Looking ahead - AASB Projects

Income recognition for NFPs	– Exposure Draft 260 proposes income recognition requirements for NFPs – Proposed application date 1 January 2018	Refer to 15RU-005
Service performance reporting for NFPs	– Exposure Draft 270 requires Not-for-profit (NFP) entities in both public and private sectors to report service performance information annually – Comment letter closed April 2016	Refer to 15RU-013
Service concessions: grantor accounting	– Exposure Draft 261 proposes guidance for public sector entities who enter into service concessions – Standard expected late 2016 – Proposed application date 1 January 2018	Refer to 15RU-006

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Looking ahead - IASB Projects

Disclosure initiative	– Narrow changes to AASB 101 and 107 approved – Materiality practice statement expected end of 2016 – Discussion paper on principles of disclosure due by end of 2016
Dynamic risk management Macro Hedging	– Discussion paper issued April 2014 – Staff researching alternative approaches – Revised discussion paper expected by end of 2016
Rate regulated activities	– Discussion paper issued in September 2014 – Staff undertaking additional research – Revised discussion paper expected by end of 2016
Insurance Contracts	– Board completed deliberations in February 2016 – Standard expected end of 2016
Conceptual Framework	– ED issued in May 2015 – Comment period ended 25 November 2015 – Revised framework expected early 2017

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Agenda

Through the eyes of the regulator

- ASIC focus areas
- Class orders changes
- Tax transparency

ASIC focus areas

ASIC focus areas

Estimates

– Impairment testing

– Valuation of financial instruments

Accounting policies

– Assessment of off balance sheet treatments (joint arrangements, structured entities)

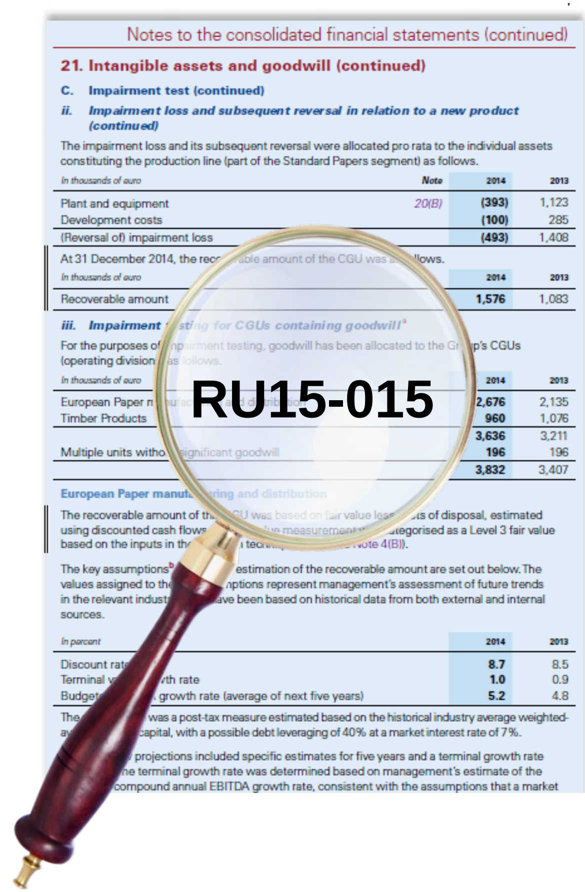
– Revenue recognition and expense deferral

– Impact of new financial instrument, revenue and leasing standards

– Tax-effect accounting

Key disclosures

– Accounting policy choice selection



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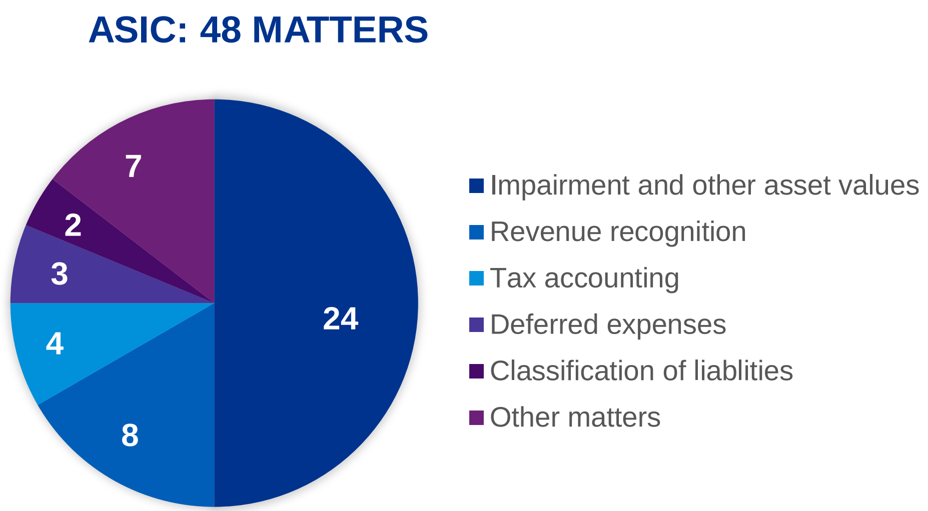
ASIC financial statement surveillance 30 June 2015

- Reviewed 240 listed and public interest entities
- Made enquiries of 35 entities – approx. 1 in 6 entities
- Asked for explanation on accounting treatment on 48 matters



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Types of questions ASIC may ask

Please provide a breakdown of group charges that have not been included in the estimation of future cashflows.

Please provide documentation, including any contracts/agreements to support the budgeted profit and loss included in your impairment testing

Please provide the methodology used by the company to determine the point at which it is probable a contract is awarded.

Please provide a detailed explanation of the reasons for the change of assessing recoverable amount from VIU to FVLCOD.

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Valid challenges on impairment

- Reasonable and supportable cash flows
- Analysis of historical forecasting accuracy
- Sensitivity analysis on key inputs
- Multiples Analysis or other bridge of net assets to market capitalisation
- Extent of disclosures
- VIU v FVLCD
- Identification and carrying amounts of CGUs
- Goodwill allocation and monitoring
- Allocation of corporate costs

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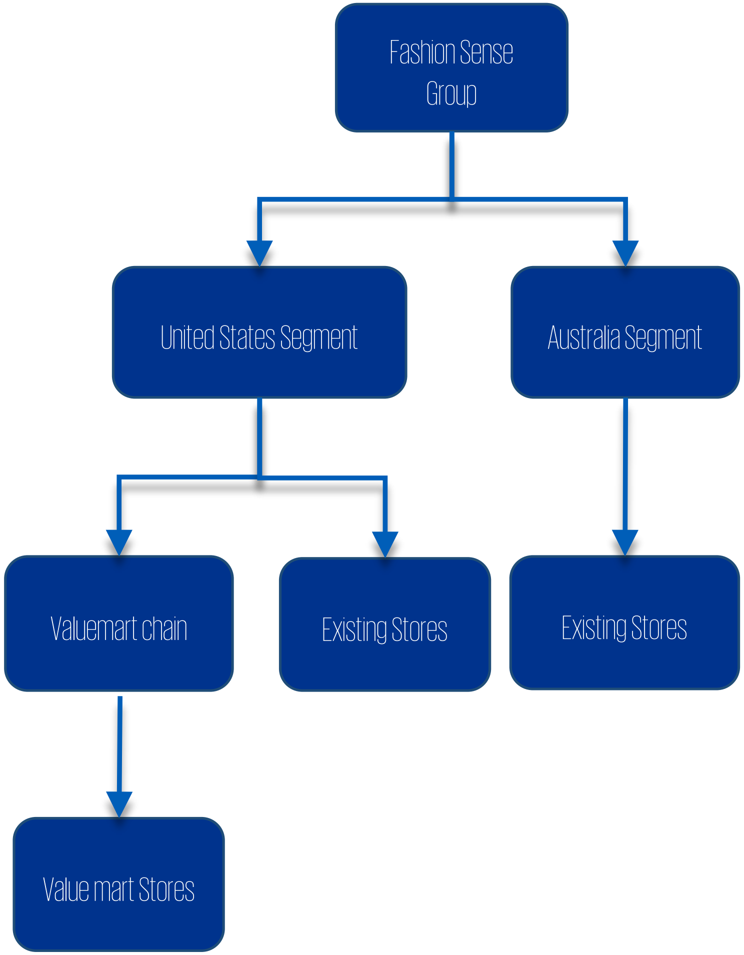
Case study: To what level should goodwill be allocated?

Scenario

- Fashion Sense is a global clothing retailer with operating segments in Australia and the U.S.
- U.S. management team are granted a performance incentive based on return on investment in the Valuemart chain following its recent acquisition
- Goodwill is monitored by the executive committee at the group level but the information on goodwill is available at a store level
- Monthly performance of stores is measured on company-wide KPIs which do not include goodwill.



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Key questions – allocation of goodwill

Is goodwill allocated to CGUs that benefit from the from the business combination?

Is goodwill allocated to a group of CGU’s larger than a segment?

How is goodwill performance monitored – directly, indirectly or both?

Who monitors goodwill performance?

Lowest level within entity at which goodwill is monitored for internal management purposes

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Which of the following corporate costs should be allocated?

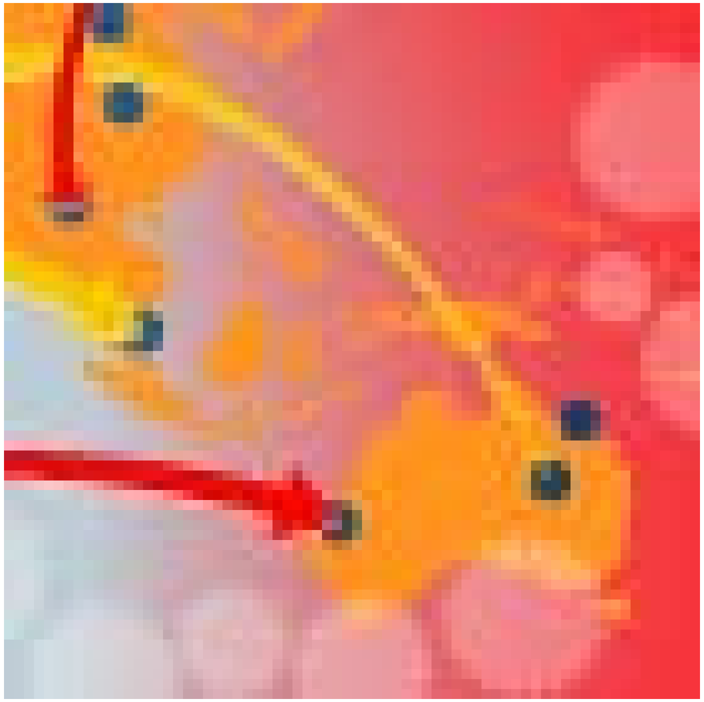
Executive management costs –
Board member's fees

Shared service –
Costs for finance function

Marketing services –
Promotion of brand

Internal audit services –
semi-annual internal audits

Listing compliance costs



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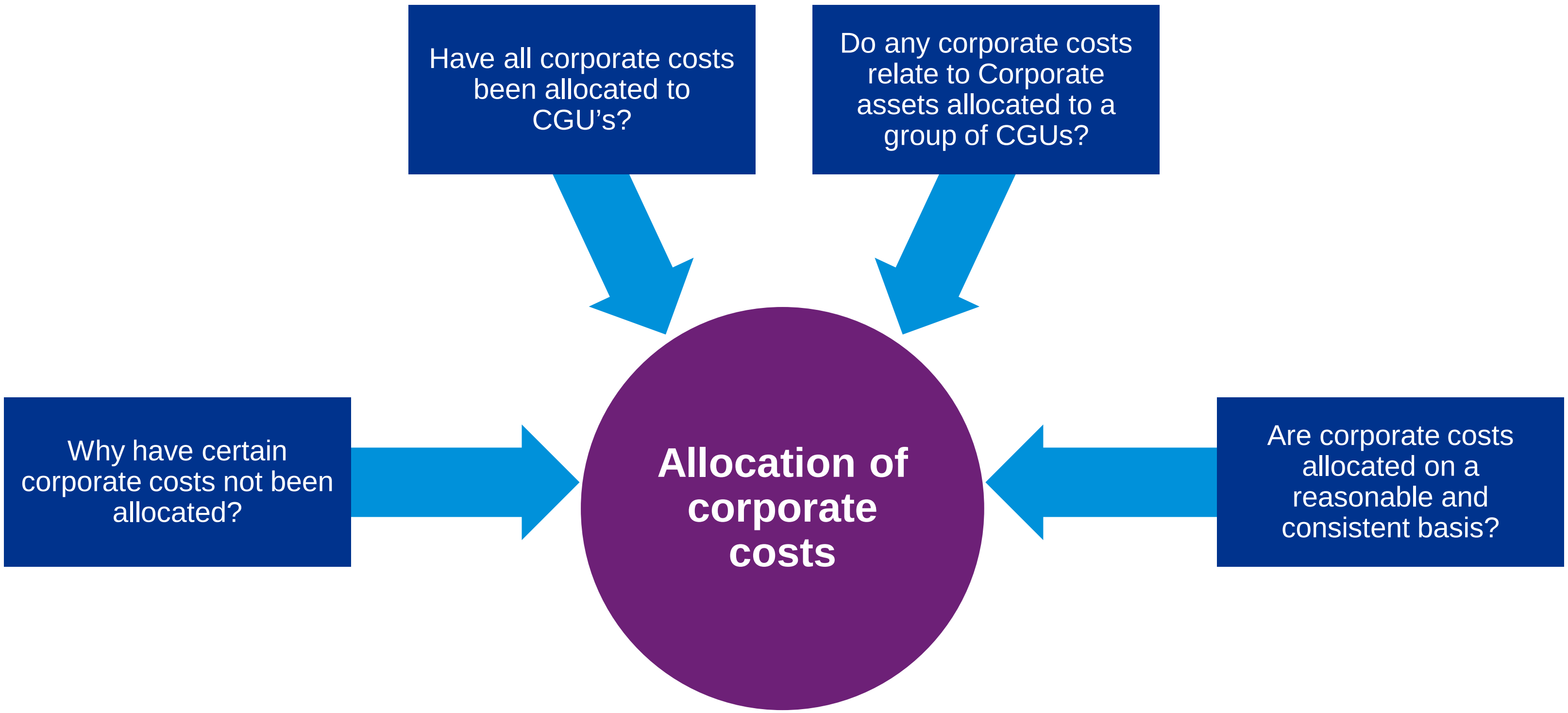
Key questions - allocation of corporate costs in VIU



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Class order changes

Does your company apply any ASIC class orders?

1. Class orders cease automatically or sunset after 10 years
2. To preserve, must be remade before sunset date
3. ASIC has process to consult on class orders approaching sunset date
4. Relevant class orders are set out in KPMG's Australian Financial Reporting Manual
5. As class orders remade, will receive new title

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List of commonly used sunsetting class orders

Class Order	Sunset Dates
ASIC CO 98/100 Rounding in financial and directors' reports	**Replaced by Instrument 2016/191 30 June 2016 Y/Es (Refer 16RU_002)**
ASIC CO 98/1417 Audit relief for proprietary companies	1 October 2016
ASIC CO 98/1418 Wholly-owned entities (Deed of Cross Guarantee)	1 October 2016
ASIC CO 98/2395 Transfer of information from the directors' report	1 October 2016

Entities to ensure references to the relevant instrument are updated as appropriate in any financial reports or directors resolutions.

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Tax transparency

Tax transparency initiatives

Tax transparency reports (ATO)	Issued December 2015 and March 2016
Voluntary Tax transparency code	Anticipated to be effective for 2016 year-ends
Requirement to lodge GPFS	Effective years beginning 1 July 2016
Senate inquiry findings	2nd interim report issued April 2016
Country by Country reporting	Effective for years beginning 1 January 2016

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Voluntary tax transparency code consultation

Part A: Disclosures of tax information in financial statements

Disclosures can be made in GPFS, ‘Taxes paid’ or separate report

Businesses with turnover > $100 million*

- **Reconciliation of accounting profit to tax expense and to income tax paid or income tax payable**
- **Identification of material temporary and non-temporary differences**
- **Accounting effective company tax rates for Australian and global operations**

*Applicable to companies and groups operating in Australia with aggregated Australian turnover of at least $A 100 million.

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Voluntary tax transparency code consultation

Part B: Disclosures in Taxes paid report

Disclosures made in ‘Taxes paid’ report

Businesses with turnover > $500 million*

- **Approach to tax strategy and governance**
- **Tax contribution summary for corporate taxes paid in Australia**
- **Information about international related party dealings, financing and tax concessions**

*Applicable to companies and groups operating in Australia with aggregated Australian turnover of at least $A 500 million.

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What taxes have we seen disclosed in a taxes paid report?

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Tax Laws Amendments – General purpose financial statements

Is the entity a corporate tax entity? — **no** → Not required by Tax Act to produce GPFS

yes

Is the entity a significant global entity*? — **no** → Not required by Tax Act to produce GPFS

yes

At the end of the income year, is the entity:
an Australian resident; or
a foreign resident who operates an Australian PE — **no** → Not required by Tax Act to produce GPFS

yes

Does the entity NOT lodge GPFS for the financial year most closely corresponding to the income year with ASIC within the requirement time for lodgement? — **no** → Not required by Tax Act to produce GPFS

yes

The corporate tax entity must lodge GPFS with ATO

Consultation paper to be issued in 4th quarter of 2016

*'Significant global entity' is an entity with annual global income of A$1 billion or more; or if it is part of a group, the group has consolidated annual global income A$1 billion or more.

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Tax Laws Amendments - General purpose financial statements

Current state of play → Future changes? → KPMG's current view

Effective for years beginning 1 July 2016

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Agenda

The Brave New World – Enhanced auditor reporting

The Brave New World

Making the unobservable ……observable

Greater insights

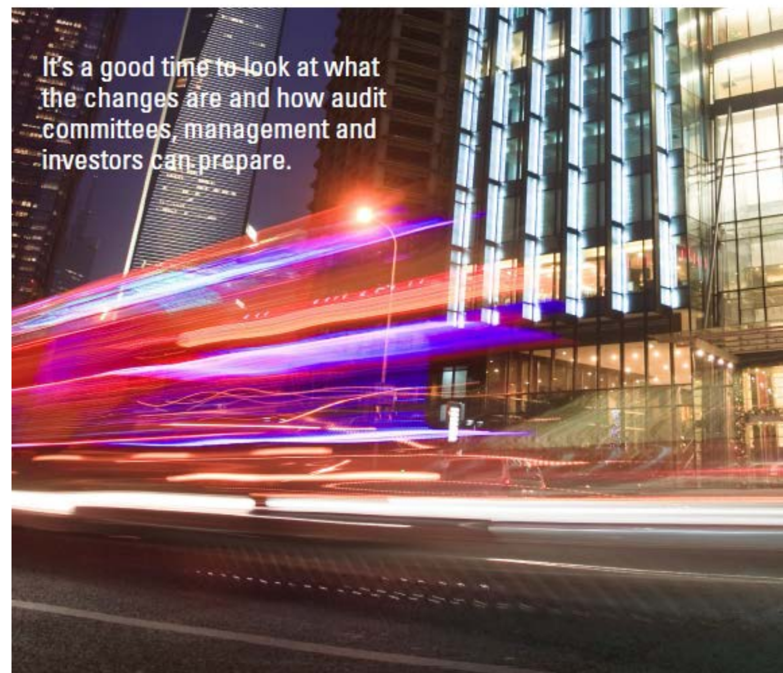
Greater transparency

Greater prominence

Mandatory years ending on or after 15 December 2016

Enhanced auditor reporting – a new way forward

Enhancements to auditor reporting will provide greater insight and transparency for investors



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Enhanced audit report

Changes for all entities:	Opinion given prominence	Revised description of Auditors responsibilities	Revised description of Auditors responsibilities
Changes for listed entities:	Inclusion of Key audit matters	• Impairment • Tax • Revenue recognition • Valuation of assets	

Impairment of goodwill

Refer to C7 'Intangible assets'.

The assessment of impairment of the Group's goodwill balances incorporated significant judgement in respect of factors such as discount rates, current work in hand and future contract wins, as well as economic assumptions such as, inflation and foreign currency rates.

The sectors in which the Group operated over the period have experienced the impacts of reductions in capital expenditure, constrained government spending, costs reduction mandates, project cancellations and deferrals, along with volatile commodity prices.

A key audit matter for us was whether the Group's value in use model for impairment included appropriate consideration of these factors on their significant estimates and judgements and the selection of key external and internal inputs.

Our procedures included, amongst others:

- We evaluated management's process regarding valuation of the Group's goodwill assets to determine any asset impairments. We tested controls were being performed, such as the preparation and review of forecasts. These forecasts take into consideration the impacts of the sector specific challenges that the Group faces;
- We challenged the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to forecast revenue, cost, capital expenditure, discount rates and foreign exchange rates by adjusting for future events and corroborating the key market related assumptions to external data;

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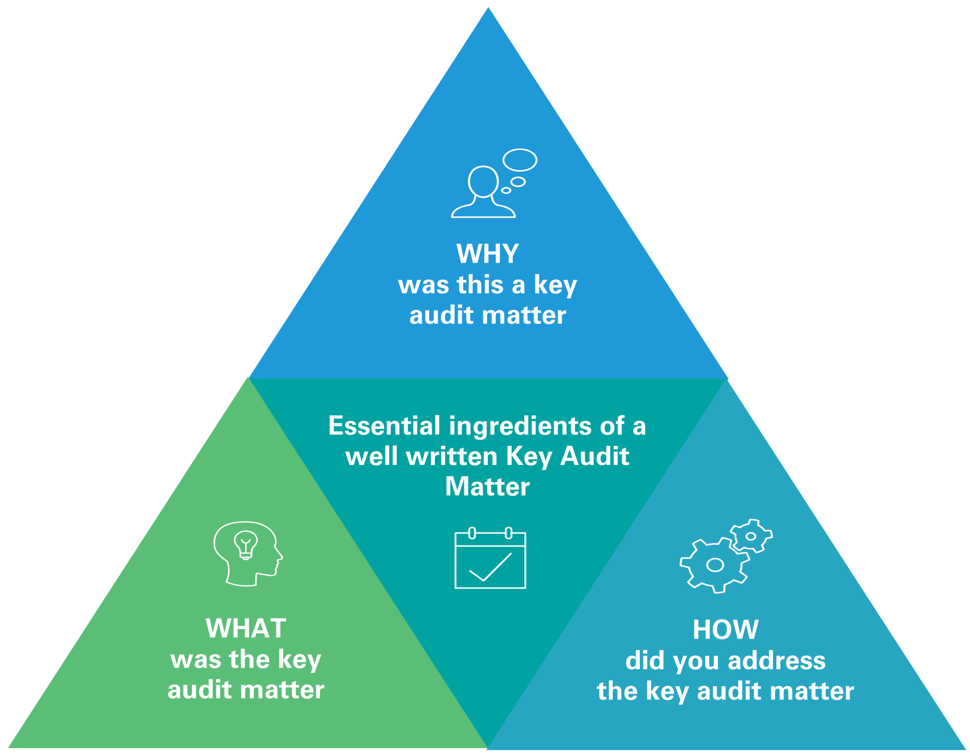
Key audit matters

Changes for listed entities:

Inclusion of Key audit matters

- Impairment
- Tax
- Revenue recognition
- Valuation of assets



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Perspectives

Experience

Advocate for insights into the performance of the audit

Start assessing the implications now

Innovation

Reflect on the financial report disclosures

Start assessing the implications now

Investor

Be engaged; the insights are for you

Scepticism

Exercise judgement

Reflect the independence and objectivity of your assessments

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Agenda

Wrap up

Take-aways

- Prepare for changes that impact you at June 2016
- Be aware of ASIC focus areas
- Be pro-active in addressing tax transparency measures
- Talk to your auditors about the enhanced audit report

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Questions

Thank you

Appendix

Summary of details for standards effective for June 2016

Standards not yet effective but available for early adoption

Standards effective for June 2016 – For-profit entities

AASB 2015-3: Withdrawal of AASB 1031	The amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing AASB 1031 to effectively be withdrawn, leaving only the IFRS definitions of materiality in AASB 101 and AASB 108.
AASB 2015-4: Financial Reporting Requirements for Australian Groups with a Foreign Parent	The amendment aligns the relief available in AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* requiring the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

Year ends only (already applicable for half-years)

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Standards effective for June 2016 – For-profit entities

AASB 2015-2: Disclosure Initiative (Amendments to AASB 101)	The amendments do not require any significant change to current practice, but should facilitate improved reporting, including and emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies.
AASB 2015-5: Investment entities: Applying the Consolidation Exception	Under the amendments: – An investment entity parent is required to fair value a subsidiary providing investment-related services that is itself and investment entity; – An immediate parent owned by an investment entity group is exempt from preparing consolidated financial statements; and – When a non-investment entity investor applies the equity method, it is permitted to retain the fair value accounting applied by its investment entity associate or joint venture.
AASB 2014-1 (Part D): Amendment to Regulatory Deferral Accounts (AASB 14)	Interim guidance permitting first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area.

Half-years only (not yet applicable for year-ends)

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Standards effective for June 2016 - For-profit entities

AASB 2014-3: Accounting for Acquisitions of Interests in Joint Operations	Business combination accounting required to be applied to acquisitions of interests in a joint operation that meets the definition of a 'business' under AASB 3 *Business Combinations*.
AASB 2014-4: Clarification of Acceptable Methods of Depreciation and Amortisation	Introduces a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. Limited opportunity for presumption to be overcome. Clarifies that revenue-based depreciation for property, plant and equipment cannot be used.
AASB 2014-6: Agriculture: Bearer Plants (AASB 116 & AASB 141)	Bearer plants are now in scope of AASB 116 *Property, Plant & Equipment* for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under AASB 141 *Agriculture*.
AASB 2014-9: Equity method in Separate Financial Statements	Allows the use of the equity method in separate financial statements in the accounting for associates, joint ventures and subsidiaries.

Half-years only (not yet applicable for year-ends)

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Standards effective for June 2016 – For-profit entities

AASB 2014-10: Sale of Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments require the full gain or loss to be recognised when the assets transferred meet the definition of a 'business' under AASB 3 *Business Combinations* (whether housed in a subsidiary or not).
Annual Improvements (2012 – 2014)	Amendments to existing accounting standards, particularly in relation to: – AASB 5 – guidance on changes in method of disposal; – AASB 7 – clarifies 'continuing involvement' for servicing contracts; – AASB 7 – clarifies offsetting disclosures are not specifically required in interim financial statements, but may be included under the general requirements of AASB 134; – AASB 119 – clarifies that discount rates used should be in the same currency as the benefits are to be paid; and – AASB 134 – clarifies that disclosures may be incorporated in the interim financial statements by cross-reference to another part of the interim financial report.
Application of Australian Accounting Standards (AASB 1057)	Majority of AASB standards and interpretations have been reissued for editorial changes. However, there is no technical application impact from reissue of standards and interpretations. A new standard, AASB 1057 has been issued as part of the reorganisation process.

Half-years only (not yet applicable for year-ends)

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Standards not yet effective but available for early adoption

Superannuation Entities (AASB 1056)	A new Australian specific Standard for superannuation entities that will replace AAS 25 *Financial Reporting by Superannuation Plans*. The standard applies to large superannuation entities regulated by the Australian Prudential Regulation Authority (APRA) and to public sector superannuation entities. It does not apply to self-managed superannuation funds or small APRA funds.
AASB 2015-6: Extending Related Party Disclosures to Not-for-Profit Public Sector Entities	Extends the scope of AASB 124 *Related Party Disclosures* to include not-for-profit public sector entities.
AASB 2015-7: Fair Value Disclosures of Not-for-Profit Public Sector Entities	Amends AASB 13 *Fair Value Measurement* to provide relief to not-for-profit public sector entities from certain disclosures about fair value measurement of property, plant and equipment held for current service potential rather than to generate net cash inflows.

Annual reporting periods beginning on or after 1 July 2016

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Standards not yet effective but available for early adoption

AASB 112: Income Taxes: Recognition and Measurement	Amendments clarify that the existence of a deductible temporary differences depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Guidance on how to determine future taxable profit for the recognition test is also provided.
AASB 107: Statement of Cashflows: Disclosure Initiative	Amendments require additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as effects of changes in foreign exchange rates and changes in fair values).

Annual reporting periods beginning on or after 1 January 2017

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Revenue from Contracts with Customer (AASB 15)*	This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.
Financial Instruments (AASB 9)	The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. It supersedes AASB 9 (issued in December 2009 – as amended) and AASB 9 (issued in December 2010).
AASB 2014-10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments require the full gain or loss to be recognised when the assets transferred meet the definition of a ‘business’ under AASB 3 *Business Combinations* (whether housed in a subsidiary or not).

Annual periods beginning on or after 1 January 2018

*The original date for the amendment was deferred to 1 January 2018

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Standards not yet effective but available for early adoption

Leases (AASB 16)	– IFRS 16 removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. – Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. – There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. – Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

Annual reporting periods beginning on or after 1 January 2019

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