

NEW FINANCIAL INSTRUMENTS STANDARD

It will impact your business - but do you know how?

The effects of adopting the new financial instruments standard, *AASB 9 Financial Instruments*, should be considered now so that you can take any remedial action needed and deal with any potential planning issues.

- How will your reported results be impacted?
- Which processes and systems will need changing?
- Should the standard be adopted early?
- Which wider business planning activities will be affected?
- What staff training will be required?
- How will your current agreements be affected?

BACKGROUND

The International Accounting Standards Board (IASB) has significantly changed the financial reporting landscape for how entities account for financial instruments, with the introduction of *AASB 9 Financial Instruments*.

Entities are now beginning to consider the impact of preparing their financial statements using the new accounting standard. The changes can be complex and can have effects beyond just the accounting. When adopting *AASB 9*, including deciding which transition route to apply, you need to consider the commercial and practical impacts of the changes in your accounting.

As choices you make will affect the way the performance of your business is measured and reported, it is vital to consider not only the commercial and practical issues, but also any tax impact of these changes.

Our experts in this area can help you establish the impact of these issues and decide what actions you should be taking.

COMMERCIAL AND PRACTICAL CONSIDERATIONS

You may need to consider the following:

- Consequences on reported earnings
- Consequences for management accounts, forecasts and strategies
- Impact on distributable reserves
- Agreements which are based on profit such as debt covenants, management agreements, remuneration and share-based payment schemes
- Accounting system changes to enable transition to *AASB 9*
- Training requirements for finance teams
- Training requirements for executives and directors
- Your risk management strategy including exposure to market risks.

SECTOR

Audit & Assurance

ALETTA BOSHOFF

National Leader, IFRS Advisory
+61 3 9603 1808
Aletta.Boshoff@bdo.com.au

WAYNE BASFORD

Asia Pacific Leader, IFRS Advisory
+61 8 6382 4715
Wayne.Basford@bdo.com.au

PAUL GOSNOLD

Partner, Adelaide
+61 8 7324 6000
Paul.Gosnold@bdo.com.au

CLARK JARROLD

Partner, Brisbane
+61 7 3237 5654
Clark.Jarrold@bdo.com.au

GREG MITCHELL

Partner, Cairns
+61 7 4046 0044
Greg.Mitchell@bdo.com.au

CASMEL TAZIWA

Partner, Darwin
+61 8 8981 7066
Casmel.Taziwa@bdo.com.au

DAVID PALMER

Partner, Hobart
+61 3 6234 2499
David.Palmer@bdo.com.au

www.bdo.com.au

CHECKLIST OF COMPLEX ISSUES

Below are just a few of the areas where complex issues typically arise on the adoption of AASB 9:

- Complexity of classification and measurement of financial assets
- Restrictions on types of financial assets that can be recorded at amortised cost
- Impacts of the new requirements to record more assets at fair value
- Impacts of a fundamental change in the impairment model for bad debts
- Opportunities to much more easily achieve hedge accounting.

TAX IMPACT

Any changes to accounting policies may have an impact on a company's cash tax, income tax expense, and deferred tax in the year of change and over future years. This is because:

- The analysis of tax expense and deferred taxes begins with accounting concepts and reconciles to tax payable, and
- Certain tax provisions (such as thin capitalisation and the taxation of financial arrangements provisions) rely on accounting standards for their application.

The adoption of AASB 9 may impact how a transaction will be accounted for and may give rise to potential tax planning issues. To achieve the best outcome, entities should now be considering:

- The effect on cash tax of choosing one accounting treatment over the others
- How to manage tax charges or maximise reliefs due to one-off transitional adjustments
- Identifying transaction types that may cause issues in determining an entity's taxable profit. In particular, taxpayers subject to the taxation of financial arrangements regime will need to consider the impact of irrevocable elections made in prior periods under the new standards
- Whether and when to make any elections in advance of adoption
- Any other actions or decisions to improve the upside or reduce the downside for tax.

Our experts in this area can help you understand the issues, the tax impacts and what actions you should be taking.

ADOPTION METHODOLOGY

We can assist you by:

- Carrying out an initial 'high level diagnostic' review, including a review of your latest financial statements, followed up by a discussion of the results
- For the issues identified in the initial review, carrying out a further assessment to identify the impacts of AASB 9 in more detail, as well as the system and commercial impacts of adoption
- Helping you with your adoption process and preparing template financial statements for applying AASB 9
- Providing advice on the tax impacts of adoption, including transitional adjustments, assisting with tax planning and any tax elections required, and
- Providing assistance with areas such as systems support and design, training and transitional journals.

We can also provide on-call support to help you prepare for adoption.

For advice on AASB 9 please get in touch with your usual BDO adviser or contacts attached.

MORE INFORMATION

1300 138 991

www.bdo.com.au

NEW SOUTH WALES • NORTHERN TERRITORY • QUEENSLAND • SOUTH AUSTRALIA • TASMANIA • VICTORIA • WESTERN AUSTRALIA

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact the BDO member firms in Australia to discuss these matters in the context of your particular circumstances. BDO Australia Ltd and each BDO member firm in Australia, their partners and/or directors, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO refers to one or more of the independent member firms of BDO International Ltd, a UK company limited by guarantee. Each BDO member firm in Australia is a separate legal entity and has no liability for another entity's acts and omissions. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2017 BDO Australia Ltd. All rights reserved.