



October 2016

National Executive

Executive Dinner: David Neal, Managing Director, Future Fund, spoke to members and guests on “Alignment for Long Term Investing” where he explained the Future Fund’s approach to making investments and the evaluation of performance.

President’s Dinner: The Hon. Scott Morrison-MP, Federal Treasurer, will be the keynote speaker at the President’s dinner to be held in Sydney on 16 November 2016. Further details of the dinner including a personal invitation will be sent to members separately. Members are requested to diarise this event.

Meeting with AASB Chair: Executive met with Kris Peach, AASB Chair, and Nikole Gyles, Technical Director and discussed the importance of providing practical support to the IASB and ways in which the AASB could seek feedback on issues from preparers, particularly implementation issues. Executive agreed that the G100 be involved in a CFO Roundtable with IASB member, Sue Lloyd, to be held in Sydney on 25 November 2016 dealing with the meaning of operating profit, underlying earnings, etc.

G100 Constitution: Executive approved changes to the G100 Constitution to contain explicit requirements dealing with the G100 Advisory Council and to amend requirements relating to the appointment of the National President. Details of the changes will be sent to members in the Notice for a Special General Meeting to be held on 15 December 2016.

Corporate reporting

Definition of a business: The G100 submission on IASB ED/2016/1 “*Definition of a business and accounting for previously held interests*” on proposed amendments to IFRS 3 and IFRS 11 is on the website.

Disclosure initiative: The IASB has posted a webinar (www.ifrs.org) which provides an overview of its disclosure initiative and its discussion paper on principles of disclosures which is expected to be issued by the end of 2016.

AASB CFO Forum: The G100 will host the AASB CFO Forum 2016 to be held in Sydney on 25 November 2016, dealing with the definition of operating profit and underlying earnings. Sue Lloyd, IASB member, is the keynote speaker. Invitations will be sent to members separately.

AASB Research Forum: The AASB’s inaugural Research Forum will be held at the University of Technology, Sydney on 24 November 2016. Further details are available at www.aasb.gov.au

DIARY DATES

Executive Meetings

15 December - Sydney

Member Activities

16 November: President’s Dinner in Sydney with The Hon. Scott Morrison-MP, Federal Treasurer

14 December: Dinner in Sydney with Greg Medcraft – ASIC Chairman

(Details of events will be sent to members separately)

IAS 40 Investment property: transfer of investment property: The IASB considered an analysis of comments on the ED and tentatively decided to proceed with finalising the proposed amendments subject to the following revisions:

- Clarifying that a change in management’s intentions, in isolation, provides no evidence of a change in use.
- Amending two examples so they could refer to property under construction or development as well as to completed property.
- Emphasising in the Basis for Conclusions that an entity should use judgement in assessing whether a property meets, or ceased to meet, the definition of investment property.
- Allowing an entity to apply either of two transition approaches; and
- Requiring entities to disclose information about any reclassification of property as a result of applying the simplified transition approach.

The effective date is expected to be 1 January 2018 with earlier application permitted. The Board expects to issue the proposed amendments in Q4 2016.

Insurance Contracts: The IASB has issued amendments to IFRS 4 ‘Insurance Contracts’ which addresses the interaction with the new financial instruments Standard IFRS 9 which relate to the volatility of reported results. The amendments provide for two approaches: an overlay approach and a deferral approach. The amendments:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. Entities that take this option continue to apply the existing IAS 39.

Cash Flow Statements: The UK Financial Reporting Council has issued a Discussion Paper “Improving the Statement of Cash Flows” (www.frc.org.uk) with the purpose of seeking evolutionary improvements to the requirements of IAS 7 “Statement of Cash Flows” to improve the usefulness of the disclosures. The FRC considers that the recommendations will inform the IASB’s work on primary financial statements.

Integrated Reporting

A BRLF Working Group has engaged with the AICD regarding director liability for forward looking statements particularly in relation to the preparation of integrated reports.

In September 2015 the BRLF responded to the AICD’s proposals in “The Honest and Reasonable Director Defence: A Proposal for Reform” with an alternative proposal for reform of the Corporations Act. The AICD responded to the BRLF Working Group in September 2016 expressing the view that the BRLF’s proposals were too narrow in that:

- (a) they focussed on forward looking statements made in an integrated report and not more broadly on the variety of corporate reports;
- (b) the protections proposed were too narrow as they dealt with the exercise of due care and diligence and did not envisage protections for misleading and deceptive statements.

The AICD has, however, expressed a willingness to discuss alternative reform initiatives that would lead to effective improvements in Australian corporate reporting. The BRLF Working Group is considering its next steps.

Other <IR> Developments

- (a) The IIRC, the International Association for Accounting and Research and the Association of Chartered Certified Accountants (UK) have published the following jointly commissioned research reports:
 - **“Meeting users’ information needs: The use and usefulness of Integrated Reporting”** (48 pp) explores how providers of financial capital perceive <IR> and its potential for providing decision useful information. The report highlights the information needs of investors and other financial users, identifies the key challenges that face <IR> and makes recommendations as to how such barriers to widespread adoption of <IR> may be overcome.

- **“Factors affecting preparers’ and auditors’ judgements about materiality and conciseness in Integrated reporting”** (66 pp) This report explores these issues from the perspective of corporate report preparers, company auditors and users of reports. It investigates how preparers make decisions about what to report with reference to <IR> Framework, examines the extent this decision making process is disclosed in corporate reports and explores how the magnitude, likelihood and nature of items affect judgements about materiality.

Both reports are available at www.theiirc.org and www.accaglobal.com

The IIRC has also released “Technology for Integrated Reporting” (www.theiirc.org) which provides guidance on using technology to drive multi-capital thinking and how technology can enable progressive business management and reporting practice.

- (b) The International Auditing and Assurance Standards Board’s (IAASB) Integrated Reporting Working Group has issued a Discussion paper “Supporting credibility and trust in emerging forms for external reporting: Ten key challenges for assurance engagement” and supporting materials which are available at www.ifac.org/publications-resources

The discussion paper explores:

- the factors that can enhance credibility and trust, internally and externally, in relation to emerging forms of external reports;
- the types of professional services covered by the IAASB’s international standards most relevant to these reports, in particular assurance arrangements;
- the key challenges in relation to assurance engagements; and
- the type of guidance that might be helpful to support the quality of these assurance engagements.

The paper also sets out the principal findings from research and outreach regarding developments in Emerging External Reporting frameworks and professional services most relevant to Emerging External Reporting reports, irrespective of whether such reports are part of the annual report or published as separate reports.

Comments are requested by 15 December 2016.

- (c) PwC has also issued “It’s not just about the financials” which provides views of investment professionals and their growing interest in understanding how environmental, social and governance matters affect businesses. The paper discusses how they use ESG information, how well they think companies do in communicating it, whether it is growing in importance and where the gaps are in ESG reporting. (The paper is available at www.theiirc.org)

ASIC

The G100 submission on ASIC has issued Consultation Paper 265 “*Communicating audit findings to directors, audit committees and senior managers*” is on the website.

Cathie Armour, Commissioner, presented “Regulatory perspective on conduct risk culture and governance” at the Risk Australia Conference on 16 August 2016. The presentation which is available at www.asic.gov.au outlines ASIC’s approach to facilitating change, innovation and new technology in supervising and regulating the market and conduct of entities that have a ‘social licence’ to operate.

ASIC Corporations (Wholly owned Companies) Instrument 2016/785 (replaces Class Order 98/1418 *Wholly-owned entities*) and also applies to financial years ending on or after 1 January 2017. It continues to relieve wholly owned companies from the need to prepare financial reports and have them audited provided they enter into a deed of cross-guarantee with their holding company and other wholly owned companies. However if a group wishes to join a company to a deed of cross-guarantee executed before the commencement of CI 2016/785, the existing deed will need to be replaced or revised and re-executed so it complies with PF 24. In addition bodies regulated by the Australian Prudential Regulation Authority can no longer be parties to these deeds and should be removed.

Standard Business Reporting

The G100 is a member of the ABR Program Business Advisory Forum which deals with issues relating to standard business reporting and the Australian Business Register. The G100 representative on the Forum is Vicky Coulson, Tax Manager, Woodside Energy Limited. Members may be asked to provide feedback on issues raised from time to time.

APESB Guidance: The APESB has issued guidance on management representations to assist professional accountants who prepare, review and approve management representation statements. The guidance seeks to improve understanding of how to apply APES 110 “Code of Ethics for Professional Accountants” to management representations. While APES GN 11 “Management Representations” is directed primarily at CFOs and those in senior finance roles it also provides specific guidance to professional accountants at different levels of an organization in respect of their responsibilities. It is available at www.apesb.org.au