

Monthly roundup - March 2013

Staying on top of developments

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Monthly highlights

ASIC Regulatory Guide 247 *Effective disclosure in an operating and financial review*

On 27 March 2013, the Australian Securities and Investments Commission (ASIC) released Regulatory Guide 247 *Effective disclosure in an operating and financial review* ([RG 247](#)) to provide guidance on preparing an operating and financial review (OFR) in the directors' report of a listed entity.

RG 247 includes guidance on:

- providing a narrative and an analysis of the entity's operations and financial position
- outlining the entity's key business strategies and providing a discussion of the entity's prospects for future financial years
- the application of the 'unreasonable prejudice' exemption from disclosing specific business strategies and prospects

Directors of listed entities should consider reassessing their approach to disclosing information in the OFR in light of this new guidance, to ensure compliance with s.299A(1) of the *Corporations Act 2001*. Note, that although the adoption of regulatory guidance issued by ASIC is not mandatory, it reflects ASIC's interpretation of the requirements of s.299A(1) of the *Corporations Act 2001* and therefore the basis upon which ASIC will assess the disclosure of OFR information by listed entities.

Financial Instruments: Expected Credit Losses

The IASB and AASB have issued for public comment an exposure draft (ED) with respect to the recognition, measurement, presentation, and disclosure of expected credit losses in financial instruments. The proposals are intended to replace the guidance on impairment of financial assets in IAS 39 / AASB 139 and once finalised are to be integrated into IFRS 9 / AASB 9.

The ED proposes to use a forward looking model with the aim of achieving earlier recognition of (expected) credit losses on financial assets, guarantees and commitments as compared to the currently used 'incurred loss model' that delays recognition of credit losses until the occurrence of a loss event.

Expected credit losses are required to be measured through a loss allowance, in accordance with one of two approaches:

- at an amount equal to **full lifetime expected credit losses** (expected credit losses that result from all possible default events over the life of the financial instrument. This approach would apply to the following:

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- to a financial instrument whose credit risk has increased significantly since initial recognition
- to all purchased or originated credit-impaired financial assets
- to trade receivables that do not constitute a financing transaction in accordance with IAS 18 'Revenue'

(Note: This approach may be applied as an accounting policy choice to trade receivables that do constitute a financing transaction in accordance with IAS 18 'Revenue'; and to lease receivables)

- at an amount equal to the **12-month expected credit losses** (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date). This approach would apply to all other financial instruments

The comment period for the AASB ED ends on 10 May 2013 (5 July 2013 for the IASB ED).

Please refer our [IFRS in Focus](#) (PDF) for further information.

New pronouncements

International Accounting Standards Board (IASB)

Pronouncement	Key dates	More information
<p>Exposure Draft ED/2013/3 <i>Financial Instruments: Expected Credit Losses</i></p> <p>Proposes to replace the 'incurred loss' model with an 'expected loss' model, i.e. entities must recognise expected credit losses before the occurrence of a credit-loss event</p> <p>Expected credit losses on financial assets and on commitments to extend credit to be recognised, based upon current estimates of expected shortfalls in contractual cash flows as at the reporting date.</p>	<p>Comments due by 5 July 2013</p>	<p>ED 2013/3(PDF)</p> <p>IFRS in focus(PDF)</p>
<p>Exposure Draft ED/2013/4 <i>Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)</i></p> <p>Aims to provide a more straight-forward alternative for accounting for contributions from employees and third parties to defined benefit plans, when the contributions payable in a particular period are linked solely to the employee's service rendered in that period.</p>	<p>Comments due by 25 July 2013</p>	<p>ED 2013/4(PDF)</p>

1 Australian Accounting Standards Board (AASB)

Pronouncement	Key dates	More information
<p>AASB 1055 <i>Budgetary Reporting</i> and AASB 2013-1 <i>Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements</i></p> <p>AASB 1055 sets out budgetary reporting requirements for not-for-profit entities within the General Government Sector (GGS) of the Australian Government and State and Territory Governments, and, together with AASB 2013-1, relocates the corresponding budgetary reporting requirements for the whole of government and GGS of the Australian Government and State and Territory Governments from AASB 1049</p> <p><i>(Note: All budgetary reporting requirements applicable to public sector entities are now located in a single, topic-based, Standard AASB 1055 'Budgetary Reporting')</i></p>	<p>Effective for annual reporting periods on or after 1 July 2014</p>	<p>AASB 1055(PDF)</p> <p>AASB 2013-1(PDF)</p>

AASB 2013-2 Amendments to AASB 1038 – Regulatory Capital

Makes amendments to AASB 1038 *Life Insurance Contracts*, as a consequence of changes to the Australian Prudential Regulation Authority's (APRA) reporting requirements relating to life insurers

Effective for annual reporting periods on or after 31 March 2013

[AASB 2013-2](#)(PDF)

ED 236 Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to AASB 9 and AASB 139)

Incorporates IASB ED/2013/2

Proposes changes to AASB 139 *Financial Instruments: Recognition and Measurement* and the forthcoming hedge accounting chapter of AASB 9 *Financial Instruments* to permit the continuation of hedge accounting where hedging instruments are novated to a central counterparty in accordance with laws or regulations introduced by jurisdictions to implement the G20's agreed reforms around over the counter (OTC) derivatives

Comments due to the AASB by 25 March 2013 and to the IASB by 2 April 2013

[ED 236](#) (PDF)

[IFRS in focus](#)(PDF)

ED 237 Financial Instruments: Expected Credit Losses

Incorporates IASB ED 2013/3, discussed above

Comments due to the AASB by 10 May 2013 and to the IASB by 5 July 2013

[ED 237](#) (PDF)

ED 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities

Proposes implementation guidance to assist not-for-profit (NFP) entities in the private and public sectors to apply AASB 10 *Consolidated Financial Statements* and AASB 12 *Disclosure of Interests in Other Entities*.

(These Standards apply mandatorily to NFP entities for periods beginning on or after 1 January 2014, following amendments by the AASB in December 2012)

Comments due to the AASB by 30 June 2013

[ED 238](#) (PDF)

ED 239 Defined Benefit Plans: Employee Contributions (proposed amendments to AASB 119)

Incorporates IASB ED 2013/4, discussed above

Comments due to the AASB by 24 June 2013 and to the IASB by 25 July 2013

[ED 239](#) (PDF)

Standard setter meetings

(A listing of meetings of various standard setters during the month or where documents were issued during the month in respect of the previous month's meetings, with links to our analysis, agenda papers and so on)

Meeting	Highlights	More information
IFRIC regular meeting 12-13 March 2013	<p>Key issues discussed include:</p> <ul style="list-style-type: none"> • IFRS 3 <i>Business Combinations</i> <ul style="list-style-type: none"> ○ Accounting for reverse acquisition transactions where the acquiree is not a business ○ Accounting for contingent consideration in a business combination ○ Mandatory purchase of non-controlling interest in a business 	<p>Deloitte observer notes</p> <p>IFRIC update(PDF)</p>

- combination obtaining control of listed entity
- IAS 19 *Employee Benefits*
 - Determination of discount rate
 - Post vs pre-tax discount rate
- IFRS 2 *Share-based payment*
 - Share-based payment awards settled net of tax withholdings
 - Modification of a share-based payment transaction from cash-settled to equity-settled
- IAS 7 *Statement of Cash Flows* — Review of definitions of operating, financing and investing
- IAS 28 *Investments in Associates and Joint Ventures* — Elimination of intercompany profits between an issuer and its joint venture
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 6 *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* — IFRIC Interpretation X Levies
- IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, and IFRIC 12 *Service Concession Arrangements - Variable payments for the separate acquisition of PPE and intangible assets*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* — Classification in conjunction with a planned IPO and change on disposal method
- IFRS 10 *Consolidated Financial Statements* — Protective rights and continuous assessment of control under IFRS 10

IASB regular meeting
19-21 March 2013

Topics discussed were as follows (click on the links for direct access to the Deloitte observer notes for that topic):

[Deloitte Observer notes](#)

- [IAS 19 — Defined benefit plans: employee contributions](#)
- [Annual improvements 2010-2012](#)
- [IAS 1 — Assessment of going concern](#)
- [Revenue recognition](#)
- [Put options written on non-controlling interests](#)
- [IAS 41 Agriculture — Bearer biological assets](#)
- [Fair value measurement — Unit of account for subsidiaries, joint ventures and associates](#)
- [Conceptual framework](#)
 - [Presentation and disclosure](#)
 - [Elements of financial statements](#)
 - [Capital maintenance](#)
 - [Measurement and elements of financial statements](#)

[IASB update](#)(PDF)

IFRS publications

- [IFRS on Point — IFRS Accounting Developments and Information: February 2013](#)(PDF) highlights the month's important IFRS developments and information
- [IASB Project Insights](#) provide a quick overview of the current status of the key projects of the IASB. New updates posted in March 2013: [Revenue recognition](#) (PDF) and [Insurance contracts](#) (PDF)
- [IFRS in Focus - Expected Credit Losses - Exposure Draft](#) describes the IASB's proposed expected loss impairment model that will replace the current incurred loss model in IAS 39 'Financial Instruments: Recognition and Measurement'
- [IFRS in Focus - IASB publishes exposure draft on novation of derivatives](#) describes the IASB's exposure draft ED/2013/2 'Novation of Derivatives and Continuation of Hedge Accounting' (Proposed amendments to IAS 39 and IFRS 9)

- [IFRS in Focus - Valuation methodologies](#) describes the valuation approaches and techniques considered in the educational material to support IFRS 13 'Fair Value Measurements'
- [IFRS industry insights: Joint arrangements in the life sciences industry](#) highlights some of the key issues the life sciences industry is likely to encounter in adopting IFRS 11 'Joint Arrangements' and provides insight and examples to assist in the implementation of the standard. It also includes a comparison to accounting principles generally accepted in the United States of America (US GAAP).

Deloitte webcasts

- [Deloitte Dbriefs webcast](#) discusses the latest standard-setting developments at the IASB focus on financial instruments. The topics to be covered include:
 - Exposure Draft ED/2013/3 'Financial Instruments: Expected Credit Losses'
 - Exposure Draft ED/2013/2 'Novation of Derivatives and Continuation of Hedge Accounting'
 - Other accounting, standard setting, and reporting developments for the quarter.

Deloitte comment letters

- [Deloitte comment letter](#) (PDF) on the IASB Exposure Draft 2012/3 'Equity Method: Share of Other Net Asset Changes'
- [Deloitte comment letter](#) (PDF) on the IASB Exposure Draft 2012/4 'Classification and Measurement: Limited Amendments to IFRS 9'
- [Deloitte comment letter](#) (PDF) on the IASB Exposure Draft 2013/1 'Recoverable Amount Disclosures for Non-Financial Assets'.

Other developments

(A brief listing of other financial reporting developments during the month. A full summary of all IFRS-related developments can be found in our [March historical summary on IAS Plus](#). You can also subscribe to our [Deloitte IAS Plus RSS feed](#) to be kept informed of developments as they happen)

Australian-specific topics

- The Australian Securities and Investments Commission (ASIC) released Regulatory Guide 247 Effective disclosure in an operating and financial review ([RG 247](#)) (PDF) to provide guidance on preparing an operating and financial review (OFR) in the directors' report of a listed entity (*also discussed in 'Monthly Highlights' above*)
- The Australian Securities Exchange (ASX) has released updated guidance to assist Australian listed entities to comply with their continuous disclosure obligations ([ASX company update 01/13](#))
- The Australian Accounting Standards Board (AASB) to establish a new Research Centre and a Standard setting Directorate ([Media release](#)).

International Accounting Standards Board

- [Revenue recognition project - updated staff summary](#) (PDF) outlines the decisions made by the IASB and FASB in redeliberations since the issue of ED/2011/6 'Revenue from Contracts with Customers' in 2011
- [Investor Perspectives: Of "Great Expectations" - Accounting for Expected Credit Losses in Financial Instruments](#) discusses the new impairment 'expected loss' model proposed in ED 2013/3
- The IASB has issued a [Request for Information \(RFI\)](#) (PDF) seeking comments from stakeholders to identify high-level overviews of rate-regulatory schemes that should be included as part of the scope in the development of a Discussion Paper ([IAS Plus article](#))
- The IASB has updated its work plan. It has changed the timing of expected milestones in a number of projects, and a number of new expected project steps and narrow scope projects have been added ([IAS Plus article](#)).

Other global news

- The European Financial Reporting Advisory Group (EFRAG) has issued a draft comment letter on the IASB's Exposure Draft ED/2013/2 'Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9)' ([IAS Plus article](#))
- The EFRAG has submitted to the IASB a letter outlining the results of its analysis of the impact on macro hedge relationships of the consequential amendments proposed by the Review Draft (RD) 'IFRS 9 General hedge accounting' on existing macro hedge relationships under IAS 39, which was published by the IASB in September 2012. EFRAG suggests an option of either following IAS 39 or IFRS 9 ([IAS Plus article](#)).