ASIC has released its areas of focus for 30 June 2019 reporting. All preparers (listed and unlisted) should ensure all relevant aspects are addressed.

Impact of new accounting standards

In announcing its focus areas for the 30 June 2019 reporting period ASIC has continued to emphasise the need for entities to focus on the new accounting standards that could potentially have a material impact on the reported assets, liabilities, and performance of an entity.

ASIC’s commentary is not only limited to assessing impacts in the financial statements, but includes comments on the real business impacts of the new standards on debt covenants, regulatory financial condition requirements, remuneration schemes and the ability to pay dividends; as well as the requirements of new systems and processes. ASIC continues to highlight the importance of communicating the impact of the new standards to the market.

Applies from financial years beginning

- **1 January 2018**
  - AASB 9 Financial Instruments
  - AASB 15 Revenue from Contracts with Customers

- **1 January 2019**
  - AASB 16 Leases

- **1 January 2021**
  - AASB 17 Insurance Contracts

* The IASB has proposed to defer the effective date of IFRS 17 to 1 January 2022.
Recent findings

Findings from recent ASIC surveillance

The following summarises the number of inquiries made by ASIC from the last four surveillance financial reporting programmes:

<table>
<thead>
<tr>
<th></th>
<th>June 2017</th>
<th>Dec 2017</th>
<th>June 2018</th>
<th>Dec 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>8</td>
<td>7</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Impairment</td>
<td>20</td>
<td>23</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>Other</td>
<td>25</td>
<td>9</td>
<td>33</td>
<td>15</td>
</tr>
</tbody>
</table>

Revenue recognition and impairment and other asset values continue to be the areas where ASIC are making a majority of inquiries. The other category is made up of a small number of inquiries for each of the ‘other focus areas’ for ASIC. Both revenue and impairment are areas that often involve significant judgement and estimates.

The rise of revenue recognition issues coincides with the release of the new accounting standard in the area. The new revenue standard’s focus on performance obligations is highlighted and the significant step-up in disclosures will require companies to articulate in more detail how they are recognising and measuring revenue.

ASIC continues to question entities on the bases of carrying amount calculations, particularly around the reliability and objectivity of inputs into models. Not only non-financial asset values, but the valuation of financial assets are of interest.

Annual reports – impact of new accounting standards disclosures

Preparers of financial statements need to be mindful of both the quantitative and qualitative disclosure requirements of AASB 9 and AASB 15 with a significant increase in the disclosure requirements compared to financial statements prepared under the old revenue and financial instrument standards.

Particular disclosure considerations for annual 30 June 2019 financial statements include:

- how and when revenue will be recognised, including significant judgements made in respect of performance obligations
- disaggregated revenue disclosures, and those regarding contract balances and costs to obtain or fulfil a contract
- loan and debtor provisioning including methods, assumptions, judgements and information used to measure the Expected Credit Loss (ECL)
- hedge instruments and hedged items including the amount, timing and uncertainty of future cash flows and the effects on financial position and performance
- detailed transition disclosures, including a 3rd balance sheet, qualitative information about key changes and practical expedients used.
New leases standard effective from 1 January 2019

Leases – pre-implementation and transition

ASIC also highlights that companies should not forget the implementation of AASB 16 Leases. June reporters are expected to be able to disclose quantitative impacts in their 30 June financial reports. ASIC notes that companies should be ready to forecast their 2020 and 2021 results consistent with the accounting basis of AASB 16 and that this would be the expectation of the market, especially given the wide ranging impacts this standard will have on the profit and loss statement and the balance sheet.

Half-year reports – transition and implementation

The new leases standard is effective for half-years ending 30 June 2019 for 31 December 2019 full year reporters. An entity needs to disclose sufficient information for the user of the financial statements to understand the change compared to the prior year. In addition, if accounting policies have changed from the last annual reporting period, a description of the nature and effect of the change are required to be disclosed in the half-year financial statements.

Climate change

Climate-related risks

Climate-related risks are top of mind for regulators and the investor community, both globally and in Australia. APRA, ASIC and the ASX have all highlighted the need for directors to take account of climate-related risk.

Traditionally climate-related risks have been discussed outside the financial statements. There is a call that disclosure in the financial statements of how climate-related risks have or have not been considered – regardless of any quantitative impact – needs to be disclosed, where there is a reasonable expectation that climate-related risks have a significant impact on the entity.

The AASB and AuASB issued a joint Bulletin Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2 that provides guidance in assessing what disclosures are material to financial statements and which particular areas in the financial statements are most likely to need to be considered in the context of climate-related risks, and how.

“Climate-related risks are top of mind for regulators, businesses and their stakeholders world-wide. Qualitative external factors such as the industry in which the entity operates and investor expectations may make climate-related risks ‘material’. In such circumstances disclosure should be considered in the appropriate notes in the financial statements, regardless of their numerical impact.”

Michael Voogt
Director, Department of Professional Practice

Other

The other focus areas are consistent with those from prior reporting periods. ASIC has confirmed that it will, as before, focus on:

- accounting estimates around impairment testing and asset values
- accounting policy choices
- key disclosures.

Further details are outlined in the Appendix – ASIC focus areas: Guide for directors and preparers.

No significant changes in ASIC focus areas
RG 230 non-IFRS financial information reminder

Directors primarily responsible for quality of financial reports

ASIC again reminds directors of their primary responsibility for high quality financial report. To this end directors must ensure financial information is made available on a timely basis and supported by appropriate processes, records and analysis. Having access to appropriate expertise, especially in areas of complexity and judgement; is critical to achieving this quality.

ASIC also advocates that the Operating and Financial Review (OFR) required by listed companies should include relevant information relating to current challenges facing companies. These include digital disruption, new technologies, climate change or cyber-security.

While non-IFRS financial information is included in the OFR or other documents outside the financial report, ASIC reminds directors to ensure this is not potentially misleading, and is presented in accordance with ASIC Regulatory Guide RG 230 Disclosing non-IFRS financial information. RG 230 also covers limitations on the use of non-IFRS measures in the financial report.

Proprietary companies

ASIC continues to monitor compliance with lodgement obligations and query proprietary companies that appear to be large that are not lodging financial statements, and do not have a reporting exemption. ASIC also reviews financial reports of proprietary companies based on complaints and other intelligence.

Lodgement compliance for large proprietary companies

19RU-007 ASIC focus areas: 30 June 2019

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### ASIC focus areas - Guide for directors and preparers

#### New accounting standards
- Application of new accounting standards
- Impact of new accounting standards

#### Accounting estimates
- Impairment testing and asset values
- Financial instruments

#### Accounting policy choices
- Revenue recognition
- Expense deferral
- Tax effect accounting
- Off-balance sheet arrangements

#### Key disclosures
- Estimates and accounting policy judgements

#### Role of directors
### Application of new accounting standards: Revenue and financial instruments

#### ASIC guidance

It is important that directors and management ensure that companies are prepared for these new standards and inform investors and other financial report users of the impact on reported results. These new accounting standards may significantly affect how and when revenue can be recognised, the values of financial instruments (including loan provisioning and hedge accounting) and reported assets.

The standards also introduce new disclosure requirements, which is important for investors and market confidence.

#### Questions to consider

- Have we made the required disclosures in our year-end financial report for transition to the new standards?
- Have we disclosed the nature and effect of the change of accounting policies as a result of implementing the new revenue and financial instruments standards?
- Have we met the requirements of the new business as usual disclosures?
- Where the impact of the new accounting standards is different to what has been previously disclosed has the company communicated the reason for the difference?

#### Relevant KPMG guidance

- Example Public 2018-19 – Notes 5, 8 and 32
- Guide to condensed interim financial statements – Illustrative disclosures (April 2019)
- Annual Disclosure Checklist (September 2018) – Section 1.9, 2.5 and 3.1
- IFRS – Revenue
- Insights into IFRS – Chapter 4.2 Revenue
- IFRS – Financial Instruments
- Insights into IFRS – Chapter 7 Financial Instruments
- Standards on Issue
New accounting standards

Impact of new accounting standards: lease standard, insurance standards and the revised Conceptual Framework

ASIC guidance

Directors should ensure that notes to 30 June 2019 financial statements disclose the impact on future financial position and results of new requirements for accounting for leases, accounting for insurance businesses, and new definition and recognition criteria for assets, liabilities, income and expenses. It is reasonable for the market to expect that companies will be able to quantify the impact of the new standards, particularly for the lease standard.

Where an entity uses the Conceptual Framework for Financial Reporting (Framework) in applying an accounting policy not covered by an Australian Accounting Standard, and wants to continue to claim IFRS compliance, any impact of the new definition and recognition criteria for assets, liabilities, income and expenses in the IASB revised Framework need to be considered.

Questions to consider

Have we considered the impact of the new leases and insurance standards?

Have we made the required disclosures in our financial report, commensurate with the progress of our assessment of the impact, for standards that have been issued but are not yet effective?

Where we use the Framework to apply an accounting policy not covered by an Australian Accounting Standard, has the impact of the new definition and recognition criteria for assets, liabilities, income and expenses in the IASB revised Framework been considered?

Have we considered the broader business impacts of the new accounting standards, such as the impacts on debt covenants, regulatory financial conditions, the ability to pay dividends and remuneration schemes? Have we disclosed these impacts where relevant?

Relevant KPMG guidance

Example Public 2018-19 – Note 46
Standards issued but not yet effective
Guide to condensed interim financial statements – Illustrative disclosures (April 2019)
Annual Disclosure Checklist (September 2018) – Section 1.9
IFRS – Leases
Insights into IFRS – Chapter 5.1A Leases: IFRS 16
Annual Disclosure Checklist (September 2018) – Section 6.1
IFRS - Insurance
Annual Disclosure Checklist (September 2018) – Section 6.10
Standards on Issue
Conceptual Framework
Accounting estimates

Impairment testing and asset values

ASIC guidance

Directors should carefully consider the need to impair goodwill and other assets.

For each reporting period it is important for directors to ensure:

- Cash flows and assumptions are reasonable and supportable
- Discounted cash flows are not used to determine fair value less costs of disposal where forecasts and assumptions are not reliable
- Value in use (VIU) calculations use sufficiently reliable cash flow estimates
- Cash flows used are matched to carrying values of all assets that generate those cash flows
- Different discount rates are used for cash generating units (CGUs) where the risks are different
- CGUs are not identified at too high a level
- Goodwill is allocated to CGUs at the level that it is monitored internally

Questions to consider

Are the assumptions used in the calculation of recoverable amounts realistic? If there have been significant variances between prior period cash flow projections and actual results, have the cash flows or the alpha factor in the discount rate been adjusted to reflect this risk?

Have we considered whether other readily available information exists that can be used to calculate recoverable amount using an alternate valuation method or technique which can serve as a point of comparison to the values derived in the primary valuation method selected?

If in the previous year recoverable amount was determined using a value in use model, but is now being determined using a fair value less costs of disposal (FVLCD) technique, have we fully understood and documented the rationale for the change?

Have we checked the mathematical accuracy of the model?

If recoverable amount is determined using VIU, have we ensured the cash flows do not include those from strategic initiatives?

If recoverable amount is determined using FVLCD, are there quoted prices or other observable market information that can be used to determine FVLCD? If there is no observable market information to determine FVLCD, and a discounted cash flow or earnings multiple technique is used, are the inputs reliable?

Have we identified our CGUs appropriately? Are any CGUs greater than an operating segment where material goodwill exists?

Does the allocation of goodwill to CGUs reflect the level at which goodwill is monitored for internal purposes?

Have all corporate costs been allocated to CGUs on an appropriate basis?

Have corporate assets been allocated to CGUs where the allocation can be done on a reasonable and consistent basis?

Have we disclosed the assumptions that have a significant risk of resulting in a material impairment adjustment in the next 12 months?

…Continued
## Accounting estimates

### Impairment testing and asset values (continued)

<table>
<thead>
<tr>
<th>ASIC guidance (cont)</th>
<th>Questions to consider (cont)</th>
<th>Relevant KPMG guidance</th>
</tr>
</thead>
</table>
| ❑ Consider the impact of risk of the following on asset values:  
  - digital disruption  
  - technological change  
  - market change  
  - climate change or geopolitical change | Have we considered our continuous disclosure obligations if we suspect an impairment (See also ASX Guidance)?  
If we have a CGU which includes goodwill or intangible assets with an indefinite useful life and a reasonably possible change in the key assumptions would result in an impairment have we fully disclosed the amount by which the assumptions must change to create an impairment?  
Where market capitalisation is less than our net asset position, have we fully documented the methodology used to determine recoverable amount, including how we have satisfied ourselves regarding the reliability of the assumptions used, including our understanding of the drivers of the difference?  
Where facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, have we used realistic assumptions and inputs in the calculation of recoverable amount, including mine restoration and closure costs? | Example Public 2018-19 – Notes 22 & 45(L),(R)  
Annual Disclosure Checklist (September 2018) – Section 2.8  
Insights into IFRS – Chapters:  
❑ 3.3 Intangible assets and goodwill  
❑ 3.10 Impairment of non-financial assets  
❑ 5.11 Extractive activities |
Accounting estimates

Impairment testing and asset values (continued)

Questions to consider (cont)

Where facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, have we used realistic assumptions and inputs in the calculation of recoverable amount, including mine restoration and closure costs?

For exploration and evaluation assets, have we:
- Assessed for impairment in accordance with AASB 136 Impairment of Assets after technical feasibility and commercial viability have been demonstrated?
- Used appropriate fair values when testing impairment during the exploration and evaluation phase?
- Only used royalty relief or earnings multiple models where they are sufficiently reliable and entity-specific market based assumptions are available?
Accounting estimates

Financial instruments

ASIC guidance
Directors should focus on the valuation and disclosure of financial instruments, particularly where the value relies on assumptions that are not based on quoted prices or observable market data.

Questions to consider
- Have the methods and significant assumptions used to value financial instruments been adequately disclosed?
- When considering the application of AASB 9 Financial Instruments:
  - What procedures have we completed to ensure that financial assets and liabilities have been appropriately classified?
  - What approach have we taken to determining the calculation of our expected credit losses?
- Have we met the new disclosure requirements including:
  - information on investments in equity instruments designated at fair value through other comprehensive income?
  - quantitative and qualitative information about loss allowances and credit risk exposure and its credit risk management practices?
  - expanded hedge accounting disclosures for AASB 9?

Relevant KPMG guidance
- Example Public 2018-19 – Notes 32 & 45(O)
- Annual Disclosure Checklist (September 2018) – Section 2.5
Accounting policy choices

Revenue recognition

ASIC guidance

Directors should review an entity’s revenue recognition policies to ensure that revenue is recognised in accordance with the substance of the underlying transaction. This is especially relevant as the new revenue standard applies and consideration of the detailed guidance relating to performance obligations and other requirements of the standard should be made.

Questions to consider

When considering the application of AASB 15 Revenue from Contracts with Customers:

- What process has been put in place to ensure that revenue contracts are being correctly identified?
- How have we identified the performance obligation(s) for each revenue contract?
- Have we determined the total transaction price and have appropriate methods of allocating that total price to individual performance obligations been completed?
- Are we recognising revenue over-time or at a point in time?

Have we met the new disclosure requirements including:

- disaggregation of revenue?
- information on contract balances, performance obligations, transaction price allocated to the remaining performance obligations?
- significant judgements in the application of the standard?

Relevant KPMG guidance

Insights into IFRS – Chapter 4.2 Revenue

IFRS – Revenue

Annual Disclosure Checklist (September 2018) – Section 3.1

Example Public 2018-19 – Notes 5 and 8
**Accounting policy choices**

**Expense deferral**

**ASIC guidance**

Directors should ensure expenses are only deferred where there is an asset – a resource controlled from which future economic benefits are expected to flow to the entity.

**Questions to consider**

- Have we properly classified any relevant assets as financial or non-financial assets?
- Are any of the expenses which we are capitalising prohibited from capitalisation under AASB 138 *Intangible Assets*?
- Do we have any future benefit from the expenses that we have capitalised and deferred?
- Have we ensured that items of income and expense are only included in other comprehensive income where specifically permitted by the accounting standards?

**Relevant KPMG guidance**

- Insights into IFRS – Chapter 3.3
  - *Intangible assets and goodwill*
Accounting policy choices

Tax effect accounting

ASIC guidance

Directors should ensure there is proper understanding of both the tax and accounting treatment of transactions, and how those impact tax assets, liabilities and expenses, taking into consideration the impact of any recent changes in legislation.

Directors should also ensure that the recoverability of deferred tax assets is appropriately reviewed.

Questions to consider

Are the forecasts used to assess the recoverability of deferred tax assets in-line with forecasts used to determine the recoverable amount of intangible assets and other non-current assets?

Have we considered the adequacy of disclosures around estimation uncertainty of the recoverability of deferred tax assets? (See estimates and accounting policy judgements below)

Have we reviewed the appropriateness of the tax treatment of any significant transactions, and ensured that those have been appropriately reflected in tax balances and explained in the financial statements?

Have we ensured all legislative changes that have been substantively enacted prior to year-end have been captured within the income tax calculations? Have we ensured that the impacts of all legislative changes that have been substantively enacted after year-end but before the financial statements are authorised for issue have been adequately disclosed?

Relevant KPMG guidance

Insights into IFRS – Chapter 3.13 Income taxes

Example Public 2018-19 – Australian content: Voluntary tax disclosures Part A

....Continued
Accounting policy choices

Tax effect accounting (continued)

Questions to consider (cont)

Have we disclosed the key tax to accounting differences in our financial report? Have we ensured that the disclosures communicate clearly all taxes paid?

Are we subject to the Country by Country Reporting requirements? If yes, have we considered disclosing the amounts of taxes paid by jurisdiction?

Have we considered adopting the Voluntary Tax Transparency Code (the Code): Part A issued by the Board of Taxation in our financial report? If yes, are our disclosures in ‘plain English’ and do they embrace the spirit of the Code? Have we given appropriate consideration to the principles in RG 230 Disclosing non-IFRS financial information when disclosing an alternative effective tax rate?
Accounting policy choices

Off-balance sheet arrangements

ASIC guidance

Directors should carefully review the treatment of off-balance sheet arrangements, the accounting for joint arrangements and disclosures relating to structured entities.

Client monies held may give rise to on-balance sheet assets and liabilities. Whether or not on-balance sheet, systems and processes should be in place to ensure any monies are sufficient to meet liabilities to clients.

Questions to consider

Have we reviewed all consolidated and unconsolidated entities and off-balance sheet arrangements and made an ongoing assessment to determine if they should be consolidated under AASB 10 *Consolidated Financial Statements* having specific regard to whether all facts and circumstances have been considered in determining whether we have the power to direct activities that significantly affect returns?

Have we considered all relevant facts and circumstances in determining whether a joint arrangement provides the entity with rights to the ‘net’ assets of the arrangements (equity method) or contractual rights to individual assets or contractual responsibility for individual liabilities?

Have we disclosed:

- the significant judgments and assumptions made in determining whether we control, have joint control, or have significant influence of another

...Continued

Relevant KPMG guidance

Insights into IFRS – Chapters:

- 2.4 *Fair value measurement*
- 2.5 *Consolidation*
- 3.5 *Associates and the equity method*
- 3.6 *Joint arrangements*

Example Public 2018-19 – Notes 33-36
Questions to consider (cont)

- the nature of, and changes in, the risks associated with the entity’s interest in consolidated and unconsolidated entities
- the effect of restrictions on the reporting entity’s ability to access and use assets or settle liabilities of consolidated entities
- the interest that material non-controlling interests have in the group’s activities?

Have we considered the nature of the risks associated with our interests in consolidated and unconsolidated structured entities?

Have we made disclosures so that users are able to understand the nature and extent of these risks and interests?

Are client monies managed in accordance with regulatory requirements, and are monies sufficient to meet liabilities to clients?
Key disclosures

Estimates and accounting policy judgements

** ASIC guidance **

Directors should ensure that the disclosures in their financial statements are sufficient to allow users to understand the sources of estimation uncertainty and significant judgements made in applying accounting policies.

Disclosure of key assumptions and a sensitivity analysis are important.

** Questions to consider **

Have we explained areas where there is estimation uncertainty and the impact of that uncertainty?

Have we ensured that the disclosures made are specific to the assets, liabilities, income and expenses of the entity?

Have we disclosed the assumptions that have a significant risk of resulting in a material change in the carrying amount of assets and liabilities in the next 12 months?

Have we identified specifically the carrying amount that would be impacted by a change in assumptions and the nature of the assets?

Have we considered fair values determined under AASB 13 *Fair Value Measurement* when considering the completeness of disclosures made in relation to estimates?

Have we explained any accounting policy choices that involved significant judgement?

Have we considered the interrelationships between disclosures of estimates and significant judgements and what is included in key audit matters in the audit report?

Have we considered the impacts of sensitivity analysis on our calculations and need for disclosure?

** Relevant KPMG guidance **

*Example Public 2018-19 – Note 4 Annual Disclosure Checklist (September 2018) – Section 1.4*
Role of directors

ASIC guidance

Directors should challenge the accounting estimates and treatments applied in the financial report.

Directors should ensure that persons with appropriate experience and expertise are involved in reviewing calculations supporting impairment or valuation of significant assets. They should review the cash flows and assumptions bearing in mind their knowledge of the business, its assets, and the future prospects of the business.

Questions to consider

Have we considered the appropriateness of all significant accounting estimates and accounting policy choices?

For complex and judgemental accounting estimates or treatments have we considered the need to obtain professional advice to support the accounting treatments chosen?

Have we considered our financial reporting responsibilities as detailed in ASIC Information Sheet 183 Directors and financial reporting?

Have we considered our responsibilities in ensuring the quality of the external audit of the financial report as detailed in ASIC Information Sheet 196 Audit quality: the role of directors and audit committees?

Have we considered our responsibilities regarding testing of non-financial assets for impairment as detailed in ASIC Information Sheet 203 Impairment of non-financial assets: The role of directors and audit committees?

Relevant KPMG guidance

The Directors’ Toolkit