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ACCOUNTING NEWS

ATTENTION DIRECTORS - ASX CORPORATE GOVERNANCE CHANGES – ARE YOU READY?

REVISED CORPORATE GOVERNANCE PRINCIPLES EFFECTIVE FROM 1 JULY 2014

As reported in Accounting News, April 2014, the ASX Corporate Governance Principles and Recommendations have been revised for reporting periods beginning from 1 July 2014. It would be a mistake for directors to believe that they can put these revised recommendations to the bottom of their 'to do list' and plan to take no action until June 2015.

The revised recommendations place the responsibility for an entity achieving its strategy fairly and squarely with the board and the individual directors on the board. The revisions require that the board as a whole has the appropriate skills to manage the risk of not achieving the strategy. The recommendations require disclosure of both:

- The risks of not achieving the strategy, and
- How the board manages those risks.

Headline 'elevations'

The revised principles and recommendations require, among other things:

- The development of a board's skill matrix
- The development of a training plan for directors to have the appropriate skill base
- Explicit requirement that **all** directors are kept up to date with changes in financial reporting
- Disclosure of the 'sustainability' risk and how that risk is managed
- For those entities without internal audit functions, the board must explain how it manages risk and monitors internal control without such a function.

IN THIS EDITION

In this edition, we introduce our new ASX Corporate Governance Principles and Recommendations series, looking at the practical challenges directors face in order to comply with the new requirements. We also look at the new impairment requirements for financial assets introduced by IFRS 9 *Financial Instruments* (2014) and practical issues in determining the correct level in the fair value hierarchy for land and buildings. For those in the exploration sector, there is a reminder of the new requirements to report details of your resources and reserves in 30 June 2014 annual reports, and we also consider some practical questions on whether exploration and evaluation expenditure should be capitalised.

What are the potential consequences of non-compliance?

It is reasonable to conclude that the company and directors will be exposed to a greater risk of class actions and litigations if they do not comply with the revised principles and recommendations.

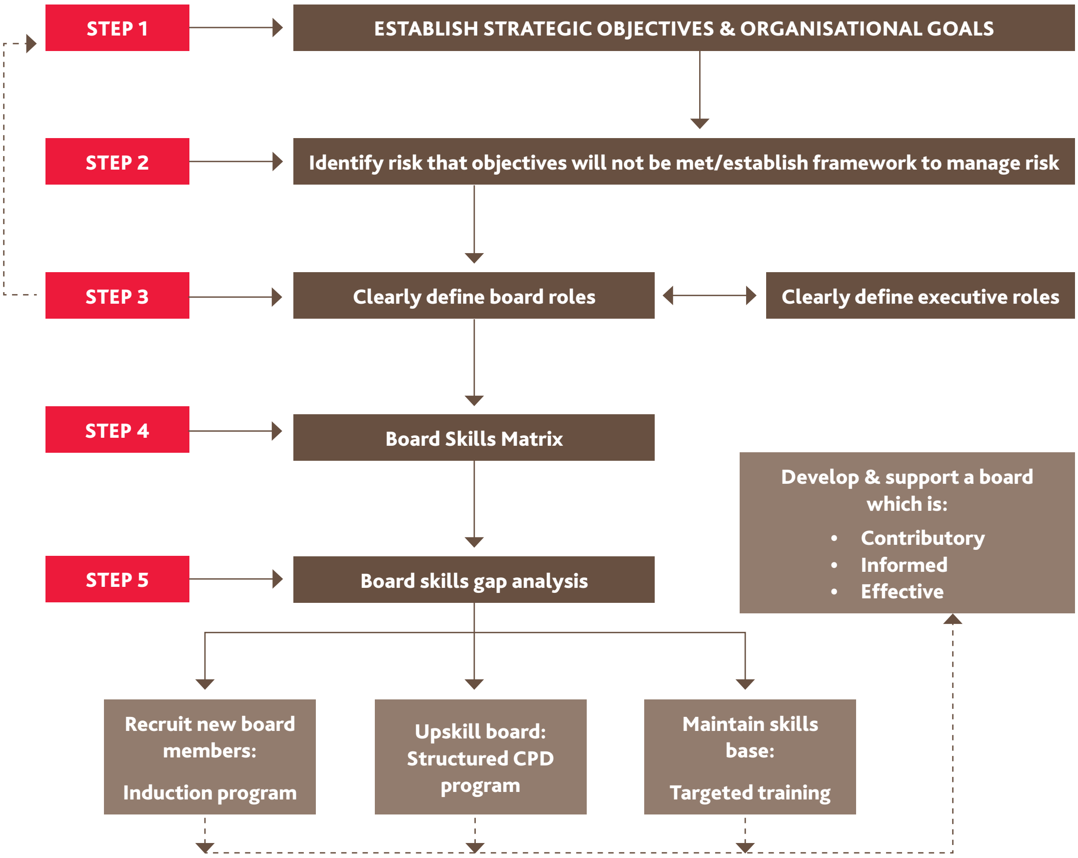
It is explicit that the required disclosures are designed and intended to be relevant to investors' deciding whether to invest or not. In recent years, there has been a significant increase in the level of litigation or class actions, with investors claiming loss through being misinformed in respect of the financial position of an entity they have invested in. The most significant recent example of this is the Centro case, which settled for $200 million, caused by basic errors in its 2007 financial report.

New recommendation 7.4 requires disclosure of risks relating to economic, environmental and social sustainability, and how the board is satisfied that those risks are managed. There appears to be a significant widening of potential areas of litigation by investors who lose money from the impact relating to one of these risks.

How can a board ensure it meets its obligations under the governance rules and principles?

The first question that a board should ask themselves is 'How do we make sure we comply with these recommendations?'

The time and effort involved in the process of identifying risks, establishing a skills matrix for the board, establishing and monitoring professional development, together with all the other requirements of the principles, should not be underestimated.



Over the coming months we will focus on specific aspects in the above diagram, examining the practical issues of complying with the new requirements.

INDUSTRY IMPACTS OF NEW REVENUE STANDARD

IN ACCOUNTING NEWS, JUNE 2014, WE SUMMARISED THE PRINCIPLES IN THE NEW REVENUE STANDARD, IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*, ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) IN MAY 2014.

The adoption of IFRS 15 may lead to significant changes in the pattern of revenue and profit recognition. This means that for many entities, the timing and profile of revenue recognition will change, which could impact compliance with bank covenants, performance based compensation (including share-based payments), internal budgeting processes, tax obligations and market and investor communications. In some cases, entities may wish to consider whether changes should be made to contracts.

BDO has developed some useful industry-specific publications which highlight some of the major changes for entities operating in the following industries:

- Construction and real estate
- Manufacturing
- Media
- Professional services
- Retail
- Software
- Telecommunications.

You can also view our 15 minute video clip on the major impacts of IFRS 15.

LAND AND BUILDINGS – WHICH LEVEL IN THE FAIR VALUE HIERARCHY?

FIRST TIME ADOPTION OF THE NEW FAIR VALUE STANDARD, AASB 13 *FAIR VALUE MEASUREMENT*, PRESENTS MANY CHALLENGES, INCLUDING DECIDING THE APPROPRIATE LEVEL IN THE FAIR VALUE HIERARCHY SO THAT ALL NECESSARY DISCLOSURES ARE INCLUDED IN THE FINANCIAL STATEMENTS.

This categorisation is particularly important for **non-financial assets** because we have never had to go through this exercise before, the Levels 1, 2 and 3 previously only applying to financial assets under AASB 7 *Financial Instruments: Disclosures*.

Example

XYZ Co measures land and buildings on the fair value basis.

Valuer determines fair value using the income approach (capitalisation of net income) as follows:

- Determine rentals for similar properties – range of $150 - $300 per square metre
- For this property, rentals would be in the range of $180 - 220 per square metre, based on characteristics of this property, e.g. locations etc
- Applies average rental rate to actual square meters of the land and buildings
- Deducts certain property costs
- Multiplies net amount by capitalisation rate to arrive at fair value
- Valuer also cross checks above capitalisation rate calculation to sales rates per square metre of similar properties in the area (varying from $900 – $2,500 per square metre before narrowing down the range).

These are Level 3 inputs

Level 2 inputs are those, other than quoted market prices within Level 1, that are observable for the asset or liability, either directly or indirectly. Observable inputs are developed using market data, e.g. yield curves used in determining fair value of interest rate swaps.

In this case, even though the valuer uses market observable data as a starting point (e.g. rental per square metre and sales rates per square metre), adjustments to a Level 2 input that are significant to the entire fair value measurement can result in a fair value being categorised within Level 3 if the adjustment uses **significant unobservable inputs**.

Conclusion

In this example, the valuer uses very broad ranges of market data and the adjustments would be too significant to remain as a Level 2 classification.

The adjustments are themselves significant unobservable inputs to the fair value calculation and it is therefore likely that Level 2 classifications of inputs for land and building and investment property valuations would be rare and limited to properties that are fairly homogenous and where adjustments are minimal.

WHY CAPITALISE E&E?

FOR NON-EXECUTIVE DIRECTORS OF JUNIOR EXPLORERS, THE DECISION TO CAPITALISE OR NOT TO CAPITALISE EXPLORATION AND EVALUATION EXPENDITURE (E&E) SHOULD BE AT THE FRONT OF YOUR MIND EACH REPORTING SEASON. THIS ARTICLE LOOKS AT THE QUESTION, 'WHY CAPITALISE E&E?'

No impact on share price

The carrying amount of capitalised E&E has no relationship to the quality of your project or the ore body being evaluated. Shareholders do not make investment decisions based on the amount spent on exploration, rather they are interested in the success of your drill results.

An entity that expenses its E&E will have exactly the same share price performance as if it had capitalised its E&E expenditure, resulting in little benefit from adopting a policy of capitalising E&E. However, if a policy of capitalising E&E is adopted there are significant downsides.

The impairment headache

If you capitalise E&E, you are continuously faced with the question whether your E&E assets are impaired. Impairment typically signals bad news to the market, resulting in a fall in your share price, making fundraising potentially more difficult.

When you move to the development phase, you must test any capitalised E&E for impairment, incurring both time and costs, and impairment write-downs that could again make fundraising more difficult.

When your entity goes into production (and shareholders are interested in profit and earnings per share), the capitalised E&E will be expensed into the cost of production.

Expensing E&E is an acceptable accounting policy

We urge boards and accountants to consider the question 'Why do we capitalise E&E?', recognising that it is perfectly acceptable to change your accounting policy to expensing, or in particular, expensing E&E.

AT LAST, THE FINAL VERSION OF IFRS 9 *FINANCIAL INSTRUMENTS* – PART 1

New impairment model and changes to classification and measurement

On 24 July 2014, the International Accounting Standards Board (IASB) finalised its project on financial instruments by publishing IFRS 9 *Financial Instruments* (2014) which incorporates the final requirements on all three phases of the financial instruments projects – classification and measurement, impairment and hedge accounting.

The 2014 version of IFRS 9 adds the following to the existing IFRS 9:

- New impairment requirements for all financial assets that are not measured at fair value through profit or loss (including receivables)
- Two amendments to the previously finalised classification and measurement requirements:
  - A new measurement category for debt instruments – far value through other comprehensive income (FVTOCI)
  - Additional application guidance clarifying the contractual cash flow characteristics and the business model classification test for debt instruments.

The completed IFRS 9 (2014) applies to annual periods beginning on or after 1 January 2018, with relatively complex early adoption provisions.

In this month's newsletter we focus on the new impairment requirements for financial assets. Over the next few months we will address other aspects of IFRS 9 (2014), including the revised classification and measurement requirements, and early adoption options.

Implications

The new impairment model introduced under IFRS 9 will significantly impact financial institutions. The new requirements are likely to result in greater provisions and earlier recognition of credit losses. Implementation will require changes to systems and processes, greater segmentation of portfolios, and most likely, the requirement to integrate credit risk management systems with the accounting systems. Entities with low value, high volume trade receivables will also be affected.

A new impairment model …we move to an expected loss model

The current 'incurred loss' model in IAS 39 *Financial Instruments: Recognition and Measurement* has been replaced by a new 'expected loss' model in IFRS 9 (2014). The new impairment model is more **forward looking**, it no longer requires a credit event to have occurred before credit losses are recognised, and applies to:

- Financial assets at amortised cost (including trade receivables)
- Financial assets at FVTOCI (Fair value through other comprehensive income)
- Loan commitments and financial guarantee contracts where losses are currently provided or accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Lease receivables.

The 'three stage' expected credit loss model

There is a 'three stage' approach to applying the new impairment model which is based on the **changes in expected credit losses** of a financial instrument. Depending on which stage you find yourself in will determine how and when you recognise impairment and interest revenue.

When you initially recognise a financial asset, you will recognise a loss allowance equal to **12 months of expected credit losses**, which is the credit losses that you expect to result from **default events that are possible within 12 months from your reporting date**. The actual loss does not need to take place within the next 12 months. The focus is on the whether an event will occur within the next 12 months that will ultimately result in that loss.

As an example, it is recognised that death of a credit card borrower does lead, in a number of cases, to the outstanding balance becoming impaired. This model requires the prediction on initial recognition of the likelihood of the borrower dying in the next 12 months and hence triggering an impairment event.

After initial recognition, you will apply the 'three stage' expected credit loss model as follows:

- Stage 1: Credit risk has not increased significantly since initial recognition – you will recognise 12 months of expected losses
- Stage 2: Credit risk has increased significantly since initial recognition – you will recognise **lifetime expected losses** (this is recognising a provision earlier than under IAS 39) and **interest is presented on a gross basis**
- Stage 3: Financial asset is credit impaired (using the criteria currently included in IAS 39) – you will recognise lifetime expected losses but present **interest on a net basis** (i.e. gross carrying amount less credit allowance).

The following table sets out how you apply the three stages of the impairment model after initial recognition:

STEP 1
- Credit risk **has not** increased significantly since initial recognition
- Recognise 12 month expected losses

STEP 2
- Credit risk **has** increased significantly since initial recognition
- Recognise lifetime expected losses
- Interest recognised on a gross basis

STEP 3
- Credit impaired financial asset (IAS 39 triggers)
- Recognise lifetime expected losses
- Interest recognised on a net basis

The table below summarises how impairment and interest revenue is recognised for financial assets:

STAGE	1	2	3
Recognition of Impairment	12 months expected credit loss	Lifetime expected credit loss	
Recognition of interest	Effective interest on the gross carrying amount (before deducting expected losses)		Effective interest on the net (carrying) amount

Impairment losses recognised on Day 1

Because the new model is forward looking, expected credit losses will be recognised from the point at which the financial assets originate or are purchased. This means that you will recognise a Day 1 loss for the 12 months of expected credit losses.

Transfer from Stage 1 to Stage 2

The transition from Stage 1 to Stage 2 is based on the notion of significant increase in credit risk over the remaining life of the instrument. The focus is on **the changes in the risk of a default**, and not the changes in the amount of expected credit losses. For example, when a borrower is expected to be impacted by the downturn in the local economy, credit risk has increased so that the loan would be in Stage 2, even though the actual loss suffered may be very little because the bank can recover most of the loan from selling the collateral (i.e. the house).

The standard provides a list of factors that can indicate increase in credit risk, some of these include:

- Changes in rates or terms (e.g. more stringent covenants, increased amount of collateral or guarantees, or higher income coverage)
- Existing or forecast adverse changes in business, financial or economic conditions that cause a significant change in a borrower's ability to pay

- Adverse changes in operating results
- Credit deterioration on other financial instruments of the borrower
- Adverse change in the value of the collateral, quality of third-party guarantees or credit enhancements
- Adverse change in the quality of the guarantee/support by parent
- Expected breach of contracts
- Increase in the number of credit card borrowers who are expected to:
  – Approach or exceed their credit limit
  – Pay the minimum monthly amount
  – Delay payments
- Changes in credit management approach (i.e. the financial instrument becoming more active or closely monitored)
- Past due information.

You would need to develop clear policies to identify the transitioning between Stage 1 and Stage 2, incorporating some of these factors as appropriate.

30 day past due rebuttable presumption

If you have no other forward looking information other than the 'past due' status, there is a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due.

This means that when payments are 30 days past due, your financial asset is considered to be in Stage 2, and you will recognise lifetime expected credit losses. You can rebut this presumption if you have reasonable and supportable information available that demonstrates that, even if payments are 30 days or more past due, this fact does not represent a significant increase in the credit risk of the financial asset. For example, your historical experience may indicate that amounts that are more than 30 days past due do not result in a significant increase in the probability of default occurring, whereas amounts that are more than 60 days past due do.

However, we expect that this presumption will only be rebutted in limited situations and you cannot solely rely on this presumption if other more forward looking information is available, even if that information is only on a macroeconomic level. The 30 day past due is meant to act as a 'back stopper' to Stage 1.

Example 1: Portfolio of retail mortgages and personal loans

Bank ABC provides mortgages and personal loans in Region Z

- As part of the loan application process, customers are required to provide information such as the industry within which the customer is employed, and the post code of the property that serves as collateral on the mortgage (when applicable)
- The average loan to value ratio for all its mortgage loans is 70%
- Bank ABC tracks probability of default occurring by means of past-due statuses
- Located within Region Z is a significant car manufacturing industry
- Bank ABC becomes aware of the declining profit of several major car manufacturers and anticipates the closure of several of the car manufacturers
- Bank ABC is required to also consider other forward looking information in addition to the past due status (if such information is available)
  – Bank ABC segments the mortgage portfolio to identify borrowers who are employed by service providers to the car manufacturers, and recognise lifetime expected credit losses for those mortgages (i.e. Stage 2) (even if no loans are past due yet)
  – For the mortgage loans portfolio, in estimating lifetime credit losses, Bank ABC takes into account the expected recovery from the real estate. This may result in expected credit losses on mortgage loans being very small, even though the loans are in Stage 2.

Measuring expected credit losses

You will need to measure 'expected credit losses' using all reasonable and supportable information, including forward data (not just historical data), which you will update as expectations change.

You can use historical data as a starting point and adjust for current conditions and forecasts of future conditions. You need to ensure that adjustments are directly consistent with other macroeconomic data. In some cases, the unadjusted historical information could be your best, reasonable and supportable information.

The 'expected credit losses' must reflect a range of possible outcomes, and not merely estimates of the most likely outcome (i.e. expected values). You will not be required to perform a complex statistical analysis or a rigorous mathematical exercise where every single possible outcome is identified. However, you must consider information that is reasonably available without undue cost and effort. You may use various sources of data. You should consider both borrower specific factors, and conditions on a macroeconomic level, including both internal and external information such as internal historical credit loss experience, internal ratings, external reports and statistics. Expected losses must also reflect the time value of money i.e. they must be discounted.

Fundamental change to provisioning for loan commitments and financial guarantees

There is a fundamental change to provisioning for loan commitments and financial guarantees that are not measured at fair value through profit or loss. For items such as overdraft facilities and credit card facilities, the current incurred loss model under IAS 39 does not apply to amounts that have been approved but not drawn down (because they are not recognised).

Under IFRS 9, the 'three stage' expected credit loss model also applies to the undrawn portions of overdraft, credit card and other approved but undrawn facilities.

STAGE	APPLY TO	RECOGNISE
Stage 1 – No significant increase in credit risk	Expected portion to be drawn down within the next 12 months	12 months expected credit losses
Stage 2 – Significant increase in credit risk	Expected portion to be drawn down over the remaining life of the facility	Lifetime credit losses

Example 2: Overdraft facilities

- At 30 June 2014 Bank A approved a total of $5 million overdraft facilities which have not yet been drawn
- Bank A considers that $4 million is in Stage 1 (i.e. no significant increase in credit risk). Of that $4 million in Stage 1, $2 million is expected to be drawn down within the next 12 months, with a 5% probability of default over the next 12 months
- Bank A considers that $1 million is in Stage 2 and $1 million is expected be drawn down over the remaining life of the facilities, with a probability of default of 15%.

STAGE		EXPECTED CREDIT LOSS
Stage 1	$2 million X 5%	$100,000
Stage 2	$1 million X 15%	$150,000
Total allowance (presented as a separate line item)		$250,000

So under the new model, Bank A would recognise an additional provision of $250,000 for the undrawn portion of its overdraft facilities.

Maximum period for estimating credit losses

The maximum period that you need to consider when estimating credit losses is the maximum contractual period that you are exposed to credit risk, and not a longer period, even if that longer period would be consistent with business practice.

For example, Bank A extends credit to Company C. Bank A can cancel the commitment by giving one day's notice. Company C is not performing

well and there is a good chance that it will go into bankruptcy. Even though Bank A might not, for commercial/business reasons, cancel the arrangement, Bank A would only estimate one day of expected losses because they do not have a contractual obligation to provide credit beyond that one day.

However an exception applies for revolving credit facilities such as credit cards and overdraft facilities. For these products, you must estimate expected credit losses over the period until you have the practical ability to withdraw the loan commitment (e.g. until the next review of the loan commitment).

Short term trade receivables

For trade receivables with a maturity of 12 months or less, IFRS 9 (2014) sets out a simplified approach for determining impairment losses. Under the 'simplified approach' you will only recognise 'lifetime expected credit losses', i.e. Stage 2. This results in a Day 1 loss.

The new impairment model allows entities to calculate expected credit losses on trade receivables using a **provision matrix**. In practice today, many entities estimate credit losses using a **provision matrix** where trade receivables are grouped based on different customer attributes and different historical loss patterns (e.g. geographical region, product type, customer rating, collateral or trade credit insurance, or type of customer). Under the new model, you will adjust your historical provision rates (which are an average of historical outcomes) on your trade receivables to reflect relevant information about current conditions and reasonable and supportable forecasts.

Example 3: Short term trade receivables

- Company M has a portfolio of trade receivables of $30 million at 31 December 2014
- The customer base consists of a large number of small clients
- To determine the expected credit losses for the portfolio, Company M uses a provision matrix
- The provision matrix is based on its historical observed default rates, adjusted for forward looking estimates
- At every reporting date, the historical observed default rates are updated

Company M estimates the following provision matrix at 31 December 2014:

	EXPECTED DEFAULT RATE	GROSS CARRYING AMOUNT	CREDIT LOSS ALLOWANCE (DEFAULT RATE * GROSS CARRYING AMOUNT)
Current	0.3%	$15 million	$45,000
1-30 days past due	1.6%	$7.5 million	$120,000
31-60 days past due	3.6%	$4 million	$144,000
61-90 days past due	6.6%	$2.5 million	$165,000
More than 90 days past due	10.6%	$1 million	$106,000
		$30 million	$580,000

At 31 December 2015, Company M revises its forward looking estimates and the general economic conditions are deemed to be less favourable than previously thought. Company M has a portfolio of trade receivables of $34 million in 2015.

	EXPECTED DEFAULT RATE	GROSS CARRYING AMOUNT	CREDIT LOSS ALLOWANCE (DEFAULT RATE * GROSS CARRYING AMOUNT)
Current	0.5%	$16 million	$80,000
1-30 days past due	1.8%	$8 million	$144,000
31-60 days past due	3.8%	$5 million	$190,000
61-90 days past due	7%	$3.5 million	$245,000
More than 90 days past due	11%	$1.5 million	$165,000
		$34 million	$824,000

The credit loss allowance has increased by $244,000 to $824,000 as at 31 December 2015. The journal entry at 31 December 2015 would be:

	DR	CR
DR Expected credit losses	$244,000	
CR Credit loss allowance		$244,000

Long term trade receivables and lease receivables

For other long term trade receivables and lease receivables, entities have a choice to either apply the general 'three stage' expected credit loss model or the 'simplified approach', where only lifetime expected credit losses are recognised.

Extensive system changes required

It is important to note that even if you are not a bank or a credit union, and only have trade receivables on your balance sheet, and choose to use the 'simplified approach' to determine the impairment allowance for trade receivables, it is still likely that you will require changes to systems in order to capture the information on expected default rates required to determine the credit loss allowance.

System changes will be more complex for banks and credit unions. You will need to:

- Develop processes and models to identify Stage 1 loss provisions
- Develop processes and policies to identify when assets transfer from Stage 1 to Stage 2, and from Stage 2 to Stage 3
- Develop systems and processes to capture, monitor, update and record credit loss information to ensure that your provisioning levels are correct at each stage
- Develop systems to capture the information necessary to meet the new disclosure requirements
- Train staff on both the new system requirements as well as the impairment requirements of IFRS 9 (2014).

Even if the impact on the level of provisioning is minimal under the new model, credit provisioning policies and documentation needs to be updated to demonstrate compliance with the new model.

More information

Please contact Judith Leung for more information on IFRS 9 (2014).

Next month's Accounting News will include an article on the changes to the classification and measurement requirements introduced by IFRS 9 (2014).

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.
- IFRS News at a Glance – provides high-level headlines of newly released documents by the IASB and IFRS related announcements by securities regulators.
- Need to Knows – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Recent Need to Knows include IFRS 15 *Revenue from Contracts with Customers* (Aug 2014), IFRS 9 *Financial Instruments* (May 2014), Hedge Accounting (IFRS 9 *Financial Instruments*) (Jan 2014), IFRS 11 *Joint Arrangements* (Dec 2013) and IFRS 13 *Fair Value Measurement* (Dec 2013).
- IFRS in Practice – practical information about the application of key aspects of IFRS, including industry specific guidance. Recent IFRS in Practice include IAS 7 *Statement of Cash Flows*, Distinguishing between a business combination and an asset purchase in the extractives industry (March 2014), IAS 36 *Impairment of Assets* (Dec 2013) and Common Errors in Financial Statements – Share-based Payment (Dec 2013).
- 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 2014-01 *Disclosure Initiative*, Request for information – Post-implementation Review: IFRS 3 *Business Combinations*, IASB ED 2013 11 *Annual Improvements to IFRSs (2012-2014 Cycle)* and IASB ED 2013-9 *IFRS for SMEs Review*.

MINING COMPANIES TO REPORT THEIR RESERVES IN THE ANNUAL REPORT FOR 30 JUNE 2014

A REMINDER TO MINING EXPLORATION, AND OIL AND GAS EXPLORATION, ENTITIES THAT REVISED CHAPTER 5 OF THE ASX LISTING RULES REQUIRES THAT YOUR ANNUAL REPORT FOR 30 JUNE 2014 INCLUDES DETAILS OF YOUR RESOURCES AND RESERVES IN ACCORDANCE WITH THE *JORC CODE 2012*.

Changes to Chapter 5 of the ASX Listing Rules from 1 December 2013 mean that the annual reports of mining explorers and oil and gas explorers must include various resource and reserve details in their annual report, as well as a 'competent persons' report.

Mining explorers

Listing Rule 5.20 and 5.21 require the following details to be included in the annual report:

- Details of all mining tenements held by the explorer and its child entities – location and percentage held in each
- A summary of results of the annual review of resources and reserves
- A Mineral Resources and Ore Reserves (MROR) Statement, including at reporting date (or another appropriately disclosed date), details of mineral resources and ore reserves, in **tabular format**, including comparisons to the previous year (and explanations if differences to previous year are material), by:
  - Commodity type (and grade/quality)
  - Ore reserve category and mineral reserve category
  - Geographical area
- If the MROR Statement is at a date other than reporting date, a brief explanation of any material changes in mineral resources and ore reserves from date of Statement to reporting date
- A summary of the governance arrangements and internal controls that the explorer has put in place with respect to its estimates of mineral resources and ore reserves and the estimation process.

Competent person statement

The MROR Statement must include a statement that it is based on a competent person's report and include the details required by Listing Rule 5.24.

Oil and gas explorers

Listing Rules 5.37 to 5.40 require the following details to be included in the annual report:

- Details of all petroleum tenements held by the explorer and its child entities – location and percentage held in each
- A reserves statement, including at reporting date, details of petroleum reserves, in **tabular format**, including comparisons to the previous year (and explanations if differences from previous year are material), by:
  - 1P and 2P petroleum reserves (split between developed and undeveloped petroleum reserves and by product)
  - Total aggregated 1P and 2P petroleum reserves by product and geographic location (split between developed and undeveloped petroleum reserves by geographic area)
- If the oil and gas explorer has material unconventional petroleum reserves, separately identify the total of 1P and 2P petroleum reserves that are based on unconventional petroleum resources
- If any material concentrations of undeveloped petroleum reserves remain undeveloped after five years from when they were initially reported, an explanation why these reserves have not been developed, and a statement of the entity's intention with regard to future development of the undeveloped petroleum reserves
- A summary of the governance arrangements and internal controls that the oil and gas entity has put in place with respect to its estimates of petroleum reserves and the estimation process
- Details of contingent resources at reporting date, in tabular form, of total 2C contingent resources by product, and aggregated 2C contingent resources by product and geographic area, including comparisons to the previous year (and explanations if differences are material).

Note that oil and gas entities that report to the Securities and Exchange Commission (SEC) of the USA and file SEC compliant Forms 10-K and 20-F with the SEC annually do not need to include the reserves statement in their annual report.

Qualified petroleum reserves and resources evaluator

The reserves statement must include a statement that it is based on a qualified petroleum reserves and resources evaluator's report and include the details required by Listing Rule 5.42.

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 250 *Investment Entities: Applying the Consolidation Exemption (Proposed amendments to AASB 10 and AASB 128)*	Proposes to: • Extend the intermediate parent entity consolidation exemption to investment entities • Clarify that service subsidiaries only need to be consolidated if they act as an extension of the parent entity's investment operations, and are not investment entities themselves • Clarify that for investments in investment entities that are associates, fair values **can** be retained when equity accounting • Clarify that for investments in investment entities that are joint ventures, fair values **cannot** be retained when equity accounting.	15 August 2014	15 September 2014
ED 251 *Revenue from Contracts with Customers – Tier 2 proposals*	Proposes various revenue disclosures under IFRS 15 *Revenue from Contracts with Customers* that would not be required for Tier 2 entities.	29 August 2014 (Adverse comments only)	N/A
ED 252 *Proposal to supersede AASB Interpretation 1052 Subscriber Acquisition Costs in the Telecommunications Industry*	Proposes to withdraw AASB Interpretation 1052 when IFRS 15 *Revenue from Contracts with Customers* applies in Australia.	29 August 2014 (Adverse comments only)	N/A
ITC 31 *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*	Invites comments on the approach to macro hedge accounting put forward in the IASB's Discussion Paper (DP). The DP assesses whether an accounting approach that reflects how entities manage risk dynamically is necessary to help users of financial statements to understand risk management activities. Specifically the DP considers whether the portfolio revaluation approach (PRA) would provide useful information. In the PRA, for accounting purposes, the net open risk position(s) of dynamically managed portfolio(s) is identified and revalued for changes in the managed risk (for example, interest rate risk) with any gains/losses recognised in profit or loss.	19 September 2014	17 October 2014

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