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ACCOUNTING NEWS

NEW CORPORATE GOVERNANCE PRINCIPLES FOR LISTED ENTITIES

ON 27 MARCH 2014, THE ASX CORPORATE GOVERNANCE COUNCIL ISSUED THE THIRD EDITION OF THE *CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS*.

The Third Edition applies to listed entities whose first full year begins on or after 1 July 2014 (i.e. 30 June 2015 year ends will be the first affected periods). Early adoption is encouraged.

Changes in the Third Edition are a result of the ASX's Consultation Paper in 2013 which was discussed in the September 2013 edition of Accounting News.

The Third Edition retains the flexible 'if not, why not' approach to disclosing an entity's compliance with these corporate governance principles. It retains the eight core principles and 22 substantive recommendations from the Second Edition, but also includes additional recommendations, to make 29 in total. There has been some restructuring whereby some recommendations have been incorporated into core principles, and some commentary has been elevated to recommendations.

Nine new recommendations

The nine new recommendations are as follows:

RECOMMENDATION	DETAILS
Recommendation 1.2	A listed entity should: • Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director, and • Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.
Recommendation 1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.
Recommendation 1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.
Recommendation 2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.
Recommendation 4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.
Recommendation 6.1	A listed entity should provide information about itself and its governance to investors via its website.
Recommendation 6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.
Recommendation 7.3	A listed entity should disclose: • If it has an internal audit function, how the function is structured and what role it performs, or • If it does not have an internal audit function, the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.
Recommendation 7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks, and if it does, how it manages those risks.

IN THIS EDITION

In this edition, we look at the ASX Corporate Governance Council's Third Edition of *Corporate Governance Principles and Recommendations*, which comes into effect for 30 June 2015 year ends. We also look at proposed changes to AASB 1053 *Application of Tiers of Australian Accounting Standards*, proposed changes to AASB 101 *Presentation of Financial Statements* as a result of the International Accounting Standards Board's (IASB's) Disclosure Initiative and an update on the IASB's leases project. Lastly, distinguishing between a business and an asset acquisition can sometimes be difficult, but BDO's latest IFRS in Practice can assist when making these decisions in the extractives industry.

Other key changes

Other key changes included in the Third Edition are as follows:

- **Enhanced risk recommendations** - Boards should pay particular attention to the enhanced Recommendations 7.1-7.4 on risk which reflect lessons from the global financial crisis
- **Alternative practices** - Where listed entities do not have a nomination committee (Recommendation 2.1), audit committee (Recommendation 4.1), risk committee (Recommendation 7.1), internal audit function (Recommendation 7.3) and a remuneration committee (Recommendation 8.1), the Third Edition provides flexibility for entities to disclose alternative practices instead
- **Diversity** – Recommendation 1.5 has been modified to allow listed entities that are 'relevant employers' under the *Workplace Gender Equality Act 2012* to report their 'Gender Equality Indicators' instead of the respective proportions of men and women on the board, in senior executive positions and across the whole organisation. If entities choose to disclose proportions of men and women in 'senior executive' roles, they should disclose how 'senior executive' has been defined
- **Director independence** – The guidance in Box 2.3 has been amended to include overly long service as a director as a potential indicator of not being independent (but does not go so far as to prescribe any period)
- **CEO/CFO certification** – has been upgraded and moved from Recommendation 7.3 to 4.2 and applies to interim reporting periods as well.

Changes to ASX Listing Rules

It is also expected that there will be changes made to the ASX Listing Rules (effective for same period as for the Third Edition) to reflect the intention in the Consultation Paper that listed entities be able to publish their corporate governance statements on their websites, rather than in their annual reports. If the corporate governance statement is not included in the annual report, the URL of where it can be found on the website will need to be included in the annual report.

An Appendix G, which is essentially a checklist of all corporate governance principles and recommendations, will also need to be lodged with the ASX, together with the annual report. If the corporate governance statement has been included in the annual report by reference (to the URL), listed entities will also need to lodge a copy of the corporate governance statement with the Appendix G and annual report.

For more information on resulting changes to the ASX Listing Rules, refer to the ASX's Proposed Governance-Related Listing Rule Amendments (Supplementary Consultation) (21 February 2014).

HOW IS A BUSINESS COMBINATION DIFFERENT FROM AN ASSET PURCHASE IN THE EXTRACTIVES INDUSTRY?

A CRITICAL STEP IN DETERMINING THE APPROPRIATE ACCOUNTING FOR AN ACQUISITION TRANSACTION IN THE EXTRACTIVES INDUSTRY IS TO DETERMINE WHETHER THE ACQUISITION IS OF A BUSINESS (AND THEREFORE WITHIN THE SCOPE OF AASB 3 *BUSINESS COMBINATIONS*), OR IS OF AN ASSET OR GROUP OF ASSETS THAT DO NOT CONSTITUTE A BUSINESS.

The latest edition of IFRS in Practice, Distinguishing between a business combination and an asset purchase in the extractives industry addresses the practical difficulties in distinguishing a business combination from an asset purchase for acquisitions in the extractives industry, including discussions on the types of transactions that may or may not give rise to a business combination and the judgements required.

Why is it important?

The distinction between a business combination and an asset purchase is critical in determining the correct accounting for an acquisition transaction. There could well be a material impact on the financial position of the entity post acquisition, depending on whether the asset(s) acquired constituted a business.

Furthermore, the extent of disclosures required is significantly different when comparing a business combination and an asset purchase.

IFRS in Practice is a series of publications by our BDO international global IFRS group. The series addresses the key application issues that have arisen in practice when applying IFRSs.

LEASES PROJECT UPDATE

SIGNIFICANT DECISIONS WERE MADE IN REGARDS TO BOTH LESSEE AND LESSOR ACCOUNTING AT THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)'S JOINT MEETING WITH THE US FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) IN MARCH 2014.

Single model for lessee accounting

For lessee accounting, the IASB has decided to revert back to a single on-balance sheet leases model as originally proposed in its first leases exposure draft (ED 202 in Australia). This means that for all leased assets, a lease liability and a right of use (ROU) asset would be recorded on initial recognition. Over the life of the lease, the lessee would record a finance charge and amortisation of the right of use of asset. This would result in a front loading of lease expense in profit or loss, because interest costs would unwind using a constant periodic rate of return, which would be greater in the earlier periods.

In its second lease exposure draft (ED 242 in Australia) published for comment last year, the boards had proposed a dual lease accounting model, where most property leases would result in a straight line lease expense, and all other leases would result in a front loading of the lease expense. The IASB's recent decision means that all leases, **including property leases**, would have a pattern of front loading of lease expense.

The FASB however, decided to retain the dual model for lessees as proposed in ED 242.

No change to current lessor accounting

The boards decided to essentially retain the current lessor accounting model in AASB 117 *Leases* due to cost vs. benefit considerations, and not to pursue symmetry between lessee and lessor accounting. This means that there will be no change to the current accounting for lessors.

Redeliberations continuing

The boards will continue to redeliberate the proposals in ED 242 in the coming months.

AASB PROPOSES CHANGES TO THE REQUIREMENTS FOR TRANSITIONING TO AND BETWEEN TIERS 1 AND 2

Background

AASB 1053 *Application of Tiers of Australian Accounting Standards* currently defines two Tiers of reporting requirements for general purpose financial statements as follows:

	REPORTING FRAMEWORK	INCLUDES
Tier 1	Australian Accounting Standards	International Financial Reporting Standards (IFRSs)
Tier 2	Australian Accounting Standards – Reduced Disclosure Requirements (RDR)	Recognition and measurement requirements of Tier 1 but substantially reduced disclosures

AASB 1053 also currently includes requirements when swapping between Tiers, and also when swapping between Tiers and special purpose financial statements (SPFS). Basically, the following rules apply:

TYPE OF FINANCIAL STATEMENTS	REPORTING FRAMEWORK PREVIOUSLY APPLIED	APPLY
SPFS to Tier 1 Or SPFS to Tier 2	No full recognition and measurement	AASB 1
SPFS to Tier 1	Full recognition and measurement	AASB 1
SPFS to Tier 2	Full recognition and measurement	Do not apply AASB 1
Tier 2 to Tier 1	Full recognition and measurement	Apply AASB 1
Tier 1 to Tier 2	Full recognition and measurement	Do not apply AASB 1

Note: AASB 1 refers to AASB 1 *First-time Adoption of Australian Accounting Standards*

This means that entities transitioning to Tier 1 (Australian Accounting Standards) would always be required to apply AASB 1, irrespective of whether they had fully complied with all the recognition and measurement requirements of Australian Accounting Standards in their Tier 2 or special purpose financial statements.

Why change?

Where entities have always applied the recognition and measurement requirements of Australian Accounting Standards, it seems a pointless exercise to force them to reapply AASB 1. While some entities may wish to reapply AASB 1, for example, allowing them to reset foreign exchange reserves to zero, making once-off revaluations of assets as reset deemed costs, etc., others may not.

2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*, includes an amendment whereby Tier 1 entities that have applied Australian Accounting Standards in a previous period, but whose most recent annual financial statements did not contain and explicit and unreserved statement of compliance with Australian Accounting Standards (IFRSs), on can choose to either apply:

- AASB 1
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had always applied Australian Accounting Standards.

AASB 2012-5 applies to annual periods beginning on or after 1 January 2013 and requires additional disclosure about:

- The reason the entity stopped applying Tier 1 Australian Accounting Standards
- The reason the entity is recommencing applying Tier 1
- The reason for not reapplying AASB 1.

Proposed changes to AASB 1053

The Australian Accounting Standards Board (AASB) recently issued Exposure Draft, ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements* to align the requirements for swapping to and between Tiers with AASB 2012-5.

The table below summarises the ED 248 proposals for application of AASB 1:

TYPE OF FINANCIAL STATEMENTS	REPORTING FRAMEWORK	AASB 1053 - APPLY	ED 248 – APPLY
SPFS to Tier 1	No full recognition and measurement	AASB 1	AASB 1
SPFS to Tier 2	No full recognition and measurement	AASB 1	AASB 1 or AASB 108 transitional requirements, i.e. full retrospective restatement back to application date unless Standards allowed for prospective treatment from application date
SPFS to Tier 1	Full recognition and measurement	AASB 1	AASB 1
SPFS to Tier 2	Full recognition and measurement	Do not apply AASB 1	Do not apply AASB 1 (continue old accounting policies)
Tier 2 to Tier 1 (Not previously Tier 1)	Full recognition and measurement	Apply AASB 1	Apply AASB 1
Tier 2 to Tier 1 (Previously Tier 1)	Full recognition and measurement	Apply AASB 1	Apply AASB 1 or can apply AASB 108 accounting policies as if the entity had never stopped applying Tier 1
Tier 1 to Tier 2	Full recognition and measurement	Do not apply AASB 1	Do not apply AASB 1

In summary, the proposals require that:

- Entities adopting Tier 1 reporting requirements (all Australian Accounting Standards) for the first time will always need to apply AASB 1 (i.e. SPFS to Tier 1 or Tier 2 to Tier 1)
- Entities readopting Tier 1 can choose to apply AASB 1 or to continue applying their accounting policies under AASB 108 as if they had always applied Tier 1
- Entities adopting Tier 2 reporting requirements (RDR) for the first time that had previously applied all recognition and measurement requirements in their SPFS must not apply AASB 1 (i.e. they must carry on with previous accounting policies for recognition and measurement)
- Entities adopting Tier 2 reporting requirements (RDR) for the first time that had NOT previously applied all recognition and measurement requirements can either apply AASB 1 or AASB 108 (and restate all balances retrospectively without applying the AASB 1 exemptions)
- Tier 1 entities adopting RDR (Tier 2) for the first time do not apply AASB 1, i.e. they must carry on with previous accounting policies for recognition and measurement.

The proposals also include updated charts to illustrate these various scenarios.

Disclosure

ED 248 also proposes additional disclosure about the reason why an entity resuming Tier 2 financial statements stopped and then resumed the Tier 2 reporting requirements.

Comments and effective date

The proposed effective date for these proposals is for annual periods beginning on or after 1 July 2014. In view of the fact that the Reduced Disclosure Requirements apply to annual reporting periods beginning on or after 1 July 2013, these proposals will be available for early adoption with the Reduced Disclosure Requirements.

The AASB is seeking comments on these proposals by 19 May 2014.

IASB DISCLOSURE INITIATIVE – PROPOSED AMENDMENTS TO AASB 101 *PRESENTATION OF FINANCIAL STATEMENTS*

Background

On 25 March 2014, the International Accounting Standards Board (IASB) published ED 2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)*. This ED has subsequently been issued by the Australian Accounting Standards Board (AASB) as ED 249 in Australia. The exposure draft results from one of a number of short term projects under the IASB's Disclosure Initiative, which was started in response to concerns raised by respondents to the IASB's *Agenda Consultation* in 2011.

ED 249 proposes amendments relating to the Disclosure Initiative as follows:

- Materiality
- Line items in financial statements
- Notes to the financial statements
- Accounting policies.

The ED also proposes amendments relating to a submission to the IFRS Interpretations Committee dealing with equity accounted investments and changes required to IAS 1 *Presentation of Financial Statements* (AASB 101)

Disclosure Initiative Proposals

AREA	SUMMARY OF PROPOSED AMENDMENTS
Materiality	Clarifies that: • Aggregation or disaggregation must not obscure useful information (e.g. aggregating items that have different characteristics or overwhelming useful information with immaterial information) • Materiality applies to all four primary financial statements and the notes to the financial statements • Even when a standard contains a list of specific minimum disclosure requirements, preparers need to assess whether such required disclosure is material, and consequently whether presentation or disclosure of that information is warranted. Preparers also need to consider whether disclosures, in addition to specific minimum requirements, are required to meet the needs of users of financial statements.
Line items in 'statement of financial position' and 'statement of profit or loss and other comprehensive income'	**Line items** Clarifies that the requirements to present specific line items in the 'statement of profit or loss and other comprehensive income' and 'statement of financial position' can be met by disaggregating these line items when this is capable of making a difference in decisions made by users of financial statements. *Example:* The requirement to present intangible assets in the statement of financial position under AASB 101.54(c) can be met by presenting goodwill and brand names as separate line items in the statement of financial position. **Subtotals** Clarifies that additional subtotals in the statement of financial position must be made up of items recognised in accordance with IFRSs, presented and labelled in a manner that makes the subtotals understandable and consistent from period to period. **Reconciliations for statement of profit or loss and other comprehensive income** Proposed new paragraph 85B requires that any additional subtotals in the statement of profit or loss and other comprehensive income must be reconciled to subtotals or totals required by AASB 101.82 by presenting each reconciling item separately.
Notes to the financial statements	• Deletes the requirement to cross-reference each item in the four primary financial statements in a systematic manner to the notes, but retains requirement to include cross-references to notes. • Proposes new paragraph 113A to provide flexibility in the systematic approach to ordering notes. This means that notes no longer need to be in order, for example, of statement of profit or loss and other comprehensive income notes, followed by statement of financial position notes, etc. Items can be grouped together and shown in one note, e.g. all financial instruments, and can be positioned in order of importance, rather than the order that they appear in the statement of financial position. • Paragraph 114 has been amended and now says that notes may alternatively be shown in the following order: – Statement of compliance with IFRSs – Significant accounting policies – Notes in order in which each statement and line item is presented – Other disclosures, e.g. contingent liabilities, commitments, financial risk management, etc.
Accounting policies	• Removes the examples in paragraph 120 with respect to accounting policies for income taxes and foreign exchange gains and losses.

Equity accounting proposals

In July 2013, the IFRS Interpretations Committee received a request to clarify the requirement to present items of other comprehensive income (OCI) of associates and joint ventures in the statement of profit or loss and other comprehensive income, particularly with respect to whether:

- Movements in OCI be presented, by nature, in the same line as the reporting entity's movements for similar items, e.g. including equity accounted investments' movements in foreign currency translation reserves in the same line together with those of the reporting entity, or
- Movements in OCI of equity accounted investments be presented as one line item in the statement of profit or loss and other comprehensive income.

The IASB agreed that IAS 1 (AASB 101), paragraph 82A allowed for diverse interpretations and therefore the ED clarifies that the share of OCI of associates and joint ventures be presented as two line items, i.e.:

- Those items that will be reclassified subsequently to profit or loss
- Those items that will not be reclassified subsequently to profit or loss.

The IASB noted that this form of 'one line' presentation is consistent with the presentation requirement that an entity's share of net profit or loss of associates and joint ventures is to be shown as a separate line item in the profit or loss section of the statement of profit or loss and other comprehensive income.

Effective date

The ED does not propose an effective date or any transitional guidance.

Comments due

The AASB and IASB are seeking comments on these proposals. Comments are due to the AASB by 30 June 2014 and to the IASB by 23 July 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 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 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 2013 11 – Annual Improvements to IFRSs (2012-2014 Cycle), IASB ED 2013-10 *Equity Method in Separate Financial Statements* and IASB ED 2013-9 *IFRS for SMEs Review*.

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 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*	To amend AASB 1053 *Application of Tiers of Australian Accounting Standards* to clarify the circumstances when an entity applying the Tier 2 reporting requirements can avail itself of the AASB 108 option in AASB 1 *First-time Adoption of Australian Accounting Standards*.	19 May 2014	N/A
ED 249 *Disclosure Initiative (Proposed amendments to AASB 101)*	Issued as a result of the IASB's Disclosure Initiative, which was started in response to concerns raised by respondents to the IASB's *Agenda Consultation* in 2011. The ED proposes changes to AASB 101 *Presentation of Financial Statements* relating to materiality, line items in financial statements, notes to the financial statements and accounting policies. Also proposes changes as a result of a recommendation by the IFRS Interpretations Committee relating to disclosure of items of other comprehensive income relating to equity accounted investments.	30 June 2014	23 July 2014
ITC 30 *Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 3 Business Combinations*	This post-implementation review is part of the IASB's due process to review major new standards, or significant amendments to existing standards, to ensure they are working as intended.	2 May 2014	30 May 2014

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