Grant Thornton

# Technical Accounting Alert

## What's New for June 2011?

### Introduction

The purpose of this alert is to provide information about new standards / interpretations which are to be applied for the first time by 30 June 2011 year ends.

Note that this alert does not include information about other pronouncements which are available for early adoption at 30 June 2011 but are not mandatory; for a detailed list of these, please refer to TA Alert 2011-09.

### Overview

With a number of new accounting standards coming into effect for annual accounting periods beginning on or after 1 July 2010 (i.e. 30 June 2011 year end), now is the time to ensure that all necessary changes to your 2011 financial statements have been identified. Plans to implement any necessary changes to accounting policies and disclosures should be well in hand.

For a full list of new standards and amendments that will come into effect for June 2011 year ends, see Appendix One: Pronouncements applicable for the first time for June 2011 reporters.

The following paragraphs are a brief reminder of the most significant changes with references on where to get additional information.

### Annual Improvements 2009 [AASB 2009-05]

The IASB has published Improvements to IFRSs ('2009 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs) issued in Australia as AASB 2009-5.

For details in relation to these changes and which Australian Accounting Standards are affected refer to TA Alert 2009-16.

### AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]

The amendment to AASB 2 clarifies that an entity that receives goods or services from its suppliers (including employees) must apply AASB 2 even where it itself has no obligation to make the required share-based cash payments.

See TA Alert 2009-17 for more information.

### AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue

The Amendment alters IAS 32 Financial Instruments: Presentation so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the Amendment, rights issues denominated in a foreign currency 'failed' equity classification and were required to be accounted for as derivative liabilities.

See TA Alert 2009-21 for more information.

### AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]

The annual improvements process has been developed to address non-urgent, but necessary, minor amendments to AASBs. Issues dealt with in this process arise from matters raised by the International Financial Reporting Interpretations Committee (IFRIC) and suggestions from staff or practitioners, and focus on areas of inconsistency in AASBs or where clarification of wording is required. Rather than making a series of piecemeal changes during the year, the process streamlines the AASB's improvement activity by presenting the changes in a single document each year. The main amendments are as follows:-

- Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.
- Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e.,split between consideration and post combination expenses
- Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.
- Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.
- Clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

See TA Alert 2010-06 for more information.

### Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with AASB 139. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.

The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.

See TA Alert 2009-25 for more information.

### Changes to ASX Listing Rules and Corporate Governance Principles and Recommendations

A suite of changes have been made to the ASX Listing Rules and to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition). These amendments are in response to reports released by the Corporations and Markets Advisory Committee (CAMAC) and the Productivity Commission. The overriding principle is to increase transparency and disclosure to shareholders and the general public.

The changes to the Principles and Recommendations will take effect in the first financial year of listed entities beginning on or after 1 January 2011, though the Council encourages an early transition to the proposed changes particularly in relation to diversity. The proposed changes to the ASX Listing Rules with respect to the requirements for a trading policy will take effect on 1 January 2011. The proposed changes to the ASX Listing Rules with respect to the composition of remuneration committees will take effect from 1 July 2011.

See TA Alert 2010-58 for further information.

### Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011

The purpose of this alert is to provide an overview of changes to directors and executive remuneration that generally apply from 1 July 2011.

The amendments cover the following:-

- Vote for directors to stand for re-election if they do not adequately respond to shareholder concerns on remuneration issues over two consecutive years, as measured by the outcome of the shareholder votes on remuneration reports
- Restricting engagement of remuneration consultants to non-executive directors and requiring disclosure of remuneration advice in remuneration report
- Preventing shareholder directors and executives voting on resolutions
- Prohibiting hedging of incentive remunerations
- Requiring declarations of "no board vacancies" to be approved by shareholders
- Requiring proxy holders to cast all of their directed proxies
- Confining disclosures in the remuneration report to key management personnel only

See TA Alert 2011-04 for further information.

### Reduced Disclosure Regime

In June 2010 the AASB issued new standards (AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) on a reduced disclosure regime for non-publicly accountable for-profit private sector entities and certain entities in the not-for profit private sector and public sector. These were available for early adoption for 30 June 2010 financial statements.

The new standards introduce a second tier of reporting requirements into the Australian financial reporting framework to substantially reduce the burden of financial reporting for certain entities in both the private and public sectors in preparing their general purpose financial statements. It introduces a regime which requires disclosures that are substantially reduced when compared with those required under the full IFRSs as adopted in Australia.

The reduced disclosure regime does not change the current AASB policy of transaction neutrality, which is designed to ensure that all Australian reporting entities apply the same bases of recognition and measurement.

With the introduction of the reduced disclosure regime, the Australian Accounting Standards now consist of two tiers of reporting requirements that apply to general purpose financial statements:

1. Tier 1: Full IFRSs as adopted in Australia; and
2. Tier 2: The reduced disclosure regime.

See TA Alert 2010 – 24 and 2010-15 for further information.

### Corporate Reporting Reform Bill

In June 2010 the Government approved the Corporate Reporting Reform Act which aims to cut red-tape and improve Australia's corporate reporting framework. The financial statement relief applies from 30 June 2010 financial statements.

The key reforms include:

- Establishing a three tiered differential reporting regime for companies limited by guarantee under the Corporations Act 2001:
    - Revenues <$250K and no deductible gift status – no Corporations Act accounts/audit requirements
    - Revenue <$1M – streamlined directors report and annual report to shareholders, option of an audit review by any practicing certificate holder rather than an RCA audit
    - Revenues >$1M – streamlined directors report and annual report to shareholders;
- Allowing companies to disclose summary parent-entity financial information rather than full parent-entity statements;
- Replacing the 'profits' test for paying dividends with a more flexible solvency type test (see TA Alert 2010-37 for more information);
- Providing greater flexibility for companies to change their year-end date;
- Expanding the range of entities that are required to comply with section 299A of the Corporations Act;
- Refining the statement of IFRS compliance in the directors' declaration; and
- Clarifying the circumstances in which a company can cancel its share capital.

See TA Alert 2010-07 for further information.

### Further information

For further information on any of the information included in this TA Alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au

# Appendix One: New pronouncements for 30 June 2011 year ends

New Accounting standards and interpretations to be adopted for the first time for December reporters.

| Title | Full title of Standard or interpretation | Effective for accounting periods beginning on or after |
|---|---|---|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project 2009 [AASB 5, 8, 101, 107, 117, 118,136 & 139] | 1 January 2010 |
| AASB 2009-8 | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] | 1 January 2010 |
| AASB 2009-9 | Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopers | 1 January 2010 |
| AASB 2009-10 | Amendments to Australian Accounting Standards – Classification of Rights Issue. | 1 February 2010 |
| AASB 2009-13 | Amendments to AASB 1 –arising from Interpretation 19 | 1 July 2010 |
| Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |
| AASB 2010-1 | Limited exemption from comparative AASB 7 disclosures for first-time adopters (Amendments to AASB 1 and AASB 7) | 1 July 2010 |
| AASB 2010-3 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project 2010 [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] | 1 July 2010 |