ACCOUNTING NEWS

NEW HEDGE ACCOUNTING REQUIREMENTS AVAILABLE FOR EARLY ADOPTION IN AUSTRALIA

IN NOVEMBER 2013, THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) PUBLISHED IFRS 9 *FINANCIAL INSTRUMENTS* (HEDGE ACCOUNTING AND AMENDMENTS TO IFRS 9, IFRS 7 AND IAS 39), INCORPORATING THE NEW HEDGE ACCOUNTING REQUIREMENTS AND DELETING THE EFFECTIVE DATE OF IFRS 9.

The Australian Accounting Standards Board approved these amendments as an Australian amending standard in December 2013, except for legislative purposes, an effective date is required, and so for the whole of AASB 9 *Financial Instruments*, the effective date is now for annual periods beginning on or after 1 January 2017, whereas the international version (IFRS 9) has no application date. Early adoption is permitted.

The Australian amending standard is AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.*

Please refer to Accounting News, December 2013, for a more in-depth discussion on the new hedging requirements.

As outlined in the December article, we believe that a number of Australian companies should consider early adoption of AASB 9 because the new requirements are arguably easier to apply and more practical than the existing requirements of AASB 139 *Financial Instruments: Recognition and Measurement.*

IN THIS EDITION

In this edition, the Australian Accounting Standards Board has approved the new hedging requirements for use in Australia by making amendments to AASB 9 *Financial Instruments*, and the Australian Securities and Investments Commission has clarified how stapled entities should present their financial statements. We also look at new annual improvements that have been issued by the International Accounting Standards Board for the 2010-2012 and 2011-2013 cycles, proposals for more annual improvements for the 2012-2014 cycle, as well as proposals to allow equity accounting of investments in subsidiaries, associates and joint ventures in separate financial statements.

ANNUAL IMPROVEMENTS TO IFRSs FOR 2010-2012 AND 2011-2013 CYCLES

THE ANNUAL IMPROVEMENTS PROCESS PROVIDES A VEHICLE FOR MAKING NON-URGENT BUT NECESSARY CHANGES TO IFRSs. THE LAST ANNUAL IMPROVEMENTS STANDARD ISSUED BY THE IASB DEALT WITH CHANGES FROM THEIR 2009-2011 ANNUAL IMPROVEMENTS PROCESS (AASB 2012-5 IN AUSTRALIA).

In December 2013, the International Accounting Standards Board (IASB) issued two catch-up amending standards of annual improvements as follows:

- 2010-2012 cycle
- 2011-2013 cycle.

Changes to standards resulting from these annual improvements are summarised below:

Annual Improvements to IFRSs 2010-2012 Cycle

STANDARD	DESCRIPTION OF AMENDMENT	EFFECTIVE DATE
IFRS 2 *Share-based Payment*	**Definition of vesting condition** Refer to more detailed discussion below.	Prospectively to share-based payment transactions for which grant date is on or after 1 July 2014. Early adoption permitted.
IFRS 3 *Business Combinations*	**Accounting for contingent consideration in a business combination** Clarifies that contingent consideration owing in a business combination: • Can only be classified as equity or as a financial liability • If a financial liability - is remeasured to fair value at each reporting date, with changes in fair value recognised in profit or loss • Cannot be a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* because it has been excluded from the scope of IAS 37.	Prospectively to business combinations with acquisition dates on or after 1 July 2014. Early adoption permitted.
IFRS 8 *Operating Segments*	**Aggregation of operating segments** Introduces additional disclosures when operating segments have been aggregated into one reportable segment, including: • Judgements made by management when applying the aggregation criteria in IFRS 8, paragraph 12 • Description of operating segments that have been aggregated • Economic indicators that have been assessed when determining that aggregated operating segments share similar economic characteristics. **Reconciliations** Clarifies that the reconciliation of total reportable segment assets to entity's assets in financial statements is only required if a measure of segment assets is regularly provided to the entity's chief operating decision maker.	Annual periods beginning on or after 1 July 2014. Retrospective application. Early adoption permitted.
IFRS 13 *Fair Value Measurement*	**Short-term receivables and payables** Amends Basis of Conclusions to clarify that short-term receivables and payables with no stated interest rate can still be measured at invoice amount, without discounting, where the effect of discounting is immaterial.	N/A – amendment to Basis of Conclusions only.
IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*	**Revaluation method - proportionate restatement** Clarifies how proportionate accumulated depreciation or amortisation is calculated when items of property, plant and equipment, or intangible assets, are revalued. The net carrying amount of the asset is adjusted to the revalued amount, and either: • The gross carrying amount is adjusted in a manner consistent with the net carrying amount (e.g. proportionately to the change in the net carrying value, or with reference to observable market data). Accumulated depreciation/amortisation is then adjusted to equal the difference between the gross and net carrying amounts, or • Accumulated depreciation or amortisation is eliminated against the gross carrying amount. Previous treatment required proportionate restatement of accumulated depreciation which was not always appropriate if the entity had re-estimated the residual value, useful life or changed the depreciation method prior to the revaluation.	Annual periods beginning on or after 1 July 2014. Retrospective application. Early adoption permitted.
IAS 24 *Related Party Disclosures*	**Key management personnel** Clarifies that an entity that provides key management personnel services ('management entity') to a reporting entity (or a parent of the reporting entity), is a related party of the reporting entity. Also clarifies that the expense for key management personnel services provided by the 'management entity' is not required to be recognised as key management personnel compensation under IAS 24, paragraph 17. Rather, it should be disclosed as an other related party expense under paragraph 18A.	Annual periods beginning on or after 1 July 2014. Retrospective application. Early adoption permitted.

IFRS 2 *Share-based Payment* – Definition of vesting condition

The proposed amendments to IFRS 2 clarify the definitions of **vesting conditions** and **market conditions** by separately defining a **performance condition** and a **service condition**, both of which were previously incorporated within the definition of a **vesting condition**, without them being specifically defined.

The new/revised definitions are as follows:

TERM	NEW DEFINITIONS	IMPLICATION
Vesting condition (Revised definition)	A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a **service condition** or a **performance condition**.	Removes guidance on what is a **service condition** and a **performance condition** which is now separately defined.
Market condition (Revised definition)	A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends, that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as: • Attaining a specified share price or a specified intrinsic value of a share option, or • Achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities. A market condition requires the counterparty to complete a specified period of service (i.e. a **service condition**); the service requirement can be explicit or implicit.	Clarifies that performance targets can be based on: • The **value** of equity instruments, not merely the price • The price or value of equity instruments of another entity in the same group, and not merely the entity itself. Also clarifies that: • A market condition must include a **service condition**, which can be implicit or explicit • Achieving a share market index is a non-vesting condition.
Performance condition (Separate definition)	A **vesting condition** that requires: a) The counterparty to complete a specified period of service (i.e. a **service condition**); the service requirement can be explicit or implicit b) Specified performance target(s) to be met while the counterparty is rendering the service required in (a). The period of achieving the performance target(s): a) Shall not extend beyond the end of the service period b) May start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period. A performance target is defined by reference to: a) The entity's own operations (or activities) or the operations or activities of another entity in the same group (i.e. a non-market condition), or b) The price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (i.e. a market condition). A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.	Clarifies the following: • The **service condition** required as part of a **performance condition** can be implicit or explicit • The performance target must be achieved before the end of the service period.
Service condition (Separate definition)	A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.	Clarifies that: • Termination of employment will result in a service condition not being met • A non-vesting condition would not have a service requirement.

Annual Improvements to IFRSs 2011-2013 Cycle

STANDARD	DESCRIPTION OF AMENDMENT	EFFECTIVE DATE
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	**Meaning of effective IFRSs** Amends the Basis of Conclusions to clarify that on first time adoption of IFRSs, an entity has the choice to use either: • IFRSs that are currently mandatory, or • One or more IFRSs that are not yet mandatory, if those IFRSs permit early adoption. If the entity chooses to early adopt a new IFRS that is not yet mandatory, it must apply that new IFRS in all periods presented, unless that IFRS permits an exemption or requires otherwise.	N/A – amendment to Basis of Conclusions only.
IFRS 3 *Business Combinations*	**Scope exemption for joint ventures** Clarifies that the scope exemption for the formation of a 'joint venture' in IFRS 3 applies to all joint arrangements, i.e. joint operations and joint ventures. Also clarifies that the scope exemption for the formation of a joint arrangement only applies to the accounting by the joint arrangement in its own financial statements, and not to the accounting by the parties to the joint arrangement for their interests in the joint arrangement.	Prospectively for annual periods beginning on or after 1 July 2014. Early adoption permitted.
IFRS 13 *Fair Value Measurement*	**Scope of IFRS 13, paragraph 52** Amends paragraph 52 of IFRS 13 to clarify that the 'portfolio exception' described in IFRS 13, paragraph 48, applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments* if it has been adopted early), regardless of whether they meet the definition of financial assets or financial liabilities under IAS 32 *Financial Instruments: Presentation*. The 'portfolio exception' therefore now applies to contracts to buy or sell a non-financial item that can be settled net in cash, or by issuing another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments.	Prospectively from beginning of annual period in which IFRS 13 is first applied. **Example:** If IFRS 13 first applied for 31 December 2013 year end, amendment applies from 1 January 2013. Early adoption permitted.
IAS 40 *Investment Property*	**Clarifying inter-relationship between IFRS 3 and IAS 40 when classifying the purchase of property as investment property or owner-occupied property** Paragraph 14A has been added to IAS 40 to clarify that: • Judgement needs to be applied to determine whether the acquisition of an investment property is the acquisition of an asset or a business combination within the scope of IFRS 3 • To determine if there is a business combination, entities need to refer to the guidance in IFRS 3 and not IAS 40, paragraphs 7-14 (which only relate to whether or not a property is an investment property or owner-occupied).	Prospectively for annual periods beginning on or after 1 July 2014. Early adoption permitted.

ED 247 ANNUAL IMPROVEMENTS TO IFRSs 2012-2014 CYCLE

IN DECEMBER 2013 THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB) ISSUED EXPOSURE DRAFT, ED 247 *ANNUAL IMPROVEMENTS TO IFRSs 2012-2014 CYCLE*. ED 247 IS THE EQUIVALENT OF ED/2013/11 ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB).

The ED proposes various non-urgent, necessary changes to IFRSs, including:

- **AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*** – Clarifying that there are no changes to the classification, presentation and measurement requirements when an entity reclassifies an asset (or disposal group) directly between 'held for sale' and 'held for distribution' and vice versa.
- **AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*** – Clarifying that when an individual asset/liability is removed from a disposal group held for distribution to owners, the remainder of the disposal group would continue to be accounted for as held for distribution to owners provided the relevant criteria continue to be met.
- **AASB 7 *Financial Instruments: Disclosures*** – Expands guidance in AASB 7 as to what is meant by 'continuing involvement' for the purposes of disclosure under AASB 7, paragraphs 42E and 42H.
- **AASB 7 *Financial Instruments: Disclosures*** – Clarifies that the additional offsetting disclosures introduced by AASB 2012-2 *Disclosures – Offsetting Financial Assets and Financial Liabilities* would not be required in interim financial statements.
- **AASB 119 E*mployee Benefits*** – Clarifies that the discount rate used to discount post-employment benefit obligations should be those in the same currency, rather than the same country, as the obligations.
- **AASB 134 *Interim Financial Reporting*** – Clarifies that the disclosures required by AASB 134, paragraph 16A can either be made in the interim financial statements or incorporated by cross-reference to other parts of the interim financial report that is available to users of the interim financial statements on the same terms, and at the same time, as the interim financial statements.

Effective date and transition

Each improvement has its own effective date, but generally, the proposed dates are for annual periods beginning on or after 1 January 2016.

Comments close

Comments are due to the AASB by 27 February 2014 and to the IASB by 13 March 2014.

PROPOSALS TO ALLOW EQUITY ACCOUNTING IN SEPARATE FINANCIAL STATEMENTS

IN DECEMBER 2013 THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB) ISSUED EXPOSURE DRAFT, ED 246 *EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS* (PROPOSED AMENDMENTS TO AASB 127). ED 246 IS THE EQUIVALENT OF INTERNATIONAL ED/2013/10.

Current requirements

AASB 127 *Separate Financial Statements* currently requires that investments in subsidiaries, joint ventures and associates be accounted for in **separate financial statements** at either:

- Cost, or
- In accordance with AASB 9 *Financial Instruments* (or AASB 139 *Financial Instruments: Recognition and Measurement* if AASB 9 is not being adopted early).

Separate financial statements are currently defined in AASB 127 as those presented by a parent (an entity with control over a subsidiary) or an investor with joint control, or significant influence over an investee, in which such investments are accounted for at cost or under AASB 9/AASB 139.

Proposals

The ED proposes to allow entities with investments in subsidiaries, associates or joint ventures to instead account for their investments in their **separate financial statements** using the equity method of accounting under AASB 128 *Investments in Associates and Joint Ventures*.

This is a useful option for entities that have investments in associates and joint ventures but no subsidiaries. Currently under IFRSs, such entities must prepare an additional set of financial statements to reflect the equity accounting of investments in associates and joint ventures, whereas the ED is proposing to allow these entities to equity account in their separate financial statements, and not have to prepare a second set of financial statements.

The proposals also clarify that if entities choose to equity account in their separate financial statements, dividends received from subsidiaries, associates and joint ventures will be recognised as a reduction of the equity accounted investment, rather than as dividend income in profit or loss.

Impact for Australian entities

Under section 295(2) of the *Corporations Act 2001*, entities required to lodge financial statements with the Australian Securities and Investments Commission (ASIC) under s292 must lodge:

- Financial statements for the entity itself (section 295(2)(a)), or
- Financial statements for the consolidated group if Accounting Standards (AASB 10 *Consolidated Financial Statements*) require consolidated financial statements.

This means that financial statements are prepared for the entity itself (separate financial statements) if it:

- Has no subsidiaries, or
- Is preparing special purpose financial statements where no consolidation is prepared.

As application of IFRSs does not currently permit equity accounting for associates and joint ventures in the separate financial statements of these types of entities, if these proposals are adopted, this would alleviate the need for two sets of financial statements.

Effective date and transition

The ED does not propose an effective date, but application will be retrospective in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Comments close

Comments for this ED have now closed.

ASIC CLARIFIES PRESENTATION OF FINANCIAL STATEMENTS BY STAPLED ENTITIES

What are stapled entities?

Stapled entities are listed entities whose securities are traded together such that each investor has the same proportionate interest in each entity.

This means that financial reporting of each individual entity is not very useful to investors, who would be looking for consolidated or combined (aggregated) financial information to make investment decisions.

What financial information is required by stapled entities?

Each individual entity forming part of the stapled group would be required to prepare, have audited and lodge their own financial statements with the Australian Securities and Investments Commission (ASIC) as required by section 295(2)(a) of the *Corporations Act 2001*.

If one entity in the stapled group does not control the other(s), no consolidated financial statements would be allowed under AASB 10 *Consolidated Financial Statements* because the *Corporations Act 2001* generally does not allow any additional financial statements to be included as part of the statutory financial statements.

This would result in financial information being reported to investors that is of little value.

Consolidated financial statements

Before the introduction of International Financial Reporting Standards (IFRSs) in 2005, the need for consolidated financial statements for stapled groups was resolved by introducing an Urgent Issues Group Abstract which required one entity in the stapled group to be identified as the acquirer. The net assets of the 'acquiree' would all be reflected as non-controlling interests and no goodwill would be recognised.

This situation continued when IFRSs was first adopted because the relevant version of AASB 3 *Business Combinations* excluded stapling arrangements from its scope.

When AASB 3 was revised in 2008, it included stapling arrangements within its scope, which meant that these arrangements would now be consolidated. The Urgent Issues Group Abstract was therefore withdrawn and stapling arrangements were now consolidated under AASB 127 *Consolidated and Separate Financial Statements*, with Class Order 05/642 *Combining financial reports of stapled security issuers* allowing stapled groups to present within one financial report, the individual financial statements of each entity in the stapled group, as well as consolidated financial statements covering all entities in the stapled group.

AASB 10 *Consolidated Financial Statements*

AASB 10 applicable to 31 December 2013 financial statements, includes different consolidation principles to the now superseded AASB 127.

An entity can only prepare consolidated financial statements if it **controls** one or more other entities. Under AASB 10, an investor **controls** an investee if the investor has all of the following:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investor's returns.

Whereas stapling arrangements, within the scope of AASB 3 (2008), were always consolidated under AASB 127, the linkage between AASB 3 (2008) and AASB 10 is not that clear. There is currently a diversity of opinion about whether one entity in the stapling arrangement can always be identified as the acquirer under AASB 10. The Canadians, in particular, are arguing that applying AASB 10 to stapled groups does not always lead to control, and therefore combined financial statements are more appropriate.

Refer to September 2013 Accounting News for a more details.

Extension of Class Order 13/1050 F*inancial reporting by stapled entities*

Due to the uncertainty about whether IFRSs requires consolidation for stapled groups, ASIC issued CO 13/1050 *Financial reporting by stapled entities* in August 2013 to provide an interim solution for stapled groups with 31 December 2013 year ends, that were required to lodge their half-year financial statements (30 June 2013) by 31 August 2013.

CO 13/1050 provides stapled groups with a choice to present in their financial report:

- Consolidated financial statements, or
- Combined financial statements.

CO 13/1050 has now been extended to cover reporting periods after 30 June 2013.

ASIC's Media Release 14-00MR *Presentation of financial statements by stapled entities* says:

"We have extended the application of class order [CO 13/1050] on the understanding that the presentation of consolidated financial statements by stapled entities may be considered by the IFRS Interpretations Committee in 2014. The class order is intended to provide relief until the matter is resolved by that committee. We may review our position in response to any future developments, particularly if the IFRS Interpretations Committee decides not to address the matter."

Action plan

We recommend that stapled groups review their accounting treatment in light of the new definition of control in AASB 10.

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 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 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 2013-10 Equity Method in Separate Financial Statements, IASB DP 2012-1 A Review of the Conceptual Framework for Financial Reporting, IASB 2013-8 Agriculture-Bearer Plants, IASB 2013-6 Leases, and IASB ED 2013-3 Financial Instruments: Expected Credit Losses.

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 247 *Annual Improvements to IFRSs 2012-2014 Cycle*	Proposes non-urgent but necessary changes to IFRSs	27 February 2014	13 March 2014
Fatal Flaw Draft *Superannuation Entities*	Proposes to replace AAS 25 *Financial Reporting by Superannuation Plans* which was issued in 1993	28 February 2014	N/A

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