# CORPORATE ADVISOR WINTER EDITION 2018

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HALL CHADWICK

# Eleven Crucial Topics To Think About

In this issue of *Corporate Advisor*, we explain 11 financial-reporting, regulatory, and corporate-governance topics of crucial importance to CFOs and directors.

We're focusing mainly on regulatory issues that affect the preparation of 30 June reports – ASIC targets and corporate restatements.

We look at penalties for those who have breached accounting standards and other governance issues.

1 January 2018 marked the application of AASB 15 *Revenue from Contracts with Customers* for for-profit entities. Both profit and not-for-profit entities need to apply AASB 9 *Financial Instruments* and related AASB 7 *Financial Instruments* amendments from that date.

1 January 2019 sees AASB 15 and AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* become operative. Preparers should not under-estimate the complexity of these standards and be well advanced with plans to implement them.

There are also four horizon issues that need to be planned for: the amnesty for non-payment of workers' superannuation; revised ASX corporate-governance principles; the new code of ethics; and the end of special-purpose financial statements.

Our guest contributors from *GAAP Consulting* include Stephen Newman, who looks at the recent case *ASIC v Godfrey*, Colin Parker, who details issued but not yet operative standards, and Carmen Ridley on new materiality guidance.

The Hall Chadwick team looks forward to working with you on the challenges ahead.

# ASIC Focuses On New Standards - And Much More

**Contributed by Graham Webb**
**Partner at Hall Chadwick Sydney**

The Australian Securities & Investments Commission is calling on companies to focus on new requirements that can materially affect reported assets, liabilities and profits. The introduction of major new accounting standards will have the biggest impact on many companies' financial reporting since the adoption of IFRS in 2005.

Full-year reports at 30 June must disclose the new standards' impacts. Half-year reports at 30 June must comply with the new requirements for revenue recognition and financial-instrument classification and measurement.

ASIC commissioner John Price said: 'We are concerned that some companies may not have adequately prepared for the impact of new accounting standards that can significantly affect results reported to the market.

'So far, surprisingly few companies have made disclosures on the impact of these standards. This may indicate that some companies need to give urgent attention to [their effects on] reported results, systems, processes and their businesses'.

The new standards cover revenue recognition, financial-instrument valuation (including hedge accounting and loan-loss provisioning), lease accounting, accounting by insurers, and the definition and recognition criteria for assets, liabilities, income and expenses. The standards also introduce new disclosure requirements.

In addition to the impact on reporting for the periods in which the standards first apply, there is a requirement to disclose the effects of the standards in notes to financial reports ahead of their operative dates.

Given the extent of the changes to financial reporting, companies that have not already done so should determine the extent of any impact. The new standards can have real business impacts (for example, compliance with debt covenants or regulatory financial-condition requirements, tax liabilities, dividend paying capacity, and remuneration schemes) as well as requiring the implementation of new systems and processes.

'It is important that directors and management ensure that companies are prepared for these new standards and inform investors and other financial-report users of the impact on reported results. ASIC will be reviewing more than 200 full-year financial reports at 30 June 2018 and selected half-year reports,' said Mr Price.

'Directors are primarily responsible for the quality of the financial report. This includes ensuring that management produces quality financial information on a timely basis. Companies must have appropriate processes, records and analysis to support information in the financial report rather than simply relying on the independent auditor.'

'Companies should apply appropriate experience and expertise, particularly in more difficult and complex areas such as accounting estimates (including impairment of non-financial assets), accounting policies (such as revenue recognition) and taxation.'

Further details may be found in ASIC information sheet 183 *Directors and financial reporting* and our appendix *ASIC focuses for 30 June financial reports.*

Listed companies should disclose information on risks and other matters that may have a material impact on their future financial positions and performances. This could include, for example, matters relating to digital disruption, new technologies, climate change, Brexit or cyber-security. For more information see ASIC regulatory guide 247 *Effective disclosure in an operating and financial review*.

The commission has also stated that directors may consider whether it would be worthwhile to disclose additional information that would be relevant under integrated and sustainability reporting or the recommendations of the task force on climate-related financial disclosures.

The commission continues to review financial reports of proprietary companies and unlisted public companies based on complaints and other intelligence. It has recently written to more than 1,000 proprietary companies that are probably large and have no reporting exemptions but have failed to lodge.

# Standard Tsunami Approaches

**Contributed by Colin Parker - Principal of GAAP Consulting & Former AASB Member**

While financial-reporting changes for 30 June this year have been minimal, a virtual tsunami of changes rolls ever closer.

AASB 15, AASB 9 and AASB 7 are operative for 31 December year-ends, and AASB 1058 and leases AASB 16 are operative from 1 January for 31 December 2019 year-ends.

The list of accounting standards effective for the *first time* at 30 June this year is short. An overview follows.

| STANDARD | OUR ASSESSMENT |
|---|---|
| AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* | Amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. |
| AASB 2016–4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash Generating Specialised Assets of Not-for-Profit Entities* | Removes references to depreciated replacement cost as a measure of value in use for not-for-profit entities.<br><br>Clarifies that the recoverable amount of primarily non-cash-generating assets of NFP entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*.<br><br>As a result, AASB 136 *Impairment of Assets* does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*. AASB 136 applies to such assets accounted for under the cost model in AASB 116 and AASB 138. |
| AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses* | Clarifies how to account for deferred-tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. |
| AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* | Amends AASB 2 *Share-based Payment* to address the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. |

The list of standards effective in future is long, and some of their effects are quite substantial.

| **AASB 15 *Revenue From Contracts With Customers & AASB 1058 Income Of Not-For-Profit Entities*** |
|---|
| AASB 9 *Financial Instruments* |
| AASB 16 *Leases* |
| AASB 17 *Insurance Contracts and associated amending standards* |
| AASB 1059 *Service Concession Arrangements: Grantors* |
| Interpretation 22 *Foreign Currency Transactions and Advance Consideration* |
| Interpretation 23 *Uncertainty over Income Tax Treatments and associated amending standards* |
| AASB 2014 – 10 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |
| AASB 2016-5 *Classification and Measurement of SBP transactions* |
| AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property Annual Improvements 2014-2016 and Other Amendments [AASB 1, AASB 128, AASB 140]* |
| AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensations* |
| AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* |
| AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015-2017* |
| AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendments, Curtailment or Settlement* |

# Moves To Replace Special Purpose Financial Statements

**Contributed by David Lissauer**
**Director at Hall Chadwick Melbourne**

The AASB is consulting on the ending of special-purpose financial statements for entities complying with Australian accounting standards.

The board's international counterpart's revised *Conceptual Framework* includes a definition of 'reporting entity' that conflicts with the counterpart Australian concept used to determine when an entity should prepare general-purpose financial statements.

According to the AASB, the conflict must be resolved to avoid confusion, non-compliance with international reporting standards and directors' potential liability.

The AASB proposes to:

- Make the revised *Conceptual Framework* applicable to entities required to prepare financial statements that comply with Australian standards
- Remove the definition of 'reporting entity' from Australian requirements, effectively removing the option to prepare special-purpose financial statements if entities are required by legislation or otherwise to comply with Australian standards, and
- Provide an alternative tier 2 general-purpose statement framework *Specified Disclosure Requirements* that requires only four incremental disclosures to those currently required under present ASIC regulatory guidance for entities preparing special-purpose statements.

The move would have important consequences for some entities, effectively removing the option to prepare special-purpose statements (if they are required by legislation or otherwise to comply with Australian standards).

Specifically, the board has been seeking views on:

- The impact of removing the ability to prepare special-purpose financial statements
- The usefulness of related party, revenue, impairment and tax disclosures, and
- The impact of consolidation and equity accounting requirements.

While the AASB has not identified a date by which its proposals will be implemented, it could be some way off, perhaps from 1 January 2021.

# Let's Be Clear About Materiality

**Contributed by Carmen Ridley, Team Leader – Corporate Reporting, GAAP Consulting, & AASB Member**

ASIC's surveillance continues a focus on material disclosures useful to investors and others. Assumptions supporting accounting estimates and significant accounting-policy choices are under its lens.

The commission is disinterested in immaterial disclosures that may add unnecessary clutter to financial reports; every effort should be made to communicate information as clearly and concisely as possible.

The recently issued AASB practice statement 2 *Making Materiality Judgements* aims to assist management in presenting an entity's general-purpose financial statements that is useful in making decisions on the provision of resources to the entity.

Put simply, the document aims to guide preparers to address a 'disclosure problem' that might arise when an entity provides too much irrelevant information and not enough relevant and useful information.

The goal for preparers is to judge how their financial statements are viewed through their stakeholders' lenses and if information disclosed provides a clear and accurate picture of the financial transactions and associated risks the entity is involved in.

Materiality judgements are pervasive in the recognition, measurement, presentation and disclosure requirements of accounting standards. So, guidance is important.

It provides an overview of the general characteristics of materiality, presents a four-step process by which materiality judgements may be made, even those in specific circumstances involving prior-period information, errors and covenants, and in the context of interim reporting.

The steps identified are:

- Identify information that has the potential to be material
- Assess whether the information identified is, in fact, material
- Organise the information within draft financial statements in a way that communicates the information clearly and concisely to primary users, and
- Review draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and on the basis of the complete set of financial statements.

The practice statement provides non-mandatory guidance and does not change or introduce new requirements in Australian accounting standards. An entity can elect to apply it to financial statements from 1 January.

# Three ASIC - Inspired Corporate Restatements

**Contributed by Geoff Stephens**
**Director at Hall Chadwick QLD**

ASIC has noted the decision by Myer Limited to write down the value of its goodwill and brand name's intangible assets by $515 million in its financial report for the half-year ended 27 January 2018.

The commission had raised concerns about the assets' value in Myer's financial report for the full-year ended 29 July last year, including the reasonableness and supportability of the cash-flow forecasts used in testing the assets for impairment.

Myer has stated that it adopted lower cash-flow forecasts in making the 27 January write-down. The retailer also referred to a deterioration in trading during the first half of the 2018 financial year.



As outlined in ASIC's media release 17-162 MR *ASIC calls on preparers to focus on the quality of financial report information*, the impairment of non-financial assets remains a focus in its surveillance.

ASIC has noted the decision by Pacific Current Group Limited to correct its accounting treatment of Aurora Trust in its financial report for the half-year ended 31 December.

The commission was concerned about the non-consolidation of Aurora Trust in Pacific Current's 30 June 2017 financial report. Aurora had not been consolidated from November 2014 to April 2017, when Pacific Current had rights to Aurora's variable returns and could affect them and other relevant activities.

After consolidating Aurora from November 2014, Pacific Current restated, reducing net assets by $48.3 million at 30 June last year and profit-after-tax by $65.8 million for the year ended 30 June 2017.

As outlined in ASIC media release 17-423MR *ASIC calls on preparers to focus on financial report quality and new requirements*, the non-consolidation of controlled entities remains a key focus.

The commission has also noted a decision by Orica Limited to increase its environmental provision by $115 million in its financial report for the half-year ended 31 March.

ASIC had raised concerns as to whether the provision in the company's previous reports was adequate, bearing in mind the likely duration and cost of remediation obligations at its Botany Industrial Park site.

Orica has stated that it reviewed costs and the duration of the site's groundwater-treatment plant.

ASIC said that 'the adequacy of provisions to meet obligations is important in providing useful and meaningful information to investors and other users of financial reports'.

# ASIC v Godfrey - Risks For Directors & Senior Executives

**Contributed by Stephen Newman, Executive Counsel, Hope Earle Lawyers & part of the GAAP Consulting Network**

Company directors and officers ignore their obligations to the *Corporations Act* and accounting standards at their peril.

Failures to comply may have civil and criminal consequences and result in reputational damage. ASIC v Godfrey is a case in point.

Patrick John Godfrey was the former managing director of the Banksia Financial Group (BSL), Banksia Securities Limited being one of the group's entities.

BSL's primary business involved raising money from the public through the issue of debentures and

advancing those funds to third-party borrowers for property investment and development. For various reasons, receivers were appointed to BSL's assets and undertakings in 2012, and in 2014 BSL was placed into liquidation.

ASIC brought civil proceedings against Mr Godfrey in the Federal Court, alleging that he had failed to take reasonable steps to ensure that BSL complied with various provisions of the *Corporations Act* concerning the company's annual financial report for the years ended 30 June 2011 and 2012 and the half-year report for 31 December 2011.

ASIC alleged that provisioning for bad and doubtful debts was inadequate.

ASIC also alleged that Mr Godfrey failed to have a sufficient understanding of AASB 139 (now AASB 9) for the recognition and assessment of impairment of financial assets, including mortgage investments, failed to appreciate that BSL's policies and procedures were inadequate for identifying and dealing with impairment and fair-value issues, and failed to bring these matters to the attention of his fellow directors.

ASIC's case related to four loans that the commission alleged had been under-provisioned contrary to AASB 139. The under-provisioning resulted in inaccurate reporting of profit and/or loss.

Mr Godfrey and ASIC presented the court with a statement of agreed facts, and Mr Godfrey agreed to orders sought against him by ASIC.

The court ruled that Mr Godfrey had breached the act as alleged, disqualified him from managing corporations for five years and imposed a pecuniary penalty of $25,000.

The penalty was at the lower end of the scale because of the length of the disqualification order, there had been no dishonesty, and Mr Godfrey had cooperated with ASIC and admitted liability at an early stage.

Losses to debenture holders were relatively limited, Mr Godfrey considered that AASB 139 had been appropriately considered and applied, and there was no evidence of any previous wrongdoing.

In a warning that directors and senior executives should note, the court held that none of the steps that Mr Godfrey should have taken *'was an obligation that could be abrogated by reliance on the management of BSL, its internal Audit and Corporate Governance Committee or its external auditors*'.

The judgement is a timely reminder to Australian companies, directors and executives to maintain proper financial records (section 286), ensure that financial statements comply with Australian standards (sections 296, 297, 304 and 305), and ensure that directors' reports are accurate and complete (sections 298 to 300B).

CEOs and CFOs of listed companies should ensure that they do not make declarations whose accuracy might one day be called into question (section 295A). For listed companies, financial statements that do not properly state a financial position might result in a breach of continuous-disclosure rules.

Directors need to be mindful of their directors' duties, (sections 180 to 183) and their obligations to take all reasonable steps to ensure compliance with financial reporting obligations (section 344). A failure to do so may result in the imposition of a pecuniary penalty (maximum $200,000), an order disqualifying them from managing corporations, and a compensation order.

Criminal charges may be laid where a director acts recklessly or dishonestly (section 184) and if found guilty may face a fine of up to 2000 penalty units ($420,000) or 5 years' imprisonment or both.

A civil breach of section 344 attracts the same range of penalties as a breach of directors' duties, and, where the contravention of the section is dishonest, attracts the same penalties as may be imposed under section 184.

Apart from legal consequences associated with problematic financial reporting, reputational damage to individuals and entities almost always follows once the media become aware of the facts. This is inevitably compounded if ASIC gets involved, as it regularly issues media releases if an entity adjusts financial statements because of the commission's intervention.

# ASIC's Compliance Reminders

**Contributed by Drew Townsend - Partner at Hall Chadwick Sydney**

Australian Financial Services licensees and advisers have a professional and legal obligation to comply with the law, ASIC has reminded them.

AFS licensees must:

**Train staff on their professional and ethical obligations:** AFS licensees have an obligation to ensure that their staff are adequately trained and understand their professional and ethical obligations. A high standard of adviser professionalism, judgement and integrity is vital to ensuring that consumer trust and confidence is maintained in the financial services sector.

**Monitor and supervise their representatives:** ASIC expects that licensees will maintain adequate monitoring and supervision arrangements as an integral feature of their risk and compliance frameworks. Part of monitoring and supervising advisers involves licensees' regularly reviewing the conduct of their advisers and performing spot checks of key documentation to ensure that they are appropriately executed.



Where irregularities are found in key documentation, licensees should conduct the necessary enquiries in a timely manner. This may include contacting the affected clients, remediating clients where appropriate and conducting broader reviews of the relevant adviser's client files.

**Remediate consumers where misconduct is found:** AFS licensees must ensure that they address any systemic problems caused by the conduct of their advisers and, where necessary, put processes in place to remediate their clients for loss in a timely, fair and transparent way.

ASIC has published guidance on client review and remediation in regulatory guide 256 Client review and remediation conducted by advice licenses. While the guidance is directed at licensees who provide personal advice to retail clients, the principles set out in the guidance should be applied to other reviews and remediations.

Identify breaches in a timely manner. ASIC expects licensees to have effective systems in place for identifying, escalating and reporting breaches in a timely manner. Inadequate or late reporting could indicate to the commission that the licensee has broader compliance and cultural issues and would be a red flag that might lead to closer scrutiny.

# Tackling Non-Payment Of Workers' Superannuation

**Contributed by Geoff Stephens**
**Director at Hall Chadwick QLD**

The federal government has introduced legislation to complement a sweeping superannuation guarantee integrity package before parliament by introducing a one off, 12-month amnesty for historical underpayments of guarantees.

The bill incentivises employers to come forward and do the right thing by their employees by paying any unpaid super in full.

Employers are not being let off the hook – to use the amnesty they must pay all that is owing to their employees, including a high rate of nominal interest.

The amnesty will make it easier to secure outstanding employee entitlements by setting aside penalties for late payments.

Employers that fail to take advantage of the amnesty will face higher penalties if they are subsequently caught – in general, a minimum 50 per cent on top of what they owe. Throughout the amnesty the Australian Taxation Office will continue its usual enforcement activities.

'The ATO estimates that in 2014-15, around $2.85 billion in SG payments went unpaid,' financial-services minister Kelly O'Dwyer said.

'While this represents a 95 per cent compliance rate, any level of non-compliance is unacceptable, which is why the Turnbull Government is giving the ATO the tools it needs to enforce compliance.

'We are introducing this one-off amnesty to allow employers to wipe the slate clean and pay their workers what they're owed.'

The amnesty will run for 12 months from 24 May.

The announcement builds on the government's package of reforms to protect workers' superannuation by:

- Giving the ATO the ability to seek court-ordered penalties in cases where employers defy directions to pay their superannuation-guarantee liabilities, including up to 12 months' jail in the most egregious cases of non-payment
- Requiring superannuation funds to report contributions received more frequently, at least monthly, to the ATO. This will enable the ATO to identify non-compliance and take prompt action
- Bringing payroll reporting into the 21st century through the rollout of single-touch payroll (STP). Employers with 20 or more employees will transition to STP from 1 July, smaller employers coming on board from 1 July 2019. This will reduce the regulatory burden on business and transform compliance by aligning payroll functions with regular reporting of taxation and superannuation obligations, and
- Improving the effectiveness of the ATO's recovery powers, including strengthening director-penalty notices and use of security bonds for high-risk employers to ensure that unpaid superannuation is better collected by the ATO and paid to employees' super accounts.

# Government Boosts Penalties For Corporate Misconduct

**Contributed by Sandeep Kumar**
**Partner at Hall Chadwick Sydney**

Company directors and officers ignore their obligations to the Corporations Act and accounting

The federal government is strengthening criminal and civil penalties for corporate misconduct and boosting ASIC's powers to protect consumers from corporate and financial misconduct.

The reforms include the biggest increases to maximum civil penalties in more than 20 years. They bring Australia's penalties closer to those of leading international jurisdictions. The government believes that they are credible deterrents to unacceptable misconduct.



The federal government will increase penalties for the most serious criminal offences under the Corporations Act to a maximum of:

- For individuals: (i) 10 years' imprisonment and/or (ii) the larger of $945,000 or three times the benefits, and
- For corporations: (i) the larger of $9.45 million or (ii) three times the benefits or 10 per cent of annual turnover.

The government will expand the range of contraventions subject to civil penalties and also increase the maximum civil penalty amounts that can be imposed by courts.

The latter will be to the maximum of the greater of $1.05 million (for individuals, from $200,000) and $10.5 million (for corporations, from $1 million) or three times the benefit gained or loss avoided or 10 per cent of the annual turnover (for corporations).

ASIC will be able to seek additional remedies to strip wrongdoers of profits illegally obtained or losses avoided from contraventions resulting in civil-penalty proceedings.

The commission's powers will also be significantly increased through:

- Expanding its ability to ban individuals from performing any role in a financial-services company if they are found to be unfit, improper, or incompetent
- Strengthening its power to refuse, revoke or cancel financial-services and credit licences where the licensee is not fit or proper, and
- Boosting ASIC's tools to investigate and prosecute serious offences by providing greater flexibility to use seized materials and granting the commission access to intercepted telecommunications material.

The reforms follow recommendations made by its enforcement-review taskforce, which was established in October 2016 in response to the Murray Financial System Inquiry.

The government has agreed, or agreed in principle, to all 50 of the taskforce's recommendations and will prioritise the implementation of 30 of them.

The remaining 20 are about self-reporting of breaches, industry codes and ASIC's directions powers, which will be considered alongside the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

# ASX Consulting On Governance Update

**Contributed by Drew Townsend**
**Partner at Hall Chadwick Sydney**

The Australian Securities Exchange's corporate-governance council is consulting on proposals to update and issue a fourth edition of its *Corporate Governance Principles and Recommendations*.

While the standards of corporate governance in Australia remain high compared with international counterparts, the council recognises the need to assess regularly and evolve the principles and recommendations to address emerging domestic and global issues in corporate governance.

In May 2017, the council resolved to begin work on a fourth edition to address several issues, including:

- A social licence to operate
- Corporate values and culture
- Whistleblower policies
- Anti-bribery and corruption policies
- An apparent slowing in the rate of progress in achieving gender diversity at board level
- A recommendation from the senate economic-references committee for increased guidance around carbon risk, and
- Cyber-risks.

The consultation draft retains the same eight core principles as the third edition, although the council is proposing to make significant changes to principle 3 (a listed entity should act ethically and responsibly) to address emerging issues around corporate values and culture and social licence to operate.

It is proposed to re-word the principle as 'a listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and in a socially responsible manner'.

The council proposes to expand the number of recommendations from 29 in the third edition to 38 in the fourth.

It expects to release the final version of the fourth edition early next year.  It is expected to come into effect for an entity's first full financial year commencing on or after 1 July 2019.

Entities with a 30 June balance date will be expected to align their governance practices with the fourth edition, beginning with the financial year ending 30 June 2020, and entities with a 31 December balance date will be expected to do the same, beginning with the financial year ending 31 December 2020.

# Ethics Code Revamp

**Contributed by Graham Webb**
**Partner at Hall Chadwick Sydney**

It seems to me that accounting and auditing standards grab the attention of many of us. But when it comes to ethical standards eyes glaze over.

This should change when proposed standard APES *110 Code of Ethics for Professional Accountants (including Independence Standards)* comes into force.

Don't be fooled by the reference to 'proposed' and an expectation of change through due process and a long implementation time. The truth is that the standard's international counterpart has been issued and is effective from 19 June next year. So, don't just *expect* changes – we may presume that what is 'proposed' is near final.

'This is a ground-breaking moment in the public interest,' said International Ethics Standards Board for Accountants chairman Stavros Thomadakis.



'The code is now a significantly strengthened platform, re-engineered for greater usability while maintaining global applicability. It underscores the importance of the fundamental principles for all professional accountants.'

The revised code brings together key ethics advances over the past four years and is clearer about how accountants should deal with ethics and independence issues.

While the fundamental principles of ethics are unchanged, major revisions have been made to the unifying conceptual framework – the approach used by professional accountants to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, independence.

The code, all 205 pages of it, contains substantial revisions, including:

- Structural and drafting enhancements. There is new structure for sections – introduction, requirements and application guidance – so greater clarity of requirements results
- Revisions to provisions on safeguards
- New requirements and application material on pressure to breach fundamental principles
- Revisions to clarify the responsibilities of members in business when preparing and reporting financial information
- Revisions to clarify the applicability of the provisions to members in public practice, and
- New application material on professional scepticism and judgement.

The code is structured as:

- Part 1: *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes fundamental principles and the conceptual framework and is applicable to members of CA ANZ, CPA Australia and IPA
- Part 2: *Members in Business* sets out extra material applying to members in business when performing professional activities. Members in business include those employed, engaged or contracted in an executive or non-executive capacity in, for example, commerce, industry or service, the public sector, education, the not-for-profit sector, regulatory and professional bodies
- Part 3: *Members in Public Practice* sets out additional material that applies to members in public practice when providing professional services, and
- Part 4: *Independence Standards* sets out additional material that applies to members in public practice when providing assurance services. Part 4A *Independence for Audit and Review Engagements* applies when performing audit and review engagements, and Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagement* – which applies when performing assurance engagements that are neither audits nor reviews.

Apart from substantial revisions, many subtle changes should not be ignored.

More changes are in store in sections 250 and 340, Inducements, including Gifts and Hospitality reserved for rules in near future.

The proposed operative date for the Australian version is 1 January 2020. Not much time for understanding, development of policies and procedures, training and

# **Appendix:** ASIC Focuses For 30 June Reports

| AREA | ASIC COMMENT |
| --- | --- |
| New accounting standards – general<br>• AASB 9 Financial Instruments (applies from years commencing 1 January 2018)<br>• AASB 15 Revenue from Contracts with Customers (applies from years commencing 1 January 2018)<br>• AASB 16 Leases (applies from years commencing 1 January 2019)<br>• AASB 17 Insurance Contracts (applies from years commencing 1 January 2021), and<br>• Amendments to standards to apply the new definition and recognition criteria in the Conceptual Framework for Financial Reporting (applies from years commencing 1 January 2020). | Directors and preparers should be mindful of legislative obligations, including the requirement to keep financial records that correctly record and explain their transactions and financial position and performance, and that would enable true and fair financial statements to be prepared and audited.<br><br>Public disclosure on the effect of the standards and timely implementation are important for investors and market confidence. Information that there will be no material impact may also be important information for the market.<br><br>Directors and preparers should consider any continuous-disclosure obligations and the need to keep the market informed, as well as the effect on any fundraising and other transaction documents.<br><br>(Also see ASIC media release 16-442MR *Companies need to respond to major new accounting standards.*) |
| New accounting standards – half-year reports | The new revenue and financial instrument standards directly effecting the reported results of companies with half-year financial reports at 30 June 2018. Those reports must disclose the nature and effect of changes in accounting policies from applying new standards.<br><br>ASIC will review selected half-year reports, focusing on compliance with new standards. |

| | |
|---|---|
| New accounting standards – full-year reports | Directors should ensure that notes to 30 June financial statements disclose the effect on future financial positions and results of new AASBs.<br><br>It is reasonable for the market to expect that companies will be able to quantify the effect of new standards, particularly concerning revenue, financial instruments and leases.<br><br>Companies with 30 June year-ends will be reporting to the market part way into the 2018-2019 year for which the revenue and financial-instrument standards will first apply. Any results forecast for that year disclosed to the market should be consistent with the accounting basis required by the new standards for that year.<br><br>Where companies choose to apply new leasing requirements in comparative information in their 30 June 2020 financial report, new lease balances will be needed as at 30 June 2018. |
| New accounting standards – new conceptual framework | The IASB has released a new conceptual framework. Amendments were made to international standards to apply new definitions and recognition criteria for assets, liabilities, income and expenses. The framework will apply for years commencing 1 January 2020 where the criteria are not inconsistent with a specific requirement of an accounting standard.<br><br>While the Australian equivalent standards have not yet been amended, companies that are required to make an explicit unreserved statement of compliance with IFRS will need to make note disclosure at 30 June 2018 of the future impact of the criteria in the new framework. |

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| Impairment testing and asset values – goodwill, other intangibles and property, plant and equipment | Directors should ensure:<br>• Cash flows and assumptions are reasonable, having regard to matters such as historical cash flows, economic and market conditions, and funding costs. Where prior-period cash-flow projections have not been met, careful consideration should be given to whether current assumptions are reasonable and supportable<br>• Discounted cash flows are not used to determine fair value less costs of disposal where forecasts and assumptions are not reliable. Fair value less costs to sell should not be viewed as a means to use unreliable estimates that could not be used under a value-in-use model<br>• Value-in-use calculations: use sufficiently reliable cash flow estimates; do not use increasing cash flows after five years that exceed long term average growth rates, and without taking into account offsetting impacts on discount rates, and exclude cash flows from restructurings and improving or enhancing asset performance<br>• Cash flows used are matched to carrying values of assets that generate them, including inventories, receivables and tax balances<br>• Different discount rates are used for cash-generating units (CGUs) where risks are different and CGUs are in several countries, and that similar discount rates are used where risks are similar<br>• CGUs are not identified at too high a level, including where cash inflows for individual assets are not largely independent<br>• CGUs for testing goodwill are not grouped at a higher level than the operating segments or the level at which results are monitored for internal management purposes<br>• Corporate costs and assets are allocated to CGUs on an appropriate basis where it is reasonable to allocate them<br>• Appropriate use of fair values for testing exploration and evaluation assets during the exploration and evaluation phase, and<br>• Royalty relief or earnings multiple models are not used unless they are sufficiently reliable and market-based assumptions are available that are specific to a company's assets and circumstances.<br>(Also refer to information sheet 203 *Impairment of non-financial assets: Materials for directors.*) |
| Proprietary companies | ASIC continues to review the financial reports of proprietary companies and unlisted public companies, based on complaints and other intelligence.<br>ASIC also recently wrote to more than 1000 proprietary companies that appeared to be large with no reporting exemption and had not lodged financial reports. |

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| Other areas of focus on asset values | These include:<br>• Companies affected by market changes, digital disruption, technological change, climate change or Brexit<br>• Pricing, valuation and accounting for inventories, including the net realisable value of inventories, possible technical or commercial obsolescence, and the substance of pricing and rebate arrangements, and<br>• Valuation of financial instruments, particularly where values are not based on quoted prices or observable market data. Fair values should be based on appropriate models, assumptions and inputs. |
| Revenue recognition | Directors should review an entity's revenue-recognition policies to ensure that revenue is recognised in accordance with the substance of the underlying transactions, including ensuring that:<br>• Services to which the revenue relates have been performed<br>• Control of relevant goods has passed to the buyer, and<br>• Where revenue relates to both the sale of goods and the provision of related services, revenue is appropriately allocated to the components and recognised accordingly.<br>For 30 June 2018 half year reports, the new revenue standard applies. This standard is considerably more detailed and focuses on performance obligations. |
| Expense deferral | Directors should ensure that expenses are deferred only when:<br>• There is an asset as defined in the accounting standards<br>• It is probable that future economic benefits will arise, and<br>• The requirements of the intangibles accounting standard are met, including expensing start-up, training, relocation and research costs, ensuring that any amounts deferred meet the requirements concerning reliable measurement, and development costs meet the six strict tests for deferral. |
| Off-balance sheet arrangements | Directors should carefully review the treatment of off-balance sheet arrangements, whether other entities are controlled and should be consolidated, the accounting for joint arrangements and disclosures relating to structured entities.<br>Client monies held may also give rise to on-balance sheet assets and liabilities. Whether or not on balance sheets, systems and processes should be in place to ensure that any monies are sufficient to meet liabilities to clients. |

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| Tax accounting | Preparers should ensure that:<br>• There is a proper understanding of both the tax and accounting treatments, and how differences between the two affect tax assets, liabilities and expenses<br>• The impact of any recent changes in legislation are considered, and<br>• Recoverability of any deferred tax asset is appropriately reviewed. |
| Estimates and accounting policy judgements | Directors should ensure that disclosures are made and are specific to an entity's assets, liabilities, income and expenses.<br>Disclosure of key assumptions and a sensitivity analysis are important. These enable users of the financial report to make their own assessments about the carrying values of an entity's assets and risk of impairment given the estimation uncertainty associated with many asset valuations.<br>Preparers should be particularly mindful to make these disclosures, as this information may be revealed under key-audit-matter disclosures in the new enhanced audit reports for listed entities. |

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