# ACCOUNTING NEWS

# ATTENTION DIRECTORS – ASX CORPORATE GOVERNANCE CHANGES – PART 6 – ROLE OF THE BOARD IN MANAGING AND MONITORING RISK

In the December Accounting News we discussed the significant change imposed within the revised Principle 7 of the Third Edition of the ASX Corporate Governance Principles and Recommendations (Third Edition) for listed entities to 'Establish a sound risk management framework and periodically review the effectiveness of that framework.'

This month we examine the revised principle's recommendations and how it impacts the role of a board in managing and monitoring risk, particularly in respect of recommendations to establish risk committees, and the steps the board should take to monitor whether controls are operating appropriately.

### Have you got a risk committee?

As can be seen from the comparison table below, the revised Recommendation 7.1 recommends that a board should have a committee to manage risk.

| SECOND EDITION ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS | THIRD EDITION ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS |
|---|---|
| Recommendation 7.1 | |
| Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | **Risk committee**<br>The board of a listed entity should have a committee or committees to oversee risk, each of which:<br>• Has at least three members, a majority of whom are independent directors, and<br>• Is chaired by an independent director.<br>The listed entity should disclose:<br>• The charter of the committee<br>• The members of the committee, and<br>• As at the end of each reporting period:<br>– Number of times the committee met throughout the period, and<br>– Individual attendances of the members at those meetings.<br>**No risk committee**<br>If the listed entity does not have a risk committee or committees that meet the above requirements, it must disclose:<br>• That fact, and<br>• The processes it employs for overseeing the entity's risk management framework. |

## IN THIS EDITION



In this edition, we continue our series on the practical implications of the revised ASX Corporate Governance Principles, considering the recommendations to have a risk committee, and the clear requirement for boards to take responsibility for monitoring the effectiveness of their risk management framework.

We look at the latest Australian versions of international standards issued by the AASB, including the new revenue standard, *AASB 15 Revenue from Contracts with Customers*, and the last tranche of the financial instruments standard, AASB 9 *Financial Instruments*, as well as the recent release by the IASB and the AASB on 'decluttering' financial statements (changes to IAS 1 *Presentation of Financial Statements*).

### Applying 'if not, why not' disclosures to risk committees

Under previous practice, it would be reasonable to expect the 'if not, why not' response from many smaller listed entities to be along the lines of:

'The entity has not established a risk committee:

- Due to the size of the entity
- Due to the limited resources available to the entity, or
- Due to the simplicity of the entity.'

All directors should be aware though that it is clearly the board's responsibility to manage risk. If the board has not established a separate risk committee, this becomes the responsibility of the **whole board**. Not managing and monitoring risk is not an option.

As can be seen above, the revised Third Edition Recommendation 7.1 explicitly requires disclosure of how the role of the risk committee is fulfilled when a formal committee has not been established.

Again, applying the 'if not, why not' disclosure requirements will prove difficult. For example, can directors state:

'We do not have a process for overseeing the entity's risk management framework because…:

- We do not believe it is necessary
- We do not have the resources to, or
- We think it would be too expensive?'

It would appear likely that when they next issue a corporate governance statement, all **directors** will be put in a position where they have to describe the processes they employ to oversee the entity's risk management framework.

As discussed in the December Accounting News, this assumes that an entity has a risk management framework. Again, the effort to establish and monitor a risk management framework should not be underestimated, nor should the potential implications for individual directors should the entity suffer a loss as a result of risks not being properly identified, managed or monitored.

### Monitoring risk is the board's responsibility

A significant change of emphasis in the revised Third Edition is clearly placing the responsibility for risk management on the board rather than them being able to delegate this responsibility to management. This can be demonstrated by comparing Recommendations 7.2 and 7.3 in the Second and revised (Third) Editions.

| SECOND EDITION ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS | THIRD EDITION ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS |
|---|---|
| **Recommendation 7.2** | |
| The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively.<br>The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | The board, or a committee of the board, should:<br>• Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound, and<br>• Disclose, in relation to each reporting period, whether such a review has taken place. |
| **Recommendation 7.3** | |
| The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | A listed entity should disclose:<br>• If it has an internal audit function, how the function is structured and what role it performs, or<br>• If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. |

As can be seen above, the primary obligation of directors in the Second Edition is to require management to design and implement the risk management and internal control system to manage the company's material business risks, and then to report to the board whether those risks were being managed effectively. The board was required to ask management whether there was a 'sound system of risk management and internal control' and whether that the system was operating effectively.

Under the Third Edition requirements, the board is expected to:

- Be aware of the risks, and
- Monitor the results of reviewing the effectiveness of the risk management framework.

It would appear that delegation to management of the risk management function is no longer an option.

### Applying 'if not, why not' disclosures to monitoring risk

Again, this new recommendation does not sit well with the 'if not, why not' disclosure principle. Reviewing the system annually is a very definitive requirement. Statements such as the following will no longer suffice.

'We have not reviewed the effectiveness of the entity's risk management framework because:

- We did not feel it was necessary
- We did not have the resources
- We did not think it was value for money, or
- We simply 'know' it is working.'

### Positive statement that an entity's risk management framework continues to be sound

As discussed in the December Accounting News, the requirement for management and auditors to state that an entity's risk management framework is working effectively is the core of the Sarbanes Oxley (SOX) requirements in the US. This has seen US companies spend billions of dollars implementing risk management frameworks, testing risk management frameworks, and ultimately having an external auditor 'attest' as to management's statement of their effectiveness or otherwise. In the initial implementation process, even some of the largest US companies reported 'material control deficiencies' and this reporting was only focused on the financial report, rather than truly entity-wide risk management.

The positive statement that the entity has a 'sound risk management framework' and that this is based on an annual review, is potentially very onerous for boards and individual directors should the entity be significantly impacted by a risk that had not been identified or not properly controlled.

In future corporate collapses, it would appear likely that the first question investors will ask will be: 'What happened to the risk management framework?' and future class actions will focus heavily on the validity of this statement and the diligence the directors undertook when making this statement.

Next month we will look at the increased focus on directors' responsibility in respect of managing the internal audit function. This may be particularly challenging where the entity does not have an internal audit function.

# HOW WILL AASB 15 AFFECT REVENUE RECOGNITION FOR CLUBS?

**WITH THE APPROVAL OF THE NEW REVENUE STANDARD IN AUSTRALIA, AASB 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*, BY THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB), THIS MONTH WE TAKE A CLOSER LOOK AT THE IMPACTS OF THE NEW REVENUE STANDARD ON ENTITIES IN THE NOT-FOR-PROFIT (NFP) SECTOR, IN PARTICULAR CLUBS.**

### Does AASB 15 apply to not-for-profits?

AASB 15 *Revenue from Contracts with Customers* will apply to contracts of not-for-profit entities that are **exchange transactions**. AASB 1004 *Contributions* will continue to apply to **non-exchange transactions** until the Income from Transactions of NFP Entities project is completed. An exposure draft is expected to be published by the AASB in the first quarter of 2014.

### How will AASB 15 impact clubs?

For clubs, AASB 15 may significantly change the pattern of revenue and profit recognition, particularly in respect of joining fees and any incentives given to members to encourage them to join or renew their memberships.

This change in the pattern of revenue and profit recognition may impact bank covenants and internal budgeting processes and may confuse stakeholders. It is likely to require system changes and clubs having to assign value to 'free' gifts or discounts to members.

AASB 15 contains more specific guidance on revenue recognition than the current AASB 118 *Revenue* standard, and in some cases changes the current accounting treatment required under AASB 118.

The following areas are likely to be impacted under AASB 15 for clubs:

- Sign on/joining/admission fees – clubs will need to recognise these fees over the average period of membership and not upfront, resulting in deferred revenue (regardless of whether the fees are non-refundable)
- Special discounts/promotions offered to members as a result of joining/renewing their membership - clubs will need to allocate a portion of the membership fee to these special discount/promotions and recognise revenue as the benefit is used by the member
- 'Free' gifts offered – will result in a portion of the membership fee being allocated to these free gifts and recognised as revenue.

The effective date of AASB 15 is for annual reporting periods beginning on or after 1 January 2017.

**Example 1**

Club G is a golf club and charges a non-refundable admission fee of $5,000. Membership fee is $12,000/year. Club G estimates the average period of membership is 10 years.

**Question**

How should Club G account for the transaction under AASB 15?

**Answer**

Under AASB 118, if there is a separate annual subscription, the admission fee is recognised as revenue as soon as it is paid (AASB 118.IE15) i.e. upfront.

However under AASB 15, revenue is only recognised when a distinct good or service is provided. Because the customer (i.e. the member) receives no benefit from just paying the admission fee on its own, to receive the benefit of playing golf, the customer must also pay its annual membership. Therefore, the 'admission' is not considered a 'distinct' good or service, so no revenue is recognised upfront. Under AASB 15, the admission fee is allocated over the average period of membership i.e. 10 years.

The following table sets out the pattern of revenue recognition under AASB 118 and AASB 15 on initial recognition through to year 4.

| | DAY 1 | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 |
|---|---|---|---|---|---|
| **AASB 15** | $0 | $12,500* | $12,500 | $12,500 | $12,500 |
| **AASB 118** | $5,000 | $12,000 | $12,000 | $12,000 | $12,000 |

*$12,000 per year plus $5,000 admission fee allocated over 10 years ($5,000/10)

**Example 2**
Club G is a golf club and charges a non-refundable admission fee of $5,000. Membership fee is $12,000/year. Club G estimates the average period of membership is 10 years.

Club G is also currently running a promotion. When a new member signs up, they will receive the following:

- A Club G branded golf umbrella
- 30% discount on competition fees for the next year, and
- 10 hours of free golf lessons.

**Question**
How should Club G account for the transaction under AASB 15?

**Answer**
Under AASB 15, Club G is providing the following four 'distinct' goods and services:

- Play golf for 10 years
- Club G branded golf umbrella
- 30% discount on competition fees for the next year, and
- 10 hours of free golf lessons.

Total revenue of $125,000 (($12,000 x 10) + ($5,000)) needs to be allocated to each of the above goods or services based on the relative standalone selling prices of each good or service, and revenue is recognised as and when each good is delivered, or service is performed.

### Play golf for 10 years
As discussed in Example 1, there is no separate good or service provided to the customer from the admission fee. The benefit the customer receives is to play golf for 10 years. The standalone selling price to play golf for 10 years is therefore $125,000 ($12,000 x 10) + $5,000). Revenue is recognised over 10 years.

### Club G branded golf umbrella
Revenue needs to be allocated to the golf umbrella and recognised when the golf umbrella is provided to the member. Assume the umbrella is sold separately for $50.

### 30% discount on competition fees for the next year
Club G needs to determine the standalone selling price of the discount voucher and defer the amount until the voucher is used. Assume that Club G estimates the standalone selling price of the discount is $300.

### 10 hours of free golf lessons
Revenue needs to be allocated to the 10 hours of golf lessons and recognised as revenue when each golf lesson is provided. Assume the standalone selling price of 10 hours of golf lessons is $500.

| GOODS OR SERVICE | STANDALONE SELLING PRICE | REVENUE ALLOCATED |
|---|---:|---:|
| Play golf for 10 years (annual membership plus admission fee) | $125,000 | $124,156 ($120,000/$125,850 X $125,000) |
| Golf umbrella | $50 | $50 ($50/$125,850 X $125,000) |
| 30% discount on competition fees for the first year | $300 | $298 ($300/125,850 X $125,000) |
| 10 hours of golf lessons | $500 | $496 ($500/125,850 X 125,000) |
| **Total** | **$125,850** | **$125,000** |

The tables below set out pattern of revenue recognition under AASB 15 and AASB 118 from initial recognition through to year 3:

| GOODS OR SERVICE | REVENUE RECOGNITION UNDER AASB 15 | | | |
|---|---:|---:|---:|---:|
| | Day 1 | Year 1 | Year 2 | Year 3 |
| Play golf for 10 years (annual membership plus admission fee) | - | $12,416 | $12,416 | $12,416 |
| Golf umbrella | $50 | - | - | - |
| 30% discount on competition fees for the first year | - | $298 | - | - |
| 10 hours of golf lessons | - | $496 | - | - |
| **Total** | **$50** | **$13,210** | **$12,416** | **$12,416** |

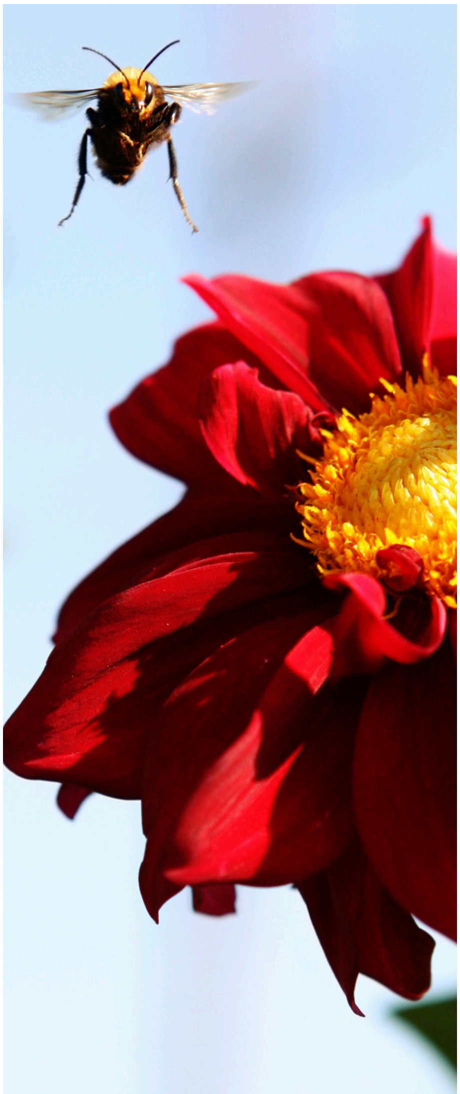
| REVENUE RECOGNITION UNDER AASB 118 | | | |
|---:|---:|---:|---:|
| Day 1 | Year 1 | Year 2 | Year 3 |
| $5,000 | $12,000 | $12,000 | $12,000 |

In practice under AASB 118, most golf clubs would recognise the promotional 'freebies' and discounts as a cost of sale as and when they are provided. You can see from the above example that the AASB 15 revenue model can result in a significant change to the pattern of revenue compared to the current AASB 118 model.

### Impacts of changes on systems and processes

The impacts of AASB 15 are not just changing the pattern of revenue recognition as the above examples have shown. Clubs will also need to think about the related deferred tax impacts, and also about system and process changes that would be required so that revenue is recognised in accordance with the new requirements.

In the above example, processes will have to change to determine all of the separate 'distinct' goods and services promised to the member, and a suitable value must then be determined for each 'promise' made. Clubs that charge one-off, non-refundable admission fees will also need to estimate the average period of membership. Systems will then have to be modified to track when each separate good or service is provided.



# IASB PAVES THE WAY FOR 'DECLUTTERING' FINANCIAL STATEMENTS BY FINALISING AMENDMENTS TO IAS 1

### Background

On 18 December 2014, the International Accounting Standards Board (IASB) finalised the amendments to IAS 1 *Presentation of Financial Statements* that are part of a major initiative to improve disclosure requirements in IFRS financial statements under the IASB's Disclosure Initiative. The Australian amendments have been approved as AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*.

### Decluttering

The aim of the project is to make financial statements more relevant to investors and to reduce the burden on preparers by allowing them to apply judgement when deciding which disclosures are relevant, and which are not. Currently, fear of regulator reprisal has resulted in many entities overloading their financial statements with information which is not necessarily material to investors, resulting in 'cluttering', and annual reports of some entities such as HSBC being close to 600 pages long.

### Changes to AASB 101

To give effect to these 'decluttering' amendments, the following changes have been made to AASB 101:

| AREA | SUMMARY OF CHANGES |
|---|---|
| Materiality | Clarifies that:<br>• Information is not to be aggregated or disaggregated in a manner that obscures useful information (e.g. when aggregating items that have different natures or functions, or overwhelming useful information with immaterial information)<br>• Materiality applies to all four primary financial statements and the notes to the financial statements<br>• Even when a standard contains a list of specific minimum disclosure requirements, preparers need to assess whether each required disclosure is material, and therefore whether presentation or disclosure of that information is warranted. Preparers also need to consider whether other disclosures, in addition to specific minimum requirements, are required to meet the needs of users of financial statements. |
| Line items in 'statement of financial position' and 'statement of profit or loss and other comprehensive income' | **Line items**<br>Clarifies that the requirements to present specific line items in the 'statement of profit or loss and other comprehensive income' and 'statement of financial position' can be met by disaggregating these line items if it is relevant to an understanding of the entity's financial position and performance.<br>**Subtotals**<br>Clarifies that additional subtotals must:<br>• Be made up of items recognised in accordance with IFRSs. This means that showing EBITDA (earnings before interest, tax, and depreciation and amortisation) would be acceptable as it is made up of items recognised in accordance with IFRSs, but subtotals such as 'Earnings before abnormal items' would not be permitted because 'abnormal items' is not an IFRSs measure<br>• Be presented and labelled in a manner that makes the subtotals understandable and consistent from period to period, and<br>• Not be displayed with more prominence than the subtotals and totals required in IFRSs. |
| Notes | Emphasises that understandability and comparability of financial statements should be considered by an entity when deciding the systematic order for the notes.<br>Clarifies that entities have flexibility to order the notes to give more prominence to areas it considers most relevant, for example, by inserting notes relating to the largest items in the statement of financial position before smaller items, and grouping together information about items that are measured at fair value. This means that notes do not necessarily need to be in the order listed in paragraph 114 of AASB 101. |
| Disclosure of accounting policies | When deciding which accounting policies to disclose, an entity should consider the nature of its operations, and the policies that users would expect to be disclosed for that type of entity.<br>The examples in paragraph 120 of AASB 101 of accounting policies for income taxes and foreign exchange gains and losses have been removed. |

## Equity accounted investments

The IASB has also finalised an amendment relating to a submission to the IFRS Interpretations Committee dealing with equity accounted investments.

The amendment clarifies that entities must include two separate line items for their share of other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method, being:

- Amounts that will be reclassified to profit or loss in future, and
- Amounts that will not be reclassified to profit or loss in future.

**Example:**

| | 20X5 (EXISTING AASB 101) | 20X5 (AMENDMENTS TO AASB 101 ) |
|---|---|---|
| **Other comprehensive income:** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Gains on property revaluation | 100 | 100 |
| Remeasurements of defined benefit pension plans | 150 | 150 |
| Share of gain (loss) on property revaluation of associates | (400) | - |
| Share of gain (loss) remeasurements of defined benefit pension plans of associates | 250 | - |
| Share of other comprehensive income of associates | - | (150) |
| Income tax relating to items that will not be reclassified | (75) | (75) |
| | **25** | **25** |
| *Items that will not be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | 500 | 500 |
| Gains on available-for-sale financial assets | 400 | 400 |
| Cash flow hedges | 200 | 200 |
| Share of gains on available-for-sale financial assets of associates | 100 | - |
| Share of other comprehensive income of associates | - | 100 |
| Income tax relating to items that may be reclassified | (330) | (330) |
| | **870** | **870** |
| **Other comprehensive income for the year, net of tax** | **895** | **895** |

## Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

On transition, entities are not required to disclose the information required by AASB 108, paragraphs 28 and 29, in relation to these amendments. However, if an entity changes the order of the notes or the information presented or disclosed compared to the previous year, AASB 101, paragraph 38 requires that it should adjust the comparative information to align with the current period presentation and disclosure.

## Action points

Although the amendments do not introduce many new requirements to AASB 101, they do encourage more thought to be given to the content and layout of financial statements.

In this regard, you may wish to revisit:

- Your application of materiality
- The level of aggregation and disaggregation of line items in the financial statements
- Your use of subtotals
- Presenting information in an orderly and logical manner
- The order of the notes to the financial statements
- The content and presentation of your accounting policies - What accounting policies are significant to the user in understanding specific transactions? Accounting policies should be specific to your transactions and balances and not 'boilerplate'
- Level of information to disclose for material transactions so that the economic substance of the transaction can be adequately explained.

The focus on disclosing material and relevant information is likely to require ongoing application of professional judgement. You may also consider ongoing engagement with your auditors and shareholders to discuss what disclosures are material and relevant for the current reporting period.

Entities with interests in associates and/or joint ventures should also note that the amendments may result in a different presentation of items within OCI.

# NEW BDO PUBLICATIONS

The Audit section of our website includes a range of publications on IFRS issues. Look for the 'Global IFRS Resources' link which includes resources such as:

IFRS at a Glance – 'one page' and short summaries of all IFRS standards.

IFRS News at a Glance – provides high-level headlines of newly released documents by the IASB and IFRS related announcements by securities regulators.

Need to Knows – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Recent Need to Knows include IFRS 9 *Financial Instruments - Impairment of Financial Assets* (Dec 2014), IFRS 15 *Revenue from Contracts with Customers* (Aug 2014), IFRS 9 *Financial Instruments – Classification and Measurement* (May 2014) and Hedge Accounting (IFRS 9 *Financial Instruments*) (Jan 2014).

IFRS in Practice – practical information about the application of key aspects of IFRS, including industry specific guidance. Recent IFRS in Practice include IFRS 15 *Revenue from Contracts with Customers* (Oct 2014), IAS 7 *Statement of Cash Flows* (May 2014), Distinguishing between a business combination and an asset purchase in the extractives industry (March 2014), IAS 36 *Impairment of Assets* (Dec 2013) and Common Errors in Financial Statements – Share-based Payment (Dec 2013).

Comment letters on IFRS standard setting - includes BDO comments on various projects of international standard setters, including Exposure Drafts and other Discussion Papers, when it is considered that the issue is significant to the BDO network and its clients. Latest comment letters include IASB ED 2014-04 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*, IASB ED 2014-03 *Recognition of Deferred Tax Assets for Unrealised Losses* and Request for information – Post-implementation Review: IFRS 3 *Business Combinations*.

# AASB APPROVES A NUMBER OF INTERNATIONAL STANDARDS INCLUDING THE NEW REVENUE AND FINANCIAL INSTRUMENTS STANDARDS

The following international accounting standards have been approved by the Australian Accounting Standard Board (AASB):

| INTERNATIONAL FINANCIAL REPORTING STANDARD | AASB APPROVED AUSTRALIAN EQUIVALENT STANDARD | EFFECTIVE DATE | BDO ACCOUNTING NEWS ARTICLES |
|---|---|---|---|
| IFRS 15 *Revenue from Contract with Customers* | AASB 15 *Revenue from Contracts with Customers*<br>AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* | Annual reporting periods beginning on or after 1 January 2017 | New revenue standard<br>IFRS 15 – Revenue recognition to change for the construction industry<br>IFRS 15 - Revenue recognition to change for retailers |
| IFRS 9 *Financial Instruments* (2014) | AASB 9 *Financial Instruments*<br>AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* and<br>AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)* | Annual reporting periods beginning on or after 1 January 2018<br>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009), AASB 9 (December 2010) and AASB 9 (December 2013) from 1 February 2015 | At last, the final version of IFRS 9 Financial Instruments – Part 1<br>Financial instruments - Changes to classification and measurement |
| *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) | AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants* | Annual reporting periods beginning on or after 1 January 2016 | IASB approves amendments to accounting for bearer plants |
| *Equity Method in Separate Financial Statements (Amendments to IAS 27)* | AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements* | Annual reporting periods beginning on or after 1 January 2016 | IASB approves equity method in separate financial statements |
| *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*<br>(Amendments to IFRS 10 and IAS 28) | AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Annual reporting periods beginning on or after 1 January 2016 | IASB clarifies accounting for the sale or contribution of assets between an investor and its associate or joint venture |
| *Annual Improvements to IFRSs 2012-2014 Cycle* | AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* | Annual reporting periods beginning on or after 1 January 2016 | IASB approves annual improvements for 2012-2014 cycle |
| *Disclosure Initiative* (Amendments to IAS 1) | AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* | Annual reporting periods beginning on or after 1 January 2016 | IASB paves the way for 'decluttering' financial statements by finalising amendments to IAS 1 |

# DISCLOSURE INITIATIVE PROJECT – PROPOSED AMENDMENTS TO AASB 107

**Background**

Following on from the International Accounting Standards Board's (IASB's) Disclosure Initiative referred to in the above article, 'IASB paves the way for 'decluttering' financial statements by finalising amendments to IAS 1', on 18 December 2014, the IASB published ED 2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7), subsequently issued by the Australian Accounting Standards Board (AASB) as ED 258 in Australia.

ED 258 proposes additional disclosure in relation to movements in debt, and restrictions on cash and cash equivalent balances as follows.

**Information about an entity's debt and debt movements**

Based on an investor survey undertaken by the IASB in early 2014, the IASB identified that a net debt reconciliation:

a. Can be used to verify an investor's understanding an entity's cash flows
b. Improves investors' confidence in forecasting an entity's future cash flows
c. Provides information about an entity's sources of finance and how those sources have been deployed over time, and
d. Enables investors to better understand an entity's exposure to risks associated with financing.

Although the IASB noted that finding a commonly agreed definition of debt would be difficult, it decided that it could use the definition of 'financing activities' in paragraph 6 of IAS 7.

The IASB is therefore proposing in ED 2014/6 (ED 258) to require entities to disclose a reconciliation of the opening and closing carrying amounts for each item for which cash flows have been, or would be, classified as financial activities (excluding equity items), including details of:

- Opening balance
- Movements in the period including:
  - Changes from financing cash flows
  - Changes arising from obtaining or losing control of subsidiaries or other businesses, and
  - Other non-cash exchanges (e.g. changes in foreign exchange rates, and changes in fair value)
- Closing balance.

An example of this reconciliation is set out below:

| | 20X1 | CASH FLOW | NON-CASH CHANGES | | 20X2 |
|---|---|---|---|---|---|
| | | | Business acquisition | New leases | |
| Long-term borrowings | 1,040 | 250 | 200 | - | 1,490 |
| Lease liabilities | - | (90) | - | 900 | 810 |
| **Long-term debt** | **1,040** | **160** | **200** | **900** | **2,300** |

**Disclosure about restrictions on cash and cash equivalent balances**

The IASB also received feedback from investors that additional disclosures are needed regarding cash and cash equivalent balances that are not available for use.

The IASB noted that investors are concerned that although the cash and cash equivalent balances are balances available to settle debt, there may be some form of economic restriction in place (e.g. the cash and debt are in different jurisdictions and using the cash to settle debt would trigger a tax payment), or there is a legal restriction in place that affects the entity's decision whether to use the cash and cash equivalent balances.

The ED therefore proposes that an entity should disclose restrictions that affect the decisions of an entity to use cash and cash equivalent balances (including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances).

**Effective date**

The effective date is yet to be confirmed.

**Comment due**

The proposals are open for comment to the IASB until 20 March 2015 and to the AASB until 17 April 2015.

# COMMENTS SOUGHT ON EXPOSURE DRAFTS

At BDO, we provide comments locally to the Australian Accounting Standards Board (AASB) and internationally to the International Accounting Standards Board (IASB). We welcome any client comments on exposure drafts that are currently available for comment. If you would like to provide any comments please contact Wayne Basford at wayne.basford@bdo.com.au.

| DOCUMENT | PROPOSALS | COMMENTS DUE TO AASB BY | COMMENTS DUE TO IASB BY |
|---|---|---|---|
| ED 257 *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to AASB 2) | Proposes to clarify various aspects of the accounting for share-based payment transaction under AASB 2 *Share-based Payment*. | 25 February 2015 | 25 March 2015 |
| ED 258 *Disclosure Initiative* (Proposed amendments to AASB 107) | Proposes additional disclosure in relation to movements in debt and restrictions on cash and cash equivalent balances | 20 March 2015 | 17 April 2015 |
| ED 259 *Classification of Liabilities* (Proposed amendments to AASB 101) | Proposes to clarify that classification of liabilities as either current or non-current is based on rights that exist at the end of the reporting period. | 9 May 2015 | 10 June 2015 |

## FOR MORE INFORMATION

**ADELAIDE**
**PAUL GOSNOLD**
Tel +61 8 7324 6049
paul.gosnold@bdo.com.au

**BRISBANE**
**TIM KENDALL**
Tel +61 7 3237 5948
timothy.kendall@bdo.com.au

**CAIRNS**
**GREG MITCHELL**
Tel +61 7 4046 0044
greg.mitchell@bdo.com.au

**DARWIN**
**CASMEL TAZIWA**
Tel +61 8 8981 7066
casmel.taziwa@bdo.com.au

**HOBART**
**CRAIG STEPHENS**
Tel +61 3 6324 2499
craig.stephens@bdo.com.au

**MELBOURNE**
**DAVID GARVEY**
Tel: +61 3 9603 1732
david.garvey@bdo.com.au

**NEW SOUTH WALES**
**GRANT SAXON**
Tel: +61 2 9240 9976
grant.saxon@bdo.com.au

**PERTH**
**BRAD MCVEIGH**
Tel +61 8 6382 4670
brad.mcveigh@bdo.com.au