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ACCOUNTING NEWS

LISTED ENTITY OPERATING AND FINANCIAL REVIEW REMINDER FOR 30 JUNE 2013 ANNUAL REPORTS

A REMINDER TO DIRECTORS AND COMPANY SECRETARIES THAT ONE OF THE ITEMS THAT THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (ASIC) WILL BE FOCUSSING ON AS PART OF THEIR SURVEILLANCE OF 30 JUNE 2013 ANNUAL REPORTS IS THE OPERATING AND FINANCIAL REVIEW (OFR).

Section 299A of the *Corporations Act 2001*, which has been around for a number of years, requires that the directors' report of listed entities include information that members of the listed entity would reasonable require to make an informed assessment of:

- The operations of the entity reported on
- The financial position of the entity reported on
- The business strategies and prospects for future financial years, of the entity reported on.

In order to assist preparers of the OFR to comply with s299A, ASIC issued Regulatory Guide 247 *Effective disclosure in an operating and financial review* earlier in the year. The Guide outlines what ASIC expects to see in the OFR and is broken down into five sections as follows:

- Section A – Overview
- Section B – Preparing an OFR
- Section C – Operations and financial position
- Section D – Business strategies and prospects for future financial years
- Section E – Presentation of narrative and analysis.

IN THIS EDITION

In this edition, we remind listed entities about their obligations to complete their operating and financial review in line with ASIC's recent Regulatory Guide 247 *Effective disclosure in an operating and financial review*. We also look at the International Accounting Standards Board's (IASB's) proposals to scrap fair value for bearer plants, changes to remuneration disclosures for companies that are disclosing entities for 2014 financial years, as well as some of the results of the IASB's post-implementation review of IFRS 8 *Operating Segments*.

Some of the key points ASIC make in the Guide include:

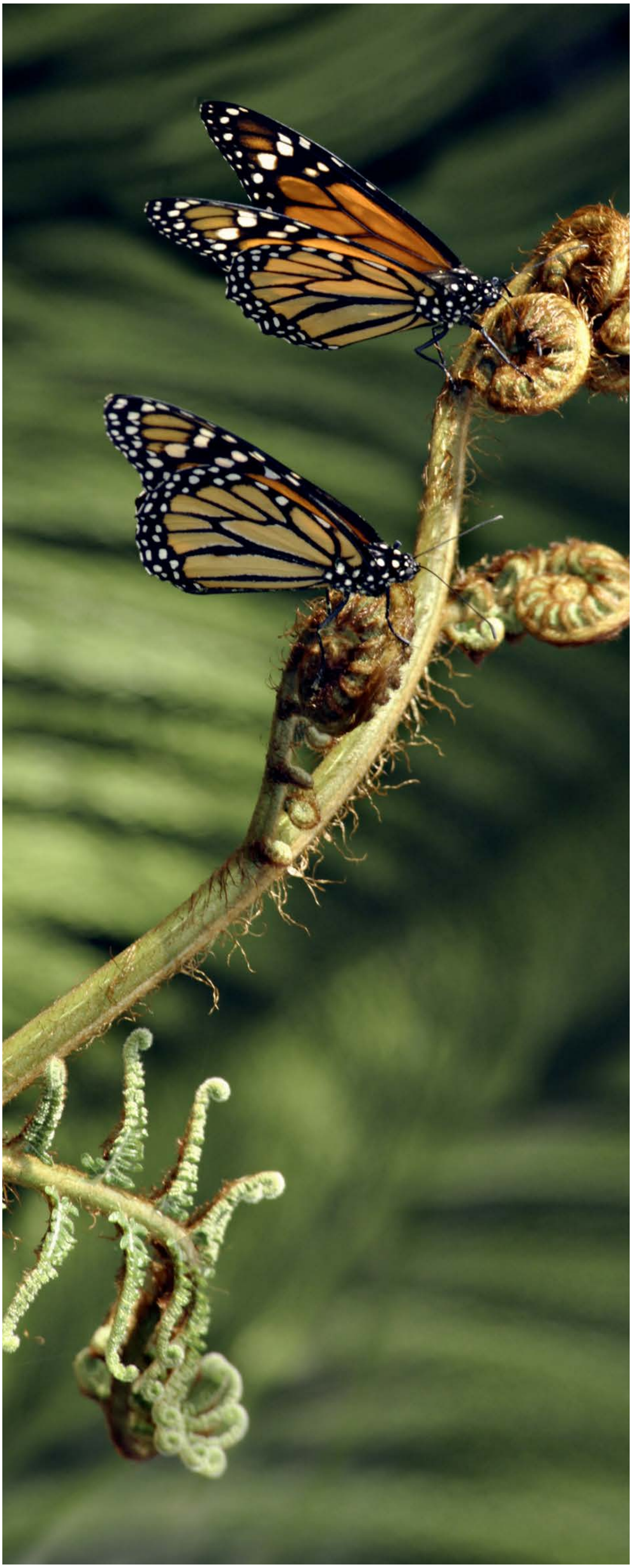
- The OFR should focus on readers who are not expert in reading financial reports (i.e. use plain English and non-technical terms wherever possible)
- The focus of the OFR is different to continuous disclosure. Continuous disclosure ensures timely release of price-sensitive information to the market whereas the OFR should provide a summary of what has happened during the year
- The OFR is a 'one stop shop' for investors when reading the annual report, and should include all relevant information, even if this means duplicating what was previously disclosed to the market via investor presentations or continuous disclosure announcements
- The OFR should include discussion of the underlying drivers affecting operations and financial position and should give reasons for changes
- The OFR must include narrative and analysis and not merely restate information that can be readily determined from the financial statements. Statements like "Sales increased 10%" will not suffice
- Non-IFRS financial information can be included in the OFR but preparers should pay attention to RG 230 *Disclosing non-IFRS financial information*, e.g. include reconciliations of non-IFRS to IFRS numbers, non-IFRS numbers should not be more prominent than IFRS numbers, etc.
- S299A is explicit in its requirement for a discussion about business strategies and prospects for future financial years
- Discussion of risks about business strategies and prospects for future financial years should focus on material business risks, be specific to the entity, and be balanced, and should not include an exhaustive washing list of generic business risks
- It would be rare for an entity to disclose no information at all about business strategies on the basis of 'unreasonable prejudice'. ASIC's view is that s299A only requires disclosure of information so that readers can make an 'informed assessment' of business strategies, and in most cases, entities should be able to provide this level of information without causing unreasonable prejudice. For example, if an entity has a strategy of discounted pricing, it should be possible to discuss this without providing the exact amount of the discount.

Before assuming the prejudicial exemption for business strategies and future prospects, the Guide suggests that directors apply the following process:

1. Prepare the OFR as if there were no unreasonable prejudice exemption
2. For each bit of information, identify adverse consequences that are likely to occur
3. Then consider whether each adverse consequence identified is unreasonable, i.e. likely to give third parties, such as competitors, suppliers, buyers etc. a commercial advantage
4. Lastly, decide which bits of information need to be omitted.

Remember that you cannot claim the unreasonable prejudice exemption on information that has already been released to the market via continuous disclosure announcements, and investor and analyst briefings. You also cannot claim the unreasonable prejudice exemption on information that your competitors may already have from public and non-public documents.

If you are involved in preparing an OFR, we recommend that you read the full text of RG 247.



BEARER PLANTS NO LONGER AT FAIR VALUE

ON 26 JUNE 2013, THE IASB PUBLISHED EXPOSURE DRAFT ED/2013/8 *AGRICULTURE: BEARER PLANTS (PROPOSED AMENDMENTS TO IAS 16 AND IAS 41)* (ED 245 IN AUSTRALIA).

The ED proposes that **bearer plants** would be scoped out of IAS 41 and instead accounted for within the scope of IAS 16 *Property, Plant and Equipment*.

This would allow entities to measure bearer plants at accumulated cost up until the point of production (i.e. prior to produce being obtained), and then subsequently apply either the cost model or revaluation model. Currently under IAS 41, bearer plants are required to be measured at fair value less cost to sell during their entire life (unless fair value cannot be measured reliably).

Definition – Bearer plants

Under the proposed amendments, **bearer plants** are defined in IAS 41 as a plant that meets all the following criteria:

a. It is used in the production or supply of agricultural produce
b. It is expected to bear produce for more than one period
c. It is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales (e.g. for firewood at the end of the plant's productive life).

Examples of bearer plants include tea bushes, grape vines, oil palms and rubber trees.

The biological assets in the table below are specifically identified in IAS 41 as **not** being bearer plants:

BIOLOGICAL ASSET	EXAMPLE
Plants cultivated to be harvested as agricultural produce	Trees grown for use as lumber
Plants held for use in the production or supply of agricultural produce that are also intended to be harvested as agricultural produce or sold as living plants other than as incidental scrap sales	Trees that are cultivated both for their lumber and their fruit
Plants cultivated for sale only	Plants sold in a garden centre
Annual crops	Maize and wheat
The produce that grows on a bearer plant	Grapes (fruit) growing on a vine (tree)

Accounting treatment under IAS 16

Prior to 'production' (i.e. prior to maturity and bearing produce)

The amendment proposes that before bearer plants are in the location and condition necessary to bear produce, they are accounted for in the same way as self-constructed items of property, plant and equipment, i.e. at accumulated cost.

Accordingly, any references to 'construction' within IAS 16 are to be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to bear produce.

During 'production' (i.e. after maturity while the bearer plant is bearing produce)

Bearer plants are accounted for in accordance with the existing requirements of IAS 16, being either under the:

- Cost model
- Revaluation model.

Disclosures

The ED does not propose any additional specific disclosures in relation to bearer plants.

Effective date and transition

The ED is yet to set an effective date for these amendments but proposes retrospective application in accordance with of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with early application permitted.

An entity may also elect to use fair value as deemed cost for items of bearer plants at the beginning of the earliest period presented.

Comment period

Comments are due to the Australian Accounting Standards Board by 1 October 2013 and to the IASB by 28 October 2013.

Alternate views

Two members of the IASB have voted against the publication of the ED. They are of the opinion that the proposed amendments are not an improvement to IFRS, and will result in essential fair value information being omitted from the financial statements of entities with bearer plants (including the movement in fair value as well as the underlying assumptions used to estimate fair value).

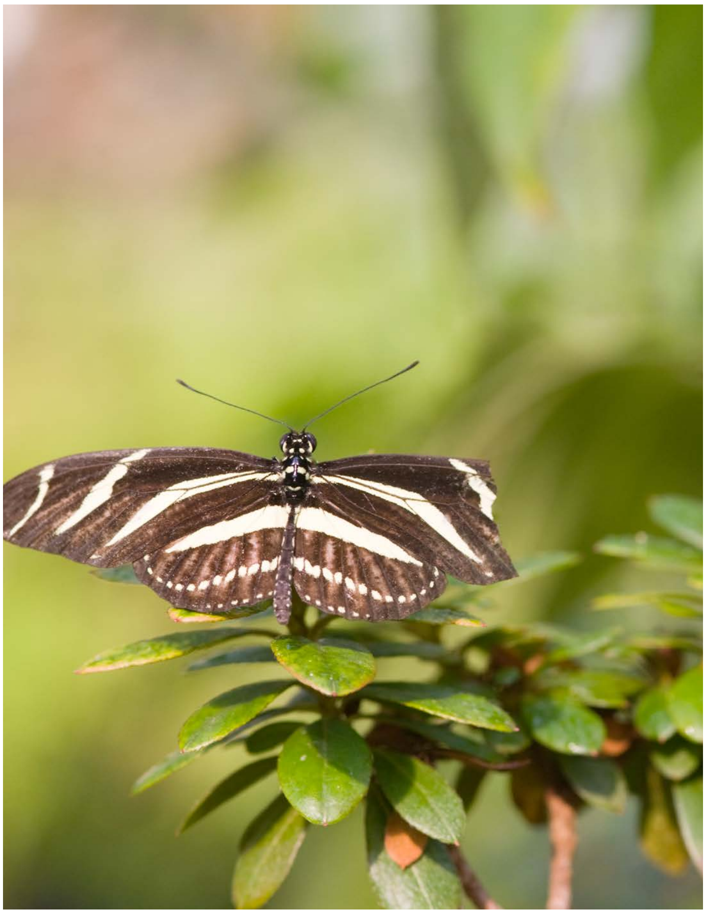
They also argue that fair value information in relation to bearer plants is essential to users of financial statements in terms of:

- Managing agricultural activities
- Investing in entities engaged in activities involving bearer plants.

The outreach performed by IASB staff also indicated that users of financial statements believed that fair value information regarding bearer plants was of limited use in the absence of corresponding fair value information regarding land, and agricultural machinery etc. By eliminating fair value information altogether, the two Board members believe that the proposed amendments are moving in the opposite direction to the needs of users of financial statements (i.e. the disclosure of more fair value information).

To address the two Board member's concerns, the ED asks a question as to whether any of the following additional information (and any other information) should be required:

- Fair value and the assumptions or techniques used to determine fair value, or
- Significant inputs to fair value without requiring disclosure of fair value.



CHANGES TO LISTED COMPANY REMUNERATION DISCLOSURES FOR 2014

THERE HAVE BEEN NO CHANGES TO REMUNERATION DISCLOSURES FOR DISCLOSING ENTITIES FOR THE YEAR ENDED 30 JUNE 2013 BUT THERE WILL BE CHANGES TO REMUNERATION DISCLOSURES FOR YEARS ENDING 30 JUNE 2014 (YEARS BEGINNING ON OR AFTER 1 JULY 2013). THESE ARE OUTLINED BELOW.

For years beginning on or after 1 July 2013, the Australian Accounting Standards Board (AASB) have removed all the detailed key management personnel (KMP) disclosures for disclosing entities contained at the back of AASB 124 *Related Party Disclosures* because they are not required by IFRSs, and the AASB considered them to be more in the nature of corporate governance disclosures and therefore better dealt with by the *Corporations Act 2001*.

Disclosing entities that are TRUSTS will therefore no longer need to disclose any of the following items in the notes to their financial statements:

- Names of KMPs
- Details of each KMP's total compensation
- Board's policy for determining the nature and amount of KMP compensation and the relationship between the policy and the entity's performance
- Information about performance conditions and how achievement of performance conditions is measured
- An explanation why there are no performance conditions on compensation that consists of securities
- Details of cash and share-based payment bonuses and performance conditions
- Details of service contracts
- Modification of share-based payment transactions
- Details of options and rights granted as remuneration during the period
- Details of equity instruments issued on exercise of remuneration options issued
- Reconciliations of options/rights and shares held by KMPs
- Details of loans granted to KMPs
- Other KMP transactions and balances.

Disclosing entities that are COMPANIES, however, were only ever required to disclose the three items included in the shaded section of the table above. This is because the remaining disclosures in the table are required to be included in the audited remuneration report by s300A and Regulation 2M.3.03(1) of the *Corporations Act 2001*.

In future, disclosing entities that are trusts have no requirement to include any detailed KMP disclosures in the notes to their financial statements. However, disclosing entities that are companies will need to include the information required by the items included in the shaded section of the table above in their audited remuneration report. This is because these items have been added as items 17 to 24 of Corporations Regulation 2M.3.03(1).

So for next year, if you are preparing an annual report for a disclosing entity, if it is for a trust, you will be able to delete all detailed KMP disclosures. If it is for a company, you will need to move all your KMP option and shareholding reconciliations, loan information and other KMP transactions to the audited remuneration report.

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.

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 2013-4 - *Defined Benefit Plans-Employee Contributions*, 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.*

POST-IMPLEMENTATION REVIEW OF IFRS 8 *OPERATING SEGMENTS*

THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) RECENTLY COMPLETED ITS POST-IMPLEMENTATION REVIEW OF IFRS 8 *OPERATING SEGMENTS*. THE PURPOSE OF A POST-IMPLEMENTATION REVIEW IS TO DETERMINE WHETHER A STANDARD IS FUNCTIONING AS ANTICIPATED, HAS ACHIEVED ITS OBJECTIVES AND HAS IMPROVED FINANCIAL REPORTING.

Findings

Some of the main findings and feedback include:

- The use of the management perspective for identifying operating segments made communication with investors easier
- The incremental costs of implementing IFRS 8 compared to IAS 14 *Segment Reporting* were low
- IFRS 8 achieved convergence with SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* at low cost
- Preparers of financial statements think that IFRS 8 works well
- Investors have mixed opinions. Some support the alignment of operating segment information in the financial statements, management commentary and analyst presentations, while others are sceptical because they think management report segments in such a way as to obscure the true management structure because of sensitivity issues or to hide loss-making activities within segments
- Auditors, accounting firms, standard setters and regulators generally support the standard but have made suggestions for improvement (see below)
- Reported segments in some jurisdictions did not change because the management perspective has been modelled on IAS 14 (the previous standard), however, where they did change, this tended to increase the number of segments.

European feedback was mixed while feedback from Japan, New Zealand and South Africa strongly supported the management perspective. These differing views could be, in part, due to corporate cultural differences and variations in enforcement activity by regulators.

What to do?

After taking into account all the evidence, the IASB concluded that the standard was producing benefits as expected and that the overall standard achieved its objectives and had improved financial reporting. The IASB also concluded that, even though investors have concerns, these did not warrant a change in the principles for segment reporting because the evidence did not highlight any failings in the standard.

Areas for improvement

The IASB thinks that there are a few areas that could be considered for improvement. These are summarised in the table below.

ISSUES RAISED	PARTICIPANTS' SUGGESTIONS
REQUESTS FOR IMPLEMENTATION GUIDANCE	
The concept of an identifiable chief operating decision maker (CODM) is confusing and outdated. Identification of the CODM is difficult in practice.	Participants suggest that the IASB provide more guidance or replace 'CODM' with a more common term, such as 'key management personnel' (KMP) as defined by IAS 24 *Related Party Disclosures* or 'governing board' as used in the *Conceptual Framework*. The IASB notes that KMP includes non-executive directors, which is at odds with an 'operating decision making' function.
Some preparers are uncertain how the reconciliation should be presented and how reconciling amounts should be disclosed. Some investors find the items included in the reconciliations difficult to understand.	Some regulators and preparers suggest that the IASB should provide application guidance that includes examples of a reconciliation.
REQUESTS FOR IMPROVED DISCLOSURES	
Any change in the basis of segmentation from one year to the next results in the loss for investors of valuable trend information for that entity.	In the event of a reorganisation, investors suggest that 3-5 years' comparative information for segment information should be presented.
Many entities present different definitions of 'operating result' or 'operating cash flow', making comparison difficult between entities. Investors report that important line items needed to derive these sub-totals are often not separately reported.	Investors would like the IASB to require disclosure of some defined line items in order that investors can calculate their own sub-totals for operating result or cash flow. Some investors think that non-IFRS defined sub-totals should be labelled 'adjusted'.
Many investors think that operating segments are aggregated inappropriately, reducing the value of the information presented. Some preparers find the aggregation guidance difficult to apply in practice.	It has been suggested that the IASB should provide guidance on the nature of 'similar economic characteristics' and reconsider the use of quantitative thresholds in order to help preparers apply the aggregation guidance more consistently and aggregate operating segments only when appropriate.
Some investors cannot understand how reconciling amounts relate to an individual segment.	Many investors would like reconciliations prepared segment-by-segment, but others warn about allocating costs to individual segments when this cannot be done on a systematic basis.

Note: Extracted from "Areas for potential improvement and amendment", page 7, of the IASB's "Report and Feedback Statement - Post-implementation Review: IFRS 8 Operating Segments"

These issues will be researched by IASB staff and their findings presented at future board meetings. Because IFRS 8 is substantially converged with SFAS 131, any proposed amendments to IFRS 8 will include active liaison with the US Financial Accounting Standards Board (FASB).

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 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 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 Tier 2 *Supplement to ED 230 Classification and Measurement: Limited Amendments to AASB 9*	Proposes exemptions for Tier 2 entities from some of the disclosures proposed in ED 230.	16 September 2013	N/A
ED Tier 2 *Supplement to ED 237 Financial Instruments: Expected Credit Losses*	Proposes exemptions for Tier 2 entities from some of the disclosures proposed in ED 237.	16 September 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 agricultural 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
ITC29A *A Review of the IASB's Conceptual Framework for Financing Reporting*	Proposes an improved Conceptual Framework to replace the IASB's existing Conceptual Framework.	8 November 2013	14 January 2014

FOR MORE INFORMATION

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