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Technical Accounting Alert

What's New for December 2015?

Introduction

The objective of this Technical Accounting Alert (TA Alert) is to:

- provide information on new and revised Accounting Standards that are mandatorily applicable for the first time to 31 December 2015 annual and/or half-year ends; and
- highlight other recent financial reporting developments

This TA Alert incorporates all the relevant pronouncements and developments as at **2 November 2015**. Entities should also take into account any new pronouncements issued, or developments taking place, after this date if they are relevant for the financial year and/or half-years ending 31 December 2015.

Appendix A of this TA Alert contains a list Australian Accounting Standards - Reduced Disclosure Requirements (RDR) that are effective for the first time to financial years beginning on 1 January 2015.

Appendix B provides information on pronouncements issued by the Australian Accounting Standards Board (AASB) and/or the International Accounting Standards Board (IASB) that are not yet applicable. For a comprehensive list of all the pronouncements issued by the AASB and the IASB that are not yet effective, refer to our latest TA Alert on this topic on our website (*http://www.grantthornton.com.au/Publications/Tools-and-resources/Technical-publications/Local_Alerts.asp*).

Overview

There are a number of new and revised Australian accounting requirements that apply mandatorily for the first time to annual and/or half-year reporting periods ending 30 June 2015, which are summarised in the table below:

Standard / Interpretation	**Mandatory effective date** (Annual periods beginning on or after ...)	**Applicable for the first time to year ending 31-Dec-15?**	**Applicable for the first time to half-year ending 31-Dec-15?**
AASB 1055 *Budgetary Reporting*	1 July 2014	✓	x
AASB 2013-1 *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements*	1 July 2014	✓	x
AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (Part C: Financial Instruments)	1 January 2015	✓	✓

Standard / Interpretation	**Mandatory effective date** (Annual periods beginning on or after ...)	**Applicable for the first time to year ending 31-Dec-15?**	**Applicable for the first time to half-year ending 31-Dec-15?**
AASB 2014-1 *Amendments to Australian Accounting Standards* (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)	1 July 2014	✓	x
AASB 2014-1 *Amendments to Australian Accounting Standards* (Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119))	1 July 2014	✓	x
AASB 2014-1 *Amendments to Australian Accounting Standards* (Part C: Materiality)	1 July 2014	✓	x
AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E: Financial Instruments)	1 January 2015	✓	✓
AASB 2014-2 *Amendments to AASB 1053 - Transition to and between Tiers, and related Tier 2 Disclosure Requirements*	1 July 2014	✓	x
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)*	1 January 2015	✓	✓
AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031* Materiality	1 July 2015	x	✓
AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*	1 July 2015	x	✓

Requirements applying for the first time to annual or half-year periods ending 31 December 2015

Although a number of new and revised standards became effective for the annual or half-year periods ending 31 December 2015, this TA Alert focuses only on the relatively significant changes. Other Standards are unlikely to have any significant impact on entities.

AASB 2014-1 *Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)*

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards *Annual Improvements to IFRSs 2010-2012 Cycle* and *Annual Improvements to IFRSs 2011-2013 Cycle*.

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2010–2012 Cycle*:

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity)
- amend AASB 8 *Operating Segments* to explicitly require the disclosure of judgements made by management in applying the aggregation criteria

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2011–2013 Cycle* clarify that an entity should assess whether an acquired property is an investment property under AASB 140 *Investment Property* and perform a separate assessment under AASB 3 *Business Combinations* to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014.

AASB 2014-2 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

The Standard makes amendments to AASB 1053 Application of Tiers of Australian Accounting Standards to:

- clarify that AASB 1053 relates only to general purpose financial statements
- make AASB 1053 consistent with the availability of the AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* option in AASB 1 *First-time Adoption of Australian Accounting Standards*
- clarify certain circumstances in which an entity applying Tier 2 reporting requirements can apply the AASB 108 option in AASB 1
- permit an entity applying Tier 2 reporting requirements for the first time to do so directly using the requirements in AASB 108 (rather that applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements
- specify certain disclosure requirements when an entity resumes the application of Tier 2 reporting requirements

AASB 2014-2 is applicable to annual reporting periods beginning on or after 1 July 2014.

AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*

AASB 2015-4 amends AASB 128 *Investments in Associates and Joint Ventures* to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 *Consolidated Financial Statements* for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

Other financial reporting developments that are relevant to annual periods ending 31 December 2015

ASIC focus areas for 31 December 2015

Australian Securities and Investments Commission (ASIC) are yet to announce its focus areas for 31 December 2015 financial reports. However, we expect them to be similar to the ASIC focus areas for 30 June 2015 financial reports, being:

- impairment testing and asset values
- revenue recognition
- expense deferral
- tax accounting
- estimates and accounting policy judgements
- impact of new revenue and financial instrument standards
- off-balance sheet arrangements

Refer to [TA Alert 2015-06] for further information.

When ASIC publishes its focus areas for 31 December 2015 financial reports, we will issue a new TA Alert which will be located under: http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/.

AASB 119 discount rate changes

Under AASB 119 *Employee Benefits*, the discount rate used in measuring defined benefit obligations and other long term employee benefits (such as long service leave, annual leave classified as long-term, profit sharing and bonus plans) is required to be determined by reference to market yields on 'high quality' corporate bonds. Where there is no 'deep market' for such bonds, the Standard requires entities to use market yields on government bonds. As a result of this requirement in AASB 119, entities in Australia have been using government bond rates when measuring defined benefit obligations and other long-term employee benefits.

Over the last few years, there has been considerable discussion in the accounting and finance professions as to whether there was a sufficiently observable, deep and liquid market in high quality corporate bonds in Australia that would satisfy the requirements in AASB 119. As a result, in September 2014, the Group of 100 commissioned Milliman Australia ('Milliman') to undertake research in relation to the corporate bond market in Australia. All major accounting firms in Australia, including Grant Thornton, provided input to this research throughout the research and methodology development process.

In April 2015, Milliman released its final report entitled "*Discount Rates for Australian Employee Benefit Liability Valuation*" which concluded that there is a sufficiently observable, deep and liquid market in high quality Australian corporate bonds to satisfy the requirements in AASB 119.

This means that all entities, other than not-for-profit entities in the public sector, from 30 June 2015 year ends and half-years, are required to use corporate bond rates (instead of government bond rates) when measuring defined benefit obligations and other long-term employee benefits. It will no longer be acceptable for such entities to continue using government bond rates for the purposes of complying with AASB 119. Nevertheless, not-for-profit entities in the public sector will continue to use government bond rates as specifically required in paragraph Aus83.1 of AASB 119.

Milliman publishes blended high quality corporate bond rates on a monthly basis. Published discount rates are available on both the G100 website (www.group100.com.au) and Milliman Australia's website (http://au.milliman.com).

As per AASB 119.128, the change in discount rate will result in actuarial gains and losses, and the accounting for these actuarial gains and losses will vary depending on whether the liability is a defined benefit obligation or other long-term employee benefits. The actuarial gains and losses relating to defined benefit liability are recognised in other comprehensive income (AASB 119.120(c)), whereas the actuarial gains and losses relating to other long-term employee benefits are recognised in profit or loss (AASB 119.156(c)).

The change to high quality corporate bond rates is considered to be a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and therefore will be accounted for prospectively. This means that the actuarial gains and losses arising from this change will be recognised in the period in which the change takes place and will not affect prior periods. As this is a change in accounting estimate, the relevant disclosure requirements in AASB 108 (in particular, AASB 108.39-40) will also need to be complied with upon transitioning to high quality corporate bond rates.

Refer to TA Alert 2015-05 for further information.

Changes to ASX Corporate Governance Principles & Recommendations

On 27 March 2014, the Australian Securities Exchange (ASX) Corporate Governance Council released the third edition of its *Corporate Governance Principles and Recommendations*. The revised recommendations became effective for a listed entity's first full financial year commencing on or after 1 July 2014.

The third edition retains the eight core principles of its predecessor with some drafting changes. However, some significant structural change has been introduced to the document, resulting in the introduction of nine (9) new substantive recommendations, most of which upgrade the status of items previously included as guidance in the second edition. These are detailed in the ASX Communiqué which accompanies the release. In particular, recommendations on risk have been substantially enhanced to reflect the lessons of the GFC.

Among other changes, the third edition:

- requires entities to date the Corporate Governance Statement (CGS) and have it approved by the Board
- allows entities to include their CGS on their website (rather than include it in their annual report). If website presentation is adopted, a copy of CGS must be lodged at the same time the annual report is lodged with ASX and the annual report needs to include the website address of where the CGS can be found
- requires entities to lodge Appendix 4G *Key to Disclosures – Corporate Governance Council Principles and Recommendations* at the same time the annual report is lodged with the ASX
- allows entities that are 'relevant employers' under the *Workplace Gender Equality Act 2012* to report their 'Gender Equality Indicators' instead of reporting respective proportions of men and women on the board, senior executive positions and across the whole organisation

For further information, refer to the ASX website.

Extension of 2015 AIS lodgement deadline

Charities using the standard reporting period of 1 July to 30 June have been granted a one month extension to 31 January 2016 to lodge their 2015 Annual Information Statement (AIS) with the ACNC. This extension takes into account the ACNC's closure during Christmas and New Year period. However, charities using substituted accounting periods continue to have only six months to lodge their AIS.

Other financial reporting developments that are relevant to future periods

AASB 15 *Revenue from Contracts with Customers*

On 12 December 2014, the AASB approved AASB 15 *Revenue from Contracts with Customers,* incorporating IFRS 15 *Revenue from Contracts with Customers* which had been published by the IASB on 28 May 2014.

AASB 15:

- replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (eg multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue
- is effective from 1 January 2018

AASB 15 applies to the preparation of general purpose financial statements by entities from the for-profit, not-for-profit and public sector entities. This Standard 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 AASB's Income from Transactions of NFP Entities project is completed.

On 4 May 2015, the AASB issued ED 260 *Income of Not-for-Profit Entities*, proposing to replace the income recognition requirements of AASB 1004 and provide guidance to assist NFP entities to apply the principles of AASB 15. The ED was open for comment until 14 August 2015 and the AASB is expecting to issue the final amendments in 2016.

In addition to providing guidance to NFP entities in applying AASB 15, ED 260 contains improved income recognition requirements for donations, grants, taxes (relevant to taxing public sector entities such as councils) and similar transactions, addressing concerns that, in some circumstances, the existing AASB 1004 required a premature recognition of income. Under ED 260, NFPs will now be allowed to defer income from grants and donations until the related services are delivered, provided the conditions attached, regarding delivery of goods or services are enforceable and sufficiently specific. This is regardless of whether the ultimate beneficiary is the grantor or a third party. However, some types of transfers to not-for-profit entities will continue to be recognised as income immediately, including donations and grants where there is discretion about how the donation or grant is to be used.

We note that the disclosure of the impact of AASB 15 was one of ASIC's key focus areas for 30 June 2015 financial reports and will also be on ASIC's radar for the 31 December 2015 reporting season. Hence, it is important for directors to ensure that 31 December 2015 financial reports disclose the specific impact of AASB 15.

For further information IFRS 15, refer to TA Alert 2014-04 and IFRS Newsletter (June 2014) – Special Edition on Revenue. For more information on ED 260 proposals, refer to the AASB's webinar presentation slides.

AASB 9 *Financial Instruments (2014)*

On 17 December 2014, the AASB approved AASB 9 *Financial Instruments* (2014, incorporating IFRS 9 *Financial Instruments* (2014). The issuance of AASB 9/IFRS 9 (2014) marks the completion of the project to replace AASB 139/IAS 39 *Financial Instruments: Recognition and Measurement.*

AASB 9 (2014) introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

Furthermore, the Standard introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. It requires an entity to measure a financial asset at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

This business model will typically involve greater frequency and volume of sales.

However, entities are still able to make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

We note that the disclosure of the impact of AASB 9 was one of ASIC's key focus areas for 30 June 2015 financial reports and will also be on ASIC's radar for the 31 December 2015 reporting season. Hence, it is important for directors to ensure that 31 December 2015 financial reports disclose the specific impact of AASB 9.

For further information on IFRS 9 (2014), refer to TA Alert 2014-09 and IFRS News (September 2014) – Special Edition on IFRS 9: Financial Instruments.

AASB 1056 *Superannuation Entities*

AASB 1056 replaces the existing requirements in AAS 25, and applies to large superannuation entities regulated by the Australian Prudential Regulation Authority (APRA) and to public sector superannuation entities.

This standard is expected to result in significant changes to the recognition, measurement, presentation and disclosures relating to superannuation entity financial statements. Some of the key changes include:

- greater level of integration between AASB 1056 and other Australian Accounting Standards
- a revised definition of a superannuation entity
- revised content/presentation of financial statements (eg the introduction of a statement of changes in member benefits and a statement of changes in equity/reserves)
- use of fair value rather than net market value for measuring assets and liabilities (subject to certain exceptions)

- revised member liability recognition and measurement requirements
- new requirements regarding employer-sponsor receivables
- new/revised disclosure requirements

For further information, refer to TA Alert 2014-07.

Upcoming new IFRS on Leases

The International Accounting Standards Board (IASB) Leases Project is now very close to finalisation, having been in progress since 2009, including Exposure Drafts (EDs) in August 2010 and May 2013. The IASB has been focused on finalising its re-deliberations in recent months and expects to issue the new Leases Standard as IFRS 16 before the end of 2015.

The fundamental principle that a customer (lessee) leasing assets should recognise assets and liabilities arising from those leases on its balance sheet (including leases that are currently off balance sheet) is expected to remain, however there will be many differences in the final standard from the 2013 ED. This is expected to have a material impact on almost every entity that is a lessee with significant operating leases.

Below is a brief summary of the key requirements that are expected to be included in the final version of the standard based on the IASB's re-deliberations to date.

Lessee accounting

For lessees, there will be a single lease accounting model (similar to finance leases today) and no lease classification test will be required. All leases will be on-balance sheet. A lessee will recognise a right-of-use asset and lease liability.

In essence for all leases, the IASB model will require a lessee to:

a Recognise lease assets and liabilities on the balance sheet;

b Recognise amortisation of lease assets and interest on lease liabilities over the lease term; and

c Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within either operating or financing activities) in the statement of cash flows.

Measurement of lease liabilities

A lessee will measure lease liabilities at the present value of future lease payments. However, to reflect the flexibility obtained by a lessee and to reduce complexity, lease liabilities include only economically unavoidable payments and there is a simplified approach to deal with variability in payments.

Lease liabilities will include:

- fixed payments, less any lease incentives receivable from the lessor
- variable lease payments that depend on an index or a rate (such as a Consumer Price Index or a market interest rate), initially measured using the index or rate as at the commencement date. Lease liabilities will exclude variable lease payments linked to use or sales
- only those optional payments (such as periods covered by an option to extend the lease) that the lessee is reasonably certain to make; and
- amounts expected to be payable by the lessee under residual value guarantees

Measurement of lease assets
A lessee will measure lease assets, initially at the same amount as lease liabilities, and also include:

- any lease payments made to the lessor at or before the commencement date, less any lease incentives received from the lessor; and
- any costs directly related to entering into the lease

Lease assets would then be amortised in a similar way to other assets such as property, plant and equipment, which would usually be expected to result in straight-line amortisation over the lease term.

Exemptions from lease accounting
There will be exemptions for:

a Leases of twelve (12) months or less (short-term leases), and

b Leases of small assets (such as laptops and office furniture).

Lessor accounting
For lessors, there will be a dual lease accounting model. Many of the proposals included in the 2013 ED have been eliminated and replaced with requirements based on the existing 'risks and rewards' classification test similar to the existing IAS 17 *Leases*.

Lessors will classify a lease as either an operating lease or a finance lease. The accounting for both operating leases and finance leases will be similar to current lease accounting under IAS 17. For finance leases, lessors will recognise a net investment in a lease comprising a lease receivable and a residual asset.

Disclosures
There is likely to be a significant increase in disclosures for both lessees and lessors.

Effective date
The IASB has tentatively decided that this new IFRS will be effective from 1 January 2019, with early application permitted.

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 nationalaudit.support@au.gt.com

Appendix A: RDR Standards effective for the first time

RDR Standards effective for the first time to annual reporting periods beginning on 1 January 2015

Standard	**Date of Issue**	**Effective date** (Annual periods beginning on or after …)
AASB 2014-2 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*	23 June 2014	1 July 2014

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Appendix B: Accounting Standards issued but not yet effective

AASB/IASB Standards issued but not yet effective+

Standard/Interpretation	Date of Issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted?#
AASB 9 *Financial Instruments* (2014)	17 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 14 *Regulatory Deferral Accounts*	17 June 2014	1 January 2016	Yes
AASB 15 *Revenue from Contracts with Customers*	12 December 2014	1 January 2017	Yes
AASB 1056 *Superannuation Entities*	5 June 2014	1 July 2016	Yes
AASB 2014-1 *Amendments to Australian Accounting Standards* (Part D: Consequential Amendments arising from AASB 14)	17 June 2014	January 2016	Yes
AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*	11 August 2014	1 January 2016	Yes
AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*	11 August 2014	1 January 2016	Yes
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*	12 December 2014	1 January 2017	Yes
AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*	12 December 2014	1 January 2016	Yes
AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2014)	17 December 2014	1 January 2018	Yes (extensive transitional rules apply)
AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*	23 December 2014	1 January 2016	Yes
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	23 December 2014	1 January 2016	Yes
AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*	21 January 2015	1 January 2016	Yes
AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*	28 January 2015	1 January 2016	Yes
AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*	30 January 2015	1 January 2016	Yes
AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*	31 March 2015	1 July 2016	Yes

Standard/Interpretation	Date of Issue	Mandatory effective date (Annual periods beginning on or after ...)	Early adoption permitted?[#]
AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*	8 July 2015	1 July 2016	Yes

[+] *For a comprehensive list of all the pronouncements issued by the AASB/IASB that are not yet effective, refer to our latest TA Alert on this topic on our website (http://www.grantthornton.com.au/en/insights/technical-publications--ifrs/local-technical-and-financial-reporting-alerts/).*

[#] *Entities intending to early adopt these pronouncements should refer to the specific early application provisions in each Standard.*