JULY 2013
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ACCOUNTING NEWS

ASIC AREAS OF FOCUS FOR 30 JUNE 2013 ANNUAL REPORTS

THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (ASIC) RECENTLY RELEASED THE RESULTS OF ITS REVIEWS OF FINANCIAL REPORTS FOR THE YEAR ENDED 31 DECEMBER 2012, AND ANNOUNCED ITS AREAS OF FOCUS FOR 30 JUNE 2013 FINANCIAL REPORTS.

This ASIC media release is relevant to both listed and unlisted entities lodging their financial reports with ASIC, as ASIC's surveillance program covers both, particularly unlisted entities with a large number of users.

ASIC Commissioner John Price said, "Preparers of financial reports should ensure that those reports provide useful and meaningful information to the users of that information. This includes providing better quality analysis and information in the operating and financial review, and addressing the impact of new requirements for consolidations and joint arrangements. Preparers should continue to focus on reporting performance in challenging economic circumstances, including focusing on asset values."

The media release states:

"At 30 June 2013, directors should focus particularly on:

- Ensuring that the operating and financial review for listed entities provides more useful and meaningful analysis and information for members
- The impact of new accounting standards on consolidated financial statements and joint arrangements
- Impairment of goodwill and other non-current assets
- The value of financial instruments that are not traded in an active market
- Going concern assessments, and
- Revenue recognition and expense deferral policies."

ASIC reviewed 150 financial reports of listed entities and of unlisted entities with larger numbers of users for December 2012. The Commission continues to identify deficiencies in some key areas including impairment of goodwill and other non-current assets, non-consolidation of controlled entities, and key disclosures about going concern and the assumptions underlying asset valuations. ASIC has made enquiries to a number of entities, and as a result of these enquiries, a number of material adjustments have been made to their financial reports.

ASIC's 30 June 2013 surveillance program will include unlisted debenture issuers and larger proprietary companies.

IN THIS EDITION

In this edition, we look at ASIC areas of focus for 30 June 2013 annual reports, as well as recent releases by the IFRS Interpretations Committee, and the International Accounting Standards Board relating to levies (Interpretation 21) and clarifications to AASB 136 *Impairment of Assets* regarding recoverable amount disclosures. We will also look at the Australian Accounting Standards Board's proposal to withdraw AASB 1031 *Materiality*.

Areas of focus

- Operating and financial review
- Off-balance sheet arrangements and new standards (AASB 10, 11 and 13)
- Asset values and impairment testing
- Going concern
- Revenue recognition and expense deferral
- Financial instrument values
- Estimates and accounting policy judgements
- Non-IFRS financial information
- Related party disclosures
- Amortisation of intangible assets.

These areas are discussed briefly below.

Operating and financial review

ASIC Regulatory Guide 247 *Effective disclosures in an operating and financial review* was released in March 2013 to provide guidance to directors of listed entities in providing useful and meaningful analysis and information in the operating and financial review (OFR) section of the annual report.

30 June 2013 focuses

At 30 June 2013, directors of listed entities should consider RG 247 when preparing the OFR. The OFR should:

- Provide meaningful analysis and information on the underlying drivers of the financial performance and position of entities, including relevant analysis at a segment level, and
- Also explain the entity's business model and strategies, and how business strategies are expected to affect future performance.

ASIC does not expect numerical forecasts or the same level of detailed disclosure as a prospectus.

ASIC considers that any possible risk of directors being found liable for misleading or deceptive forward statements can be dealt with by ensuring:

- The statements are properly framed as being based on the information available at the time
- The statements have a reasonable basis, and
- Ongoing compliance with continuous disclosure obligations when events or results overtake forward looking statements in the OFR.

ASIC notes that the guide is not intended to add unnecessary length to the annual report, but rather, is intended to promote more meaningful information and analysis. RG 247 contains a number of worked examples to which entities can refer.

Off-balance sheet arrangements and new standards

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 13 *Fair Value Measurement* apply for the first time for annual financial reporting periods beginning on or after 1 January 2013.

31 December 2012 findings

ASIC found that a number of entities affected by the new accounting standards made the necessary disclosures of the impact of new standards, but a number of entities did not.

ASIC is also making inquiries on the non-consolidation of majority owned entities, and the application of both the existing and new consolidation standards.

30 June 2013 focuses

For full years ending 30 June 2013, entities should provide meaningful note disclosure about the quantitative impact of the new standards under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 30). It would be difficult for entities to argue that applying the new standard is not reasonably estimable in 30 June 2013 financial reports given that:

- 30 June 2013 is the end of the comparative period for AASB 10, AASB 11 and AASB 13, and
- Entities will issue their 30 June 2013 financial reports well into the first reporting period to which these new standards will apply.

In situations where it is unclear as to whether an entity must be consolidated under AASB 10, ASIC believes entities should disclose the impact of both consolidating and not consolidating. Therefore, entities hoping to avoid disclosing the impact by delaying their assessment of the AASB 10 impacts will not be able to avoid their disclosure obligations because ASIC are expecting disclosure of both consolidated and unconsolidated positions where the impacts are not known or are uncertain.

Entities are cautioned to carefully review the treatment of off-balance sheet arrangements under both the existing and new consolidation standards where, for example, the entity has:

- The majority interest and the right to benefits from another entity's activities
- Any underlying assets transferred to another entity.

Asset values

ASIC remains concerned about the carrying values of goodwill, other intangibles, and property, plant and equipment (PPE).

31 December 2012 findings

ASIC has found the following areas of concern:

a. Mismatch of cash flows in present value calculations and assets tested

ASIC has identified instances where entities have included cash flows in determining the recoverable amounts for a cash-generating unit (CGU), but not compared them to the carrying values of all assets that generate those cash flows. For example, entities have excluded assets such as inventories, receivables, and other items of working capital, which are realised through the cash flows used in the present value calculation. As a result, there may appear to be headroom (recoverable amount being greater than the carrying value of assets), when there is, in fact, an impairment loss.

b. Reasonableness of cash flows and assumptions

As a result of the way in which the entity is funded, or prevailing market conditions, there are instances where the cash flows and assumptions used are not reasonable and supportable in light of historical cash flows. ASIC has identified instances where there is significant variation between prior period cash flow projections and actual results, which raised doubts about the current year cash flow assumptions.

c. Identification of assets and cash-generating units

ASIC remains concerned about entities identifying CGUs at too high a level, or using CGUs where cash flows for individual assets are largely independent.

d. Disclosures

ASIC identified disclosures of key assumptions underlying impairment calculations for material assets to be missing or inadequate.

As a result of ASIC's inquiries, entities have made significant impairment write-downs of assets, or improved their disclosures around impairment testing and fair value of assets.

30 June 2013 focuses

Directors should focus in particular on:

- Continuing to evaluate the existence for any impairment indictors and assess the impact of these on their impairment testing
- Appropriately identifying assets and CGUs for impairment testing, and ensuring that cash flows are matched with all of the assets supporting those cash flows
- Ensuring sufficient disclosures of the key assumptions and associated sensitivity analysis so that users can make their own assessments about the carrying values and risk of impairment of assets.

ASIC will continue to focus on entities that have substantial assets held in emerging economies. In addition, all entities (not just emitters) should remember to take into account the impact of the carbon tax for impairment testing.

Going concern

31 December 2012 findings

ASIC has found instances where there were inadequate disclosures about the ability to continue as a going concern. In some cases, entities were reliant on financial support from their parent, but did not disclose this information.

30 June 2013 focuses

Directors need to be realistic about their assumptions and the entity's future prospects, particularly where the entity has continuing losses.

Where an entity is assessed to be a going concern, but significant uncertainty exists, the entity should adequately disclose the uncertainty and why the directors consider the entity to be a going concern.

Directors should also continue to review the entity's ability to refinance and the ongoing compliance with loan covenants.

Revenue recognition and expense deferral

30 June 2013 focuses

Revenue should be recognised according to the substance of the transaction. Directors and auditors should ensure that revenue is appropriately recognised in accordance with AASB 118 *Revenue*, for example, ensuring that services to which revenue relates have been performed, or that control of relevant goods has passed to the buyer. If revenue relates to the sale of goods and services, revenue must be appropriately allocated between the two.

In addition, directors should ensure that assets are properly classified as financial or non-financial assets, and recognise revenue on financial instruments on the basis that is appropriate for the class of instrument.

Expenses should only be deferred where balance sheet amounts meet the definition of 'asset' under accounting standards, it is probable that future economic benefits will arise, and the requirements of AASB 138 *Intangible Assets* have been met (e.g. expensing start up costs, training, relocation, research etc.).

Expenses should also be appropriately allocated to profit or loss or other comprehensive income.

Financial instrument values

30 June 2013 focuses

Assumptions used for financial instrument values should be supportable, particularly where the value of financial instruments are not based on quoted prices or observable market data. Entities should consider the nature of the financial instrument and the current economic conditions when making assumptions about the value of those financial instruments.

Entities should disclose the methods and significant assumptions used to value financial instruments, and ensure that assets and liabilities are appropriately classified between current and non-current.

Entities should also give appropriate regard to AASB 13 which is mandatory for annual reporting periods on or after 1 January 2013.

Estimates and accounting policy judgements

31 December 2012 findings

ASIC has found that many entities have improved their disclosure in this area.

30 June 2013 focuses

ASIC is looking for disclosure about estimation uncertainty and accounting policy judgements for specific assets, liabilities, income and expenses.

Non-IFRS financial information disclosure

31 December 2012 findings

ASIC has found that while the majority of entities reviewed have followed the guidance in Regulatory Guide RG 230 *Disclosing non–IFRS financial information*, a small number of entities:

- Described items of expenses as 'one-off' and 'non-recurring', even though they are expected to occur every year
- Gave greater prominence to non-IFRS financial information in market announcements, investor and analyst presentations, and/or other related media releases
- Did not disclose whether the non-IFRS financial information had been subject to audit or review.

30 June 2013 focuses

Entities should ensure that they follow the guidance in RG 230 for their non-IFRS financial information disclosure.

Related party disclosures

30 June 2013 focuses

Directors and auditors should ensure that related party disclosures are made in accordance with accounting standards. In particular, entities should disclose information on whether the transactions are on an arm's length basis, and any other terms and conditions.

Amortisation of intangible assets

31 December 2012 findings

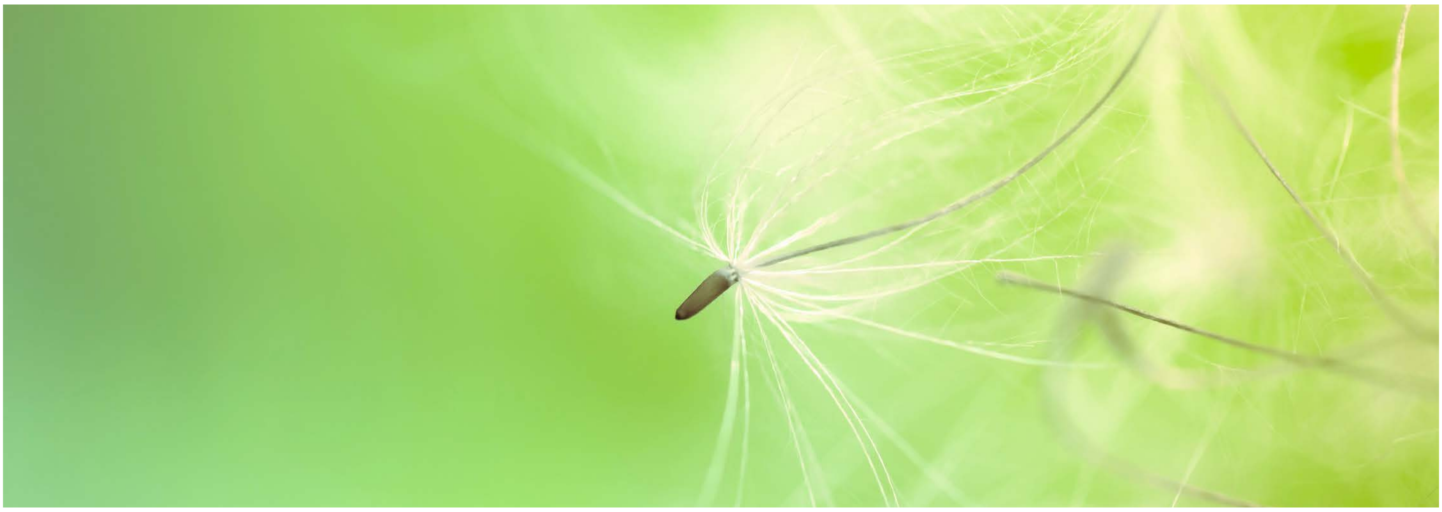
ASIC has identified two entities that did not amortise intangible assets with defined lives under agreements. Those assets were available for use although they had not yet generated any revenue. Amortisation should nevertheless take place as those assets were available for use, which may not be the same as the period over which revenue is earned.

30 June 2013 focuses

Entities should review the amortisation periods and methods applied for amortising intangible assets.

Summary

We recommend that entities consider these areas of focus when preparing 30 June 2013 financial reports. Listed entities also need to pay particular attention to their operating and financial reviews, and ensure that they are modified to adequately comply with the recommendations included in RG 247.



ASIC'S FINDINGS FOR FINANCIAL REPORTS OF PROPRIETARY COMPANIES

THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (ASIC) RECENTLY RELEASED THE RESULTS OF ITS REVIEWS OF FINANCIAL REPORTS OF 200 PROPRIETARY COMPANIES FOR THE YEAR ENDED 30 JUNE 2012 AND 31 DECEMBER 2012.

Although ASIC's primary focus for surveillance has to be the listed sector and those entities raising debentures, ASIC has undertaken a review program of proprietary companies. The results of this review were also published in June, and represent a good reminder for both preparers and auditors of propriety companies as to the requirements to prepare and lodge financial statements under the Corporations Act.

Special purpose financial reports

ASIC has found that 75% of the companies prepared special purpose financial reports on the basis that the company was not a reporting entity. ASIC noted, however, that many of these companies had significant numbers of employees, suppliers and customers. Preparers should have regard to SAC 1 *Definition of the Reporting Entity* when identifying potential users.

Recognition and measurement

ASIC did not identify any companies that had deliberately chosen not to comply with the recognition and measurement requirements of accounting standards. However, ASIC found that a small number of companies had not adequately impaired goodwill and/or other non-current assets.

Other matters

Other matters found in ASIC's review include:

- Lack of going concern disclosures, particularly where the entity is loss making, has negative operating cash flows, and/or is reliant on another party for continuing support
- Lack of specific accounting policies relevant to the entity, e.g. revenue recognition, joint venture arrangements, and the valuation basis for non-current assets such as property, plant, and equipment
- Purporting to rely on ASIC's Class Order 98/1417 for relief from audit requirements, even though they did not meet the conditions for that relief.

Lodgement of financial reports

ASIC also reminded preparers and auditors as to the requirement to lodge financial reports. Section 319 of the Corporations Act generally requires large proprietary companies, and those small proprietary companies that are controlled by foreign companies, to lodge financial reports annually with ASIC.

ASIC has a regular compliance program to identify and contact proprietary companies that appear to have failed to lodge financial reports as required by the Act. Where appropriate, ASIC issues companies with a notice to comply. If there is a breach of law, ASIC also has a program of either seeking a civil order from a court or referring a brief of evidence to the Commonwealth Director of Prosecutions for prosecution.

ASIC advises auditors that they should be mindful of their obligation to report suspected contraventions of the Corporations Act to ASIC in certain circumstances. Further guidance for auditors on reporting the non-lodgement of financial reports to ASIC can be found in ASIC Regulatory Guide 34 *Auditor's obligations: reporting to ASIC*.

AASB CLARIFIES IMPAIRMENT DISCLOSURES IN AASB 136 *IMPAIRMENT OF ASSETS*

IN JUNE 2013, THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB) ISSUED AASB 2013-3 *AMENDMENTS TO AASB 136 - RECOVERABLE AMOUNT DISCLOSURES FOR NON-FINANCIAL ASSETS* WHICH MAKES CERTAIN AMENDMENTS TO RECOVERABLE AMOUNT DISCLOSURES.

These are summarised below.

Recoverable amount of impaired assets

Consequential amendments to AASB 136 *Impairment of Assets*, as a result of the issue of AASB 13 F*air Value Measurement* by the IASB and AASB, inadvertently required that the recoverable amount would be disclosed for each cash-generating unit (CGU) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that CGU, was significant in comparison to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

The intention of the amendment was that the recoverable amount of **impaired assets only** would be disclosed. Amendments have been made to AASB 136, paragraph 130(e) to reflect this change.

Additional disclosures about fair value measurement

Consistent with the disclosure requirements for impaired assets in US GAAP, these changes also introduce additional disclosures about fair value measurement when recoverable amount is based on **fair value less costs of disposal** as follows:

- The level in the fair value hierarchy (i.e. levels one, two or three) within which the fair value measurement of the asset or CGU is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable)
- For level two or three fair value measurements:
  - A description of the valuation technique used, and if there has been a change in valuation technique, the fact that there has been a change and the reason(s) for making it
  - Each key assumption on which management has based its determination of fair value less costs of disposal
  - Discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

Key assumptions are those which the asset's or CGU's recoverable amount is most sensitive.

Effective date

These amended and additional disclosures are effective for annual periods beginning on or after 1 January 2014, but can be adopted early, provided that AASB 13 *Fair Value Measurement* has also been adopted for the earlier period.

INTERPRETATION 21 *LEVIES*

IN MAY 2013, THE IFRS INTERPRETATIONS COMMITTEE ISSUED IFRIC 21 *LEVIES* (INTERPRETATION 21 IN AUSTRALIA) WHICH CLARIFIES WHEN ENTITIES PAYING LEVIES SHOULD RECOGNISE A LIABILITY IN THEIR FINANCIAL STATEMENTS. INTERPRETATION 21 DEALS WITH BOTH OF THE FOLLOWING SCENARIOS:

- Amount or timing for paying a levy is uncertain, and therefore falls in the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- Amount and timing for paying a levy is certain.

What is a levy?

A levy is an outflow of resources embodying economic benefits that is imposed by **governments** on entities in accordance with legislation (i.e. laws and/or regulations) other than:

- Those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of AASB 112 *Income Taxes*), and
- Fines or other penalties that are imposed for breaches of legislation.

A **government** is a government, government agency and similar body, whether local, national, or international.

Payments for acquiring assets, or for rendering services under contracts with a government, are not levies.

What is the obligating event that gives rise to a liability?

The obligating event that gives rise to a liability to pay a levy is the **activity that triggers the payment of the levy**, as identified by the legislation.

EXAMPLE

The levy is calculated based on the revenue that was **generated in a previous period**.

The **obligating event** for that levy is **generating revenue in the current period**.

The **activity that triggers the payment of the levy** is **generating revenue in the current period**.

While generating revenue in the previous period is necessary, it is not sufficient to create a present obligation.

Is economic compulsion a constructive obligation?

No. If you are required to pay the levy if you operate in a future period, you do not have a constructive obligation to pay that levy merely because you are economically compelled to continue to operate in that future period.

Does the going concern assumption imply a present obligation?

Preparing financial statements under the going concern assumption does not imply that you have a present obligation to pay a levy that will be triggered by operating in a future period.

Does a liability to pay a levy arise at a point in time or progressively over time?

If the obligating event occurs at a **point in time**, then you will recognise your liability to pay the levy at that point in time (i.e. when the obligating event occurs).

EXAMPLE (EXTRACTED FROM ILLUSTRATIVE EXAMPLE 2 TO INTERPRETATION 21)

Entity B year end is 31 December 2014.

Levy is triggered in full as soon as Entity B generates revenue in 2014.

Levy is calculated by reference to revenue generated by the entity in 2013.

Entity B generated revenue in 2013, and in 2014 starts to generate revenue on 3 January 2014.

Liability is recognised in full on 3 January 2014 because the obligating event is the first generation of revenue in 2014.

Generation of revenue in 2013 is necessary, but not sufficient, to create a present obligation to pay a levy.

Before 3 January 2014, Entity B has no present obligation to pay a levy.

Activity that triggers the payment of the levy is the point at which Entity B first generates revenue in 2014.

Generating revenue in 2013 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 2013 only affects the measurement of the liability.

In interim financial statements (if any), the liability is recognised in full in the first interim period of 2014 because the liability is recognised in full on 3 January 2014.

If the obligating event occurs over a **period of time**, you will recognise your liability to pay the levy over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). This could occur, for example, if your obligating event is the generating revenue over a period of time. You will recognise the corresponding liability as you generate that revenue.

EXAMPLE (EXTRACTED FROM ILLUSTRATIVE EXAMPLE 1 TO INTERPRETATION 21):

Entity A year end is 31 December 2014.

Levy is triggered progressively as Entity A generates revenue in 2014.

Amount of the levy is calculated by reference to revenue generated by the entity in 2014.

Liability is recognised progressively during 2014 as Entity A generates revenue because the obligating event is the generation of revenue during 2014.

At any point in 2014, Entity A has a present obligation to pay a levy on revenue generated to date.

Entity A has no present obligation to pay a levy that will arise from generating revenue in the future.

In interim financial statements (if any), the liability is recognised progressively as Entity A generates revenue (i.e. revenue generated from 1 January 2014 to 30 June 2014).

Minimum thresholds

If your obligation to pay the levy is triggered when a **minimum threshold is reached**, you will recognise your corresponding liability when that minimum activity threshold is reached. Example of minimum thresholds could be on sales generated or outputs produced.

EXAMPLE (EXTRACTED FROM ILLUSTRATIVE EXAMPLE 4 TO INTERPRETATION 21):

Entity D year end is 31 December 2014.

Levy is triggered if Entity D generates revenue above $50 million in 2014.

Levy is calculated by reference to revenue generated above $50 million (0 per cent for the first $50 million revenue generated (below the threshold) and 2 per cent above $50 million revenue).

Entity D's revenue reaches the revenue threshold of $50 million on 17 July 2014.

Liability is recognised between 17 July 2014 and 31 December 2014 as Entity D generates revenue above the $50 million threshold because the obligating event is the activity undertaken after the threshold is reached (i.e. generation of revenue after the $50 million threshold is reached).

Amount of the liability is based on the revenue generated to date that exceeds the threshold of $50 million revenue.

In interim financial statements (if any), the liability is recognised between 17 July 2014 and 31 December 2014 as Entity D generates revenue above the $50 million threshold.

Variation:
Same fact pattern as above (i.e. a levy is triggered if Entity D generates revenue above $50 million in 2014), except that the amount of the levy is calculated by reference to all **revenue generated by Entity D in 2014** (i.e. including the first $50 million revenue generated in 2014).

Liability for the payment of the levy related to the first $50 million revenue is recognised on 17 July 2014 when the threshold is met, because the obligating event is the reaching of the threshold.

Liability for the payment of the levy related to revenue generated above the threshold is recognised between 17 July 2014 and 31 December 2014 as the entity generates revenue above the threshold, because the obligating event is the activity undertaken after the threshold is reached (i.e. the generation of revenue after the threshold is reached).

Same recognition principles apply in the interim financial statements (if any) as in the annual financial statements.

Recognising liabilities for levies in interim financial statements

You will need to apply the same recognition principles in your interim financial statements that you apply in your annual financial statements. This means that in your interim financial statements:

- You will not recognise a liability to pay a levy if you do not have a present obligation to pay the levy at the end of the interim reporting period, and
- You will recognise a liability to pay a levy if you have a present obligation to pay the levy at the end of the interim reporting period.

Prepayments

If you have prepaid a levy where you do not yet have a present obligation to pay that levy, you will recognise an asset for that prepayment.

Effective date

Interpretation 21 applies to annual periods beginning on or after 1 January 2014, and can be early adopted. Changes in accounting policies arising when you first adopt this Interpretation must be made retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

COMMENTS SOUGHT ON EXPOSURE DRAFTS

At BDO, we provide comments locally to the Australian Accounting Standards Board (AASB) and internationally to the International Accounting Standards Board (IASB). We welcome any client comments on exposure drafts that are currently available for comment. If you would like to provide any comments please contact Wayne Basford at wayne.basford@bdo.com.au.

DOCUMENT	PROPOSALS	COMMENTS DUE TO AASB BY	COMMENTS DUE TO IASB BY
ED 239 *Defined Benefit Plans: Employee Contributions* Proposed amendments to AASB 119	Proposes that employee or third party contributions set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary. Where the contribution depends on the employee's number of years of service to the employer then it would not be linked solely to the employee's service rendered in that period, and therefore not recognised as a reduction in the current service cost.	24 June 2013	25 July 2013
ED 240 *Regulatory Deferral Accounts*	Proposes to permit an entity that adopts IFRS to continue to use its previous GAAP accounting policies, as accepted in their local jurisdiction, for recognition, measurement and impairment of regulatory deferral account balances without specifically considering the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Proposals would also require recognised deferral account balances to be presented as separate line items in the statement of profit or loss and other comprehensive income.	5 August 2013	4 September 2013
ED 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*	Proposes to remove the consolidation requirements from AASB 1038 *Life Insurance Contracts*, including the explicit requirement for a life insurer to consolidate policyholders' interests. Proposes that AASB 10 *Consolidated Financial Statements* will be the sole source of consolidation requirements for life insurers.	7 August 2013	N/A
ED 242 *Leases*	Proposes that all leases of more than 12 months be recognised in the statement of financial position as right-of-use assets with a corresponding lease liability. Proposes two types of leased assets, Type A (typically equipment and vehicle leases) and Type B (typically property leases) that should be accounted for as follows: • Type A – similar manner to 'finance leases', i.e. amortisation of the right-of-use asset and an interest expense • Type B – straight line expense.	14 August 2013	13 September 2013
ED 243 *Withdrawal of AASB 1031 Materiality*	Proposes to withdraw AASB 1031 in light of the guidance on materiality available in existing Australian Accounting Standards, the revised IASB *Conceptual Framework for Financial Reporting*, and the AASB's policy of not providing unnecessary local guidance on matters covered by IFRSs.	23 August 2013	N/A
ED 244 *Insurance Contracts*	Proposes that insurance contracts should be measured using a current value approach incorporating all of the available information in a way that is consistent with observable market information.	27 September 2013	25 October 2013
ED 245 *Agriculture: Bearer Plants* Proposed amendments to AASB 116 and AASB 141	Proposes that plants that bear agriculture produce (e.g. fruit trees that bear fruit), would be measured at accumulated cost prior to reaching maturity and bearing produce. After reaching maturity, bearer plants would be measured using either the cost or the revaluation model in accordance with AASB 116 *Property Plant and Equipment*.	1 October 2013	28 October 2013

AASB PROPOSES TO WITHDRAW AASB 1031 *MATERIALITY*

IN JUNE 2013, THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB) ISSUED ED 243 *WITHDRAWAL OF AASB 1031 MATERIALITY*. THE ED PROPOSES TO WITHDRAW AASB 1031 AND DELETE THE REFERENCES TO AASB 1031 IN OTHER ACCOUNTING STANDARDS.

The AASB is of the opinion that, in light of the guidance on materiality available in existing Australian Accounting Standards, the revised IASB *Conceptual Framework for Financial Reporting*, and the AASB's policy of not providing unnecessary local guidance on matters covered by IFRSs, AASB 1031 should be withdrawn. In its basis of conclusions, the AASB concluded that the contents in AASB 1031 are not inconsistent with IFRSs, but could be omitted without a loss of meaning and such guidance is unnecessary in principles-based Standards.

The definition of 'material' in IFRSs is contained within the definitions contained within IAS 1 (AASB 101), and is identical to the definition contained within AASB 1031. The definition is as follows:

"*Material – Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.*"

Materiality in the conceptual framework is defined as:
"*Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.*"

As a result of the IASB discussion forum on financial reporting disclosure earlier this year, the IASB has committed to start a project in the second half of 2013 to consider developing education material or guidance on materiality. This will involve working with securities regulators, auditors, preparers, and users.

It will be interesting to see whether this project improves on the guidance given in AASB 1031.

Comments on the ED are due to the AASB by 23 August 2013.

NEW BDO PUBLICATIONS

The **Audit section** of our website includes a range of publications on IFRS issues. Look for the 'Global IFRS Resources' link which includes resources such as:

IFRS at a glance – 'one page' and short summaries of all IFRS standards

Need to Knows – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Latest additions include Financial Instruments: Expected Credit Losses (Exposure Draft)

IFRS in Practice – practical information about the application of key aspects of IFRS, including industry specific guidance.

Comment letters on IFRS Standard Setting – includes BDO comments on various projects of international standard setters, including Exposure Drafts and other Discussion Papers, when it is considered that the issue is significant to the BDO network and its clients. Latest comment letters include IASB ED 2013-3 *Financial Instruments: Expected Credit Losses*, IASB ED 2012-07 *Acquisition of an Interest in a Joint Operation*, IASB ED 2012-06 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* and IASB 2012-05 *Clarification of Acceptable Methods of Depreciation and Amortisation*.

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