KPMG Kundu

September 2024

Foreword

In our September Kundu the attention is on three topical areas:

1. Applying the equity method

The IASB has proposed amendments to IAS 28 by companies and associates or JVs . We outline the methods available to those in this category.

The IASB has requested comments on the proposed changes by 20 January 2025.

2. Geopolitical Risks

We share an article by our own KPMG Australian Geopolitics Hub covering the risks to PNG and Australian Businesses. I highly recommend this to our readers.

3. IRC Activity

The Income Tax Rewrite that has been in the works has reached version 15. Comments are now being sought by 21 October 2024.

We also comment on IRC default assessments and IRC's ambition for digital taxation.

Enjoy the read this month and reach out with any enquiries at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.

Applying the equity method

The IASB proposes amendments to IAS 28 for companies with associates or joint ventures. A company is generally required to account for investments in associates and joint ventures under the equity method (provided exemptions do not apply). To address longstanding application questions on equity accounting under IAS 28 Investments in Associates and Joint Ventures, the International Accounting Standards Board (IASB) is proposing to amend the standard.

The exposure draft covers a number of different areas, including when an investor:

- obtains significant influence or joint control over an existing investee (that was not previously accounted for under the equity method);
- has transactions with an equity-accounted investee; and
- has an interest in an associate or joint venture that is reduced to zero.

The IASB also proposes to reorder the existing requirements in IAS 28.

What areas do the proposals address?

Area	Key proposals
An existing investment becomes an equity-accounted investee	An investor would determine the initial cost of the investment in an associate or joint venture at the fair value of the consideration transferred, including the fair value of the previously held interest.
An investor's interest changes but the investee continues to be accounted for under the equity method	*An investor purchases an additional interest* Any difference between the consideration transferred for the additional interest and the investor's additional share of the fair value of the investee's assets and liabilities would be recognised as goodwill (included as part of the carrying amount of the investee) or as a gain on a bargain purchase in profit or loss. The existing investment would not be remeasured. *An investor disposes of a portion of its interest* A gain or loss would be recognised in profit or loss. This would be measured as the difference between any

	consideration received and the carrying amount of the interest disposed of. *Other changes in an investor's ownership interest* The accounting for other changes would be consistent with either purchasing or disposing of an interest (as set out above). An example of such a change would be an issuance of shares, with the accounting depending on whether the issuance has increased the investor's stake or diluted it.
An investor has reduced its interest to zero due to losses	An investor would not recognise ('catch up') unrecognised losses when purchasing an additional interest. In addition, an investor would recognise separately its share of the investee's profit or loss and its share of the investee's other comprehensive income.
Transactions with equity-accounted investees	An investor would recognise in full the gains and losses from all 'upstream' and 'downstream' transactions with its associates and joint ventures, including transactions involving loss of control of a subsidiary, in profit or loss. This proposal would replace the current IAS 28 requirement that limits the recognition of gains and losses from such transactions.
Deferred tax on initial recognition of an investee	An investor would include a deferred tax asset or liability in the investment's carrying amount, based on its share of the associate or joint venture's identifiable net assets and liabilities at fair value.
Contingent consideration	An investor would measure contingent consideration at fair value. Classification and subsequent measurement would also be consistent with the existing requirements in IFRS 3 Business Combinations.
Impairment	A decline in fair value would be assessed in relation to the carrying amount of the investment rather than the original cost.

These proposals would apply prospectively, except for the recognition of gains and losses on transactions with equity-accounted investees, which would be applied retrospectively. Contingent consideration would be recognised and measured at fair value at the date of transition.

What new disclosures would be required?

The proposals would introduce several new disclosure requirements, including the following:

- A reconciliation of the carrying amount of equity-accounted investments – detailing the share of profit or loss and other comprehensive income, distributions, impairment losses and ownership changes.
- Gains or losses from other ownership changes and downstream transactions.
- Information on any contingent consideration arrangements.

Have your say

The IASB has requested comments by 20 January 2025. You may wish to take this opportunity to read and comment on the proposals. For further information please contact us.

KPMG reveals top geopolitical risks for PNG and Australian businesses by KPMG Australia Geopolitics Hub

Geopolitics is increasingly impacting PNG and Australian businesses. This week our Geopolitics Hub released its Top Risks to Australian Businesses report for 2024-25.

Geopolitical tensions should concern all business leaders and how they prepare is crucial. Our report is helping business leaders prepare strategically and operationally for an increasingly volatile future. There is now a real fluidity in the global risk environment and the norms we once understood are now deeply fragmented. From defence, financial services, consumer and retail, energy and resources and advanced manufacturing, no industry is immune and how they respond will be key to their success or otherwise going forward.

Some of the top risks affecting PNG and Australian businesses right now include:

1. AI

- The future of business is deeply intertwined with AI advancement, offering transformative potential if properly managed and governed.
- The global regulatory environment for emerging technology is growing more complex and fragmented, meaning businesses will have to spend more time, money and effort steering their companies through unchartered waters.

2. US politics and policy

- Research shows that as the United States grapples with internal political polarisation and mistrust in institutions, it is increasingly adopting economic nationalism and inward-looking policies.
- This shift has significant implications for PNG and Australian businesses and the global economic landscape, as the U.S. is steering away from its traditional role as a champion of free trade to prioritising domestic industry and using trade policy as a strategic tool.

3. Australia's National Security

- When it comes to geopolitics, our nearest neighbours stance on security can be relevant to PNG.
- Australia is proactively addressing its national security concerns by becoming more selective in its commercial relationships.
- Legislation such as the expanded Security of Critical Infrastructure Act and the Future Made in Australia Act highlights a strategic shift towards strengthening sovereign capability in areas deemed critical for securing the national interest.
- This shift underscores the growing emphasis on national security in economic strategy, affecting investment, operations, costs, and overall market dynamics within Australia.

4. Misinformation and disinformation

- The proliferation of misinformation and disinformation on social media, driven by sophisticated algorithms, is fostering social and political division and eroding trust in essential institutions, posing significant challenges to businesses.
- As this trend prompts a debate on content regulation and the ethical use of persuasive technology, companies must contend with a polarised consumer base and consider their role in advocating for responsible digital practises without infringing on free speech.

5. Plummeting trust in public institutions

- Widespread mistrust in political and public institutions leads to a precarious environment for business.
- This mistrust is fostering instability and an inclination toward more nationalist and protectionist policies.
- The demand for greater transparency and accountability is rising in response.

6. Deglobalisation

- Global trade dynamics are shifting as nations increasingly focus on building resilient supply chains and engage in 'friendshoring,' which involves trading with politically reliable partners over purely economic ties
- This suggests we are moving towards a future where geopolitical interests play a larger role in determining trade relationships.
- Businesses must strategically adapt to a geopolitical landscape where supply chain resilience, selective partnerships, and regional investments take precedence over traditional global-scale efficiency.

7. Imbalance between long-term and short-term strategy

- For sustainable success, organisations must strike a careful balance between short-term responsiveness and long-term planning, ensuring neither is prioritised at the expense of the other.
- Both in politics and business, a focus on immediate gains can undermine growth and adaptability, whereas overlooking short-term realities may impair operational effectiveness and agility in times of crisis.

8. Climate change and biodiversity loss

- Climate change and biodiversity loss are significantly influencing business landscapes, particularly in the Asia-Pacific.
- The dependency of over half of the world's economy on industries reliant on biodiversity means that considerable economic value is at risk. With agriculture both affecting and impacted by these environmental changes, businesses face supply chain disruptions, challenges in food production, and the necessity to adapt to shifting conditions.
- Companies must navigate these complexities, understanding that their operations and long-term sustainability are intertwined with the planet's environmental health and the socio-political stability of the regions they operate.

IRC activity

Default assessments

We mentioned in our July edition that IRC may move to issue default assessments on taxpayers who were behind in lodging their income tax returns. We have seen a couple of cases in recent weeks whereby IRC asked taxpayers who had not lodged returns for 2021 or prior to provide responses within three weeks or default assessments may be issued.

Digital taxation

We also mentioned in July that IRC indicated to us that they were exploring the introduction of a digital taxation. A recent MOU signed with NICTA is a step on the way to achieving IRC's aim of taxing the likes of Tik Tok, Facebook and Google. IRC have said the MOU will establish a framework for information sharing between IRC and NICTA. This will enable IRC obtain better information on digital entities operating in PNG and develop strategies to bring them into the tax net.

Fisheries

IRC has signed an MOU with the National Fisheries Authority (NFA) to improve information sharing and tax compliance between both bodies. IRC are concerned with potential transfer pricing, base erosion and profit shifting in the fisheries sector. According to the NFA, PNG signed bilateral access agreements with distant water fishing vessels and while they paid certain fees they are not subject to any of PNG's laws as they operate under UN conversion law. The fleets operated for over 12 months in PNG waters but according to the NFA it is difficult to find out how much tax these companies are generating in PNG. This MOU aims to rectify this gap.

New Income Tax Act re-write

The new Income Tax Act re-write process, which first commenced in early 2020, is still ongoing and has recently resurfaced again. Treasury has released to certain parties the draft version 15 of the new Income Tax Act re-write together with the draft Regulations (third draft). Treasury has sought comments on the drafts by 21 October 2024. We are currently working through the updated papers with a view to submission by the deadline. We understand a one year cooling off period is still expected after the legislation is passed – this should provide sufficient time for taxpayers to digest and plan for the revised legislation prior to it coming into force.

Our social media presence

As usual, you may access our regular multi-disciplined thought leadership pieces, newsletters, and updates on our KPMG PNG LinkedIn page. Also, connect via our webpage www.kpmg.com.pg and Facebook https://www.facebook.com/pngkpmg/

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