Illustrative Annual Reports

Adding clarity to the accounting spectrum

Section A –
Foreword and What's new in financial reporting?

Financial years ending on or after 30 June 2008

Technical expertise at your fingertips

At Deloitte, our Assurance & Advisory Services division includes a national team of specialists whose role is to assist clients by providing guidance and advice on Australian and International Accounting Standards, the Corporations Act 2001, and ASIC and ASX releases relating to external reporting. Our accounting technical team identifies, analyses and explains the major developments in financial reporting affecting today's reporting obligations and shaping tomorrow's annual reports.

The Australian accounting technical team is recognised as one of only a handful of Deloitte IFRS Centres of Excellence which provide technical input on accounting interpretations developed by our Global firm. As a Deloitte IFRS Centre of Excellence and a member of the Deloitte Global IFRS Leadership Team, which includes representatives from the United Kingdom, United States of America, France, South Africa, Denmark, Hong Kong and Australia, the Australian team has direct access to the most up-to-date global information regarding accounting developments.

Our culture makes sure that there is extensive interaction with other areas of Deloitte so that a 'whole of firm approach' is delivered to clients through our Integrated Services Offering. This means the use of specialists as part of the audit team delivering value above and beyond audit assurance. It also brings together fresh thinking and a flexible approach to everything we do.

The team is committed to the continual improvement of your financial reporting knowledge through timely communications advising of developments in financial reporting, and the issue of thought leadership publications.

Take advantage of the technical expertise Deloitte can offer.

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Foreword to the Illustrative Annual Reports

"More important than the quest for certainty is the quest for clarity"

Francois Gautier

This publication will provide you with a key tool to assist you in meeting your financial reporting obligations, particularly the preparation of the annual financial statements. Our objective in this publication is to add clarity on the practical application of the multitude of disclosure requirements contained within current accounting standards. Furthermore, in addition to providing illustrative disclosures we also provide commentary on the application of the pronouncements to assist you in the efficient preparation of a value added report.

This publication illustrates the amendments to s300A of the Corporations Act 2001 relating to remuneration reports, and in Section A 'What's new in financial reporting?' discusses changes to the ASX corporate governance principles and recommendations as released during August 2007.

Significant changes in financial reporting that you may be facing for the first time are the application of AASB 7 'Financial Instruments: Disclosures', AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments', Interpretation 10 'Interim Financial Reporting and Impairment' and Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'. The impact of adopting AASB 7 may be especially significant depending on an entity's use and exposure to financial instruments and entities should not underestimate the potential impact of this disclosure standard. We have included illustrative disclosures for all of these.

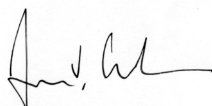
We have also included illustrative disclosures relating to the early adoption of AASB 8 'Segment Reporting' reflecting revised segment reporting disclosures based on reporting financial information on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

In addition to these changes there are further changes afoot with revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' released by the International Accounting Standards Board in January 2008 with their Australian equivalents approved for for-profit entities by the Australian Accounting Standards Board in March 2008. These revised standards include significant change, including the expensing of transaction costs and a greater emphasis on the use of fair value when accounting for business combinations. We have included commentary on these and other changes in this publication's section A 'What's new in financial reporting?'.

We also encourage you to make use of our published resources compiled by our accounting technical team both here in Australia and globally through use of our Deloitte websites at www.deloitte.com.au and www.iasplus.com. These sites will keep you informed of the latest developments on a timely basis.

I hope that you find this publication useful.

So, sharpen your pencils and let's get started!



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Illustrative annual reports

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What's new in financial reporting?

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Changes in reporting requirements arising from Accounting Standards and Interpretations

Significant changes in Australian reporting requirements affecting financial reporting periods beginning on or after 1 July 2007 include the following:

New Standards applicable to reporting periods beginning 1 January 2007

AASB 101 'Presentation of Financial Statements'

A revised version of AASB 101 was issued in October 2006 and applies to annual reporting periods beginning on or after 1 January 2007. The revised Standard includes text from IAS 1 'Presentation of Financial Statements' that was not contained in the previous version of AASB 101, and has fewer additional Australian disclosure requirements.

Significant changes to the Standard include the:

(a) removal of the Australian illustrative financial statement formats;
(b) removal of the majority of the Australian implementation guidance;
(c) removal of the requirement to disclose the reason and justification for not using the Australian currency as the presentation currency;
(d) removal of the requirement to disclose the length of the operating cycle where assets and liabilities are presented in a current/non-current format and there is an identifiable operating cycle that is greater than 12 months;
(e) removal of the explicit requirement to disclose retained earnings attributable to the parent on the face of the balance sheet; and
(f) removal of the requirement to disclose the name of the entity on which there is an economic dependency and the nature of that economic dependency.

AASB 7 'Financial Instruments: Disclosures'

AASB 7 was issued in August 2005 and applies to annual reporting periods beginning on or after 1 January 2007. It replaces AASB 130 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements specified by AASB 132 'Financial Instruments: Disclosure and Presentation'. It also results in consequential amendments to a number of other AASB standards (refer AASB 2005-10 below).

AASB 7 seeks to improve the information on financial instruments provided in an entity's financial report. It achieves this by requiring disclosure of both the significance of financial instruments to an entity's financial position and performance and the nature, extent and management of the resulting risk inherent in that exposure.

AASB 7 requires more substantial risk-related disclosures to be made than previously. Both qualitative and quantitative risk-related disclosures are required, including minimum disclosures relating to credit, liquidity and market risk. Qualitative disclosures include a description of management's objectives, policies and processes for managing those risks while the quantitative disclosures relate to the extent to which the entity is exposed to risk.

AASB 7 is significantly broader in scope than both AASB 130 and AASB 132, applying to all types of financial instruments of all types of entities (with some specified exceptions e.g. financial instruments relating to subsidiaries, employee benefits, and share-based payments) and requires more extensive disclosures. Significantly it does not contain the parent entity disclosure relief previously contained in AASB 130 and AASB 132. However, AASB 7 does not replicate the presentation requirements for banks and other financial institutions contained in AASB 130.

Significant changes from existing requirements

A number of the disclosures required by AASB 7 have been taken directly from AASB 132 and AASB 130 with minor wording changes, however, there are a number of significant additional disclosures that are introduced by the Standard, namely:

(a) disclosures in respect of loans and receivables and financial liabilities classified as 'at fair value through profit or loss';
(b) reconciliations of impairment allowances where the allowance is not netted off against the financial asset;
(c) disclosure of ineffectiveness recognised in profit or loss in respect of cash flow hedges and hedges of net investments in foreign operations;
(d) disclosure of all adjustments arising from fair value hedges;
(e) disclosure of the carrying amount and net gain or loss recognised for each class of financial asset;
(f) disclosure of details of sensitivity analyses for each type of market risk;
(g) disclosure of undiscounted liquidity analysis for all financial liabilities;
(h) presentation of quantitative information based on the information reported internally to key management personnel; and
(i) removal of the disclosure exemption granted to parent entities where their separate financial statements are contained in the same financial report as the consolidated financial statements.

Disclosures in respect of loans and receivables and financial liabilities classified as 'at fair value through profit or loss'

Concerns raised by various regulators about the potential misuse of the fair value option in AASB 139 'Financial Instruments: Recognition and Measurement' indicated the need for more relevant disclosure where instruments are designated into this category. AASB 7 requires additional disclosure around the fair values.

Where a financial liability is classified as fair value through profit or loss increased disclosure is required to identify changes in the fair value of that financial liability that arose during the period and cumulatively since initial recognition of the liability. In addition to this disclosure, an entity is required to disclose the component of the fair value change that is not attributable to changes in market conditions that give rise to market risk. AASB 132 required disclosure of changes not attributable to changes in the benchmark interest rate. The appendix to AASB 7 provides detailed guidance on how to calculate the amount that now needs to be disclosed.

Reconciliations of impairment provisions where it is not netted off against the financial asset

When financial assets are impaired by credit losses and the entity uses an allowance account rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Disclosure of ineffectiveness recognised in profit or loss in respect of cash flow hedges and hedges of net investments in foreign operations

An entity shall disclose the ineffectiveness recognised in profit or loss that arises from cash flow hedges and from hedges of net investments in foreign operations.

Disclosure of all adjustments arising from fair value hedges

An entity should disclose the period movements in fair value of the hedging instrument as well as the adjustment in the period to the hedged item attributable to the hedged risk.

Carrying amount and net gain or loss recognised for each category of financial asset and financial liability

This disclosure is required for each category of financial asset and financial liability.

Details of sensitivity analysis for each type of market risk

AASB 7 provides a number of mandatory disclosures that are required to assist users identify and quantify the exposures of financial instruments to market risks.

Entities are required to disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing:

(a) how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

AASB 7 also includes a number of other requirements to enable a user to understand the exposure to market risks that are included in financial instruments.

Undiscounted liquidity analysis for all financial liabilities

Entities are required to disclose a maturity analysis showing the contractual maturity of financial liabilities in time bands that are appropriate to the entity. The amounts disclosed in that analysis will differ from the amounts included in the balance sheet as the balance sheet amounts are based on discounted cash flows or at fair value.

Present quantitative information based on the information reported internally to key management personnel

AASB 7 requires an entity to report information to external users based on the type of information reported internally to key management personnel.

Removal of the disclosure exemption granted to parent entities where their separate financial statements are contained in the same financial report as the consolidated financial statements

AASB 132 states that 'If a financial report contains both the separate financial statements of the parent and the consolidated financial statements of an entity the disclosures required by paragraphs 51-93, Aus94.1, and 94 and 95 need be presented only for the consolidated financial statements.'. A similar exemption has not been included in AASB 7 and, therefore, all entities, even those that previously took this exemption under AASB 132, will be required to comply with AASB 7 in the separate financial statements of the parent, including comparative information.

AASB 2005-10 'Amendments to Australian Accounting Standards' – consequential amendments due to AASB 7

As noted above, the release of AASB 7 resulted in a number of consequential amendments required to other AASB standards. AASB 2005-10 was issued in September 2005 and applies to annual reporting periods beginning on or after 1 January 2007.

AASB 2005-10 amends the following accounting standards:

- AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards';
- AASB 4 'Insurance Contracts';
- AASB 101 'Presentation of Financial Statements';
- AASB 114 'Segment Reporting';
- AASB 117 'Leases';
- AASB 132 'Financial Instruments: Disclosure and Presentation';
- AASB 133 'Earnings per Share';
- AASB 139 'Financial Instruments: Recognition and Measurement';
- AASB 1023 'General Insurance Contracts'; and
- AASB 1038 'Life Insurance Contracts'.

A number of the amendments are editorial to update references in the various accounting standards to refer to AASB 7. The key amendments to the accounting standards include:

(a) AASB 132 – the title of AASB 132 is amended to AASB 132 'Financial Instruments: Presentation' and various paragraphs in the standard and the accompanying appendix have been amended or deleted in keeping with the transfer of all disclosure requirements to AASB 7;

(b) AASB 101 – new requirements have been added to AASB 101 to require for-profit reporting entities to disclose information about its capital management, namely:
   i. the entity's objectives, policies and processes for managing capital;
   ii. quantitative data about what the entity regards as capital;
   iii. any changes in i. and ii. from the previous period; and
   iv. whether the entity has complied with any externally imposed capital requirements and if it has not complied, the consequences of such non-compliance;

(c) AASB 4, AASB 1023, AASB 1038 – further disclosures about the nature and extent of risks arising from insurance contracts are required.

Revised Implementation Guidance on implementing IFRS 4 'Insurance Contracts'

The Revised Implementation Guidance on IFRS 4 contains consequential amendments resulting from the issue of other pronouncements, most notably IFRS 7 'Financial Instruments: Disclosures'. The guidance is applicable for annual reporting periods beginning on or after 1 January 2007.

New Standards applicable to reporting periods beginning 1 July 2007

AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments', AASB 2007-7 'Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]' and Erratum: Proportionate Consolidation [AASB 101, AASB 107, AASB 121, AASB 127, Interpretation 113]

AASB 2007-4, AASB 2007-7 and Erratum: Proportionate Consolidation were issued in mid-2007 and are applicable to annual reporting periods beginning on or after 1 July 2007. The Amending Standards result in amendments to several AASB Accounting Standards (refer to the table below).

The issue of the abovementioned Standards is part of the AASB's agenda to make Australian accounting requirements for for-profit entities the same as IFRS. To this end, the Standard reinstates various accounting policy options that were previously deleted in making the existing suite of A-IFRS, and removes Australian-specific disclosures that are not considered to be particularly relevant in the Australian reporting environment.

AASB 2007-4 makes it clear that the adoption of a new accounting policy as a result of its amendments must be made as a voluntary change in accounting policy under AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'. AASB 108 only permits a voluntary change in accounting policy if the change results in the financial report providing reliable and more relevant information on the entity's financial position, performance and cash flows.

New definitions and requirements surrounding financial statements introduced by AASB 2007-4

A new definition of 'separate financial statements'

The definition of 'separate financial statements' has been amended in various Standards to include a reference to an investor in an associate or a venturer in a jointly controlled entity. Whilst this may appear to be an innocuous change, it can have significant impacts on the financial reports of certain entities.

Different types of financial statements:

The AASB originally decided to amend the definition of 'separate financial statements' to address a concern that under the IFRS definition, single entities without a parent or subsidiary could elect to only prepare 'separate financial statements' and thereby avoid equity accounting their interests in associates and joint ventures. There are now many 'types' of financial statements referred to under A-IFRS as amended by AASB 2007-4, including the following:

- 'separate financial statements', in which interests in subsidiaries, associates and jointly controlled entities are accounted for using the cost method or in accordance with AASB 139;
- 'financial statements in which investments are accounted for using the equity method';
- 'financial statements in which venturer's interests in joint ventures are proportionately consolidated';
- 'consolidated financial statements'; and
- financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a joint venture.

There remains some uncertainty as to how the requirements of the Corporations Act 2001 should inter-relate with the various types of 'financial statements' outlined above. The Act refers to 'financial statements' (and 'consolidated financial statements, where required by Accounting Standards'), without explicitly specifying which type of 'financial statements' should be prepared. One interpretation of IFRS would suggest that financial statements should be prepared at the 'highest level', where entities with investments in associates or jointly controlled entities should prepare financial statements that include equity accounted information, or proportionately consolidated information, as the case may be. If divergent practice develops in relation to this matter, the AASB or Treasury may need to consider providing additional guidance.

Exemptions from the preparation of consolidated financial statements

The exemptions from the preparation of consolidated financial statements in AASB 127 'Consolidated and Separate Financial Statements' have been amended by AASB 2007-4 to be based on the equivalent IFRS requirements. Parent entities that are reporting entities and satisfy all of the following requirements will therefore be exempt from preparing consolidated financial statements:

- the entity is a wholly-owned subsidiary, or a partially-owned subsidiary (where the owners of the minority do not object to consolidated financial statements not being prepared);
- the entity's debt or equity instruments are not traded in a public market;
- the entity has not filed, nor is it in the process of filing, its financial reports with a securities commission or other regulatory organisation for the purposes of issuing securities in a public market; and
- the ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with IFRS.

Consequential amendments have been made to AASB 128 'Investments in Associates' and AASB 131 'Interests in Joint Ventures', permitting an equivalent exemption from equity accounting or proportionate consolidation where an entity qualifies for the new exemption in AASB 127. However, ultimate Australian parent entities will still be required to prepare consolidated financial statements (or equity accounted or proportionately consolidated financial statements where applicable) if either the parent or the group (or both) are reporting entities, even if the above requirements are met. However, if the AASB's tentative proposals regarding the elimination of the 'reporting entity' concept are enacted as part of the introduction of an Australian Small and Medium Entities (SME) Standard, this exemption may become very relevant, particularly in corporate groups.

For more information on this topic, refer to Accounting alert 2007/07 as on www.deloitte.com.au.

A summary of the other significant changes from AASB 2007-4, AASB 2007-7 and Erratum: Proportionate Consolidation is included below:

Topic	Amendment
Proportionate consolidation for jointly controlled entities	The concept of 'proportionate consolidation' of interests in jointly controlled entities is introduced for the first time in the Australian context by AASB 2007-4. Entities that are venturers in jointly controlled entities can now choose to account for their interests using either proportionate consolidation or equity accounting as an accounting policy choice. Proportionate consolidation results in an entity taking up its share of the jointly controlled entity's assets, liabilities, income and expenses. The procedures required are not dissimilar to normal consolidation procedures, although no minority interest in the jointly controlled entity is shown. Accordingly, fair value adjustments, intangibles and goodwill would need to be presented where relevant. Exposure Draft 157 has been issued, that adopts a 'substance over form' approach to the accounting for joint venture arrangements. This Exposure Draft proposes that a party must recognise an interest in a joint venture using the equity method, and that proportionate consolidation would not be permitted. The comment period on the Exposure Draft closed in November 2007, and at the date of this publication going to print no further information on the implementation of the suggested changes has been published
Government grant accounting	AASB 2007-4 introduces a number of new options into AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance'. The key options apply to for-profit entities only and are as follows: • government grants in the form of a transfer of a non-monetary asset can be recognised at a nominal amount (or at fair value as was previously required); • government grants related to assets can be presented as a deduction from the carrying amount of the related asset (or set up as 'deferred income' as was previously required); and • government grants received and recognised in the income statement can be deducted in reporting the related expense (or recognised as a credit as was previously required). Consequential amendments have been made to a number of other Standards, such as AASB 112 'Income Taxes', where the deferred tax consequences of the new options are now addressed. Care needs to be taken if changing accounting policies in this area, particularly in relation to the following: • the interaction with any deemed cost and other AASB 1 elections made in relation to affected assets on transition to A-IFRS; • the retrospective adjustment of depreciation expense, revenues, inventory costing and other affected line items in the financials statements; and • the impact on key ratios and performance measures

Topic	Amendment
Cash flow statements	AASB 2007-4 amends AASB 107 'Cash Flow Statements' to permit an entity to present its cash flow statement using the 'indirect method'. When using this method, the reconciliation between operating profit and cash flows from operations is effectively presented in the operating cash flow section of the cash flow statement

Scope, application and definitional changes

Topic	Amendment
AASB 114.16	Inclusion of proportionately consolidated amounts in the definitions of 'segment revenue', 'segment expense', 'segment asset' and 'segment liabilities' (whilst the amendments to these definitions do not impact the disclosure requirements of AASB 114 in themselves, the inclusion of proportionately consolidated information in the amounts disclosed will alter the segment disclosures made and in some cases may alter the identification of reportable segments)
AASB 121.3(b)	Application of AASB 121 In translating the results and financial position of foreign operations that are included in the financial report of the entity by consolidation, proportionate consolidation or the equity method
AASB 128.Aus14.1	This paragraph has been deleted, meaning that entities that qualify for the exemption from equity accounting in AASB 128.13 are no longer automatically required to measure their investments in relevant subsidiaries at cost or in accordance with AASB 139
AASB 131.77	Newly introduced definition of 'proportionate consolidation'
Interpretation 113.4	This Interpretation deals with the venturer's accounting for non-monetary contributions to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity that is accounted for using either the equity method or proportionate consolidation

Accounting policy options introduced

Accounting Standards have been changed to permit the following accounting policy options:

Topic	Amendment
AASB 107.19	Presentation of cash flow statement using the 'indirect method'
AASB 107.34	Allow dividends paid to be classified as an operating cash flow
AASB 120.23	Allow government grants in the form of transfers of non-monetary assets to be recognised at nominal amount
AASB 120.24	Allow government grants related to assets to be presented as a deduction from the carrying amount of the asset
AASB 120.29	Allow government grants related to income to be deducted in reporting the related expense
AASB 131.30	Allow interests in jointly controlled entities to be recognised using proportionate consolidation

Australian-specific disclosures removed

The following Australian-specific disclosures have been eliminated following the release of AASB 2007-4, AASB 2007-7 and Erratum: Proportionate Consolidation. However, in many instances the deleted Australian-specific disclosures have been replaced with their IFRS equivalents, requiring similar, albeit not identical, disclosures to be made.

Topic	Requirement
Accounting policies	
AASB 134.Aus27.1-2	Financial effect and nature of a change in accounting policy made in the final interim period in the annual financial report
Associates	
AASB 131.Aus37.1	Details of significant associates (name, principle activities, ownership interest, etc.) Investor's share of associate's profit and loss before income tax and income tax expense Details of impairment losses and reversals related to associates Details of the investor's share of associates' capital commitments and other expenditure commitments
Defined benefit plans	
AASB 119.Aus121.1	Surplus or deficit measured in accordance with AAS 25 'Financial Reporting by Superannuation Funds' Current contribution recommendations Details of funding method Economic assumptions used to make funding recommendations
AASB 119.Aus121.2	Details of the nature of any recognised asset or liability, including any legal liability to make up a deficit or the manner in which the employer may benefit from the surplus

Topic	Requirement
Earnings per share	
AASB 133.Aus63.1-5	Additional earnings per share calculation in the event of a major capital restructuring
AASB 133.Aus70.1	Number of converted, lapsed or cancelled ordinary shares included in the calculation of diluted earnings per share
Income taxes	
AASB 112.Aus80.1	Reasons why the presentation of exchanges differences on deferred foreign tax liabilities or assets as deferred tax expense (income) is considered to be the most useful to financial report users
Insurance Contracts	
AASB 4 Implementation Guidance	The Implementation Guidance accompanying AASB 4 'Insurance Contracts' has been eliminated, and was subsequently replaced by the AASB on publication of revised guidance by the IASB
Interim financial reporting	
AASB 134.Aus16.1	Financial effect of material subsequent events
AASB 134.Aus16.2	Dividends recognised as distributions and dividends proposed or declared but not recognised as a distribution at reporting date
AASB 134.Aus16.2(b)	Cumulative preference share dividends not recognised
AASB 134.Aus16.3	Explicit statement that the interim financial report should be read in conjunction with the most recent annual financial report
AASB 134.Aus16.4	Clear labeling of condensed financial statements and the absence of notes that would normally be included in an annual financial report
AASB 134.Aus18.1	Requirement to present additional voluntary disclosures in a manner consistent with applicable Accounting Standards
Joint ventures	
AASB 131.Aus57.1	Details about jointly controlled operations and jointly controlled assets (name, principal activity, percentage interest in output, aggregate amount employed in ventures by asset category)
AASB 131.Aus57. 2	Fair value of jointly controlled entities where a published price quotation exists Summarised financial information, including aggregates of current assets, long-term assets, current liabilities and long-term liabilities Reporting date or reporting period, where different to the venturer's, and the reason for the difference Nature and extent of restrictions on the ability of jointly controlled entities to transfer funds to the venturer or repay loans and advances Unrecognised share of losses Statement that venturer is not applying equity accounting as permitted by the exemptions Summarised financial information of jointly controlled entities not accounted for using the equity method
AASB 131.Aus57.3	Details about jointly controlled entities (name, principal activities, country of incorporation or residence, ownership interest, voting power, interest in the venturer etc.) Venturer's share of jointly controlled entities' profit and loss before income tax and income tax expense Details of impairment losses and reversals related to jointly controlled entities Venturer's share of jointly controlled entities' non-capital expenditure commitments
AASB 131.Aus57.4	Venturer's share of jointly controlled entities' profit and loss Carrying amount of interests in jointly controlled entities Venturer's share of discontinued operations of jointly controlled entities
AASB 131.Aus57.5	Venturer's share of changes recognised directly in equity of its jointly controlled entities
Presentation currency	
AASB 121.Aus53.1	Reason and justification for not using Australian dollars as the presentation currency

Topic	Requirement
Subsidiaries	
AASB 127.Aus40.1	Identity of the parent within the group Identity of the ultimate Australian parent Identity of the ultimate parent Reasons why control exists where the parent does not hold, directly or indirectly, more than half the voting power
AASB 127.Aus42.1	Details about significant subsidiaries where a group of entities does not prepare separate financial statements for the parent (note: this disclosure will be retained for not-for-profit public sector entities)

New and amended disclosures

Topic	Requirement
AASB 101.110	AASB 108 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Australian Accounting Standard require otherwise. AASB 108 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Australian Accounting Standard requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting, from changes in accounting policies and separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period
AASB 107.Aus20.1	When an entity uses the direct method, a reconciliation of cash flows arising from operating activities to profit or loss shall be disclosed in the financial report
AASB 107.Aus20.2	Notwithstanding paragraph Aus20.1, not for profit entities that use the direct method and that highlight the net cost of services in their income statement for the reporting period shall disclose in the financial report a reconciliation of cash flows arising from operating activities to net cost of services as reported in the income statement
AASB 107.38	An entity which reports its interest in a jointly controlled entity (see AASB 131 'Interests in Joint Ventures') using proportionate consolidation, includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its cash flow statement the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity
AASB 107.50(b)	The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation (this disclosure is encouraged but is not mandatory)
AASB 112.81(c)	An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed
AASB 121.33	When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (i.e. financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method)

Topic	Requirement
AASB 121.44	Paragraphs 45-47, in addition to paragraphs 38-43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation or the equity method
AASB 127.41	When separate financial statements are prepared for a parent that, in accordance with paragraphs 10 and Aus10.1 elects not to prepare consolidated financial statements, those separate financial statements shall disclose: (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable; (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and (c) a description of the method used to account for the investments listed under (b)
AASB 127.42	When a parent (other than a parent covered by paragraph 41), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose: (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law; (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and (c) a description of the method used to account for the investments listed under (b); and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard, AASB 128 and AASB 131 to which they relate
AASB 127.Aus42.1	In respect of not-for-profit public sector entities, where a group of entities is a reporting entity, but separate financial statements for the parent are not prepared, the notes to the consolidated financial statements shall disclose a list of significant subsidiaries, including: (a) the name; (b) country of incorporation or residence (where other than Australia); and (c) proportion of ownership interest and, if different, proportion of voting power held. (This is an amended requirement which is now only applicable to not-for-profit entities).
AASB 131.56	A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long term assets, current liabilities, long term liabilities, income and expenses related to its interests in joint ventures
AASB 131.57	A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities
Interpretation 113.7	Unrealised gains or losses on non-monetary assets contributed to jointly controlled entities shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer’s consolidated balance sheet

New Standards applicable to reporting periods beginning 1 July 2008

AASB 1049 'Financial Reporting of General Government Sectors by Governments'

AASB 1049 was issued in September 2006 and applies to annual reporting periods beginning on or after 1 July 2008. The Standard applies to the Australian Government and to each State and Territory Government.

AASB 1049 requires a government to prepare a financial report for its general government sectors ('GGS') in accordance with the requirements of the Standard. The GGS financial report is prepared in addition to the government's whole of government financial report. AASB 1049 amends certain requirements of other Accounting Standards for the purposes of preparing a GGS financial report; the significant differences between this Standard and other Accounting Standards include the specification of the entities to be consolidated, the accounting for investments in controlled entities in other sectors that are not consolidated, and the presentation of the GGS financial statements and notes thereto.

For further information about this Standard, please contact your nearest Deloitte Touche Tohmatsu office.

New Standards applicable to reporting periods beginning 1 January 2009

AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'

AASB 8 'Operating Segments' supersedes AASB 114 'Segment Reporting' effective for periods beginning on or after 1 January 2009, with early adoption permitted. The Standard applies to entities whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, financial statements with a securities commission or other regulatory organisation for the purposes of issuing instruments in a public market – accordingly, fewer Australian entities will be required to present segment information on adoption of the Standard.

AASB 8 was issued together with AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8', which specifies consequential amendments to other Australian Accounting Standards arising from adoption of AASB 8. Most of these amendments are editorial in nature, with the exception of amendments to AASB 134 'Interim Financial Reporting' and AASB 136 'Impairment of Assets'.

AASB 2007-3 is similarly effective for reporting periods beginning on or after 1 January 2009. However, if an entity chooses to apply AASB 8 for an earlier period, AASB 2007-3 shall also be applied for that earlier period (i.e. the consequential amendments to other Australian Accounting Standards must similarly be early adopted).

AASB 8 and AASB 2007-3 will potentially impact both the identification of segments and the measurement and disclosure of segment information.

Identification of segments

Upon adoption of AASB 8, the identification of an entity's segments may or may not change, depending on how the entity applied AASB 114 in the past. AASB 8 requires operating segments to be identified on the basis of internal reports on components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. AASB 114 required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. One set of segments was regarded as primary and the other as secondary. If under AASB 114 an entity identified its primary segments on the basis of the reports provided to the person whom AASB 8 regards as the chief operating decision maker, those might become the 'operating segments' for the purposes of AASB 8.

AASB 8 states that a component of an entity that sells primarily or exclusively to other operating segments of the entity will meet the definition of an operating segment if the entity is managed that way. AASB 114 limited reportable segments to those that earn a majority of their revenue from sales to external parties and did not require the different stages of a vertically-integrated entity to be identified as separate segments.

Additionally, amendments to AASB 136 resulting from AASB 2007-3 require that when allocating goodwill to cash-generating units for the purposes of impairment testing, each unit or group of units to which goodwill is allocated shall not be larger than an operating segment determined in accordance with AASB 8.

Measurement of segment information

AASB 8 requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance. AASB 114 required segment information to be prepared in conformity with the accounting policies adopted for the preparation and presentation of the consolidated financial report.

In contrast to AASB 114, AASB 8 does not define segment revenue, segment expense, segment result, segment assets or segment liabilities, but does require an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each operating segment. As a consequence, entities will have more discretion in determining what is included in segment profit or loss under AASB 8, limited only by their internal reporting practices. However, a reconciliation to accounting profit is required.

<u>Disclosures</u>

New disclosures include information on how the entity identifies its operating segments and the types of products and services from which each segment derives its revenues. Interest revenue and interest expense must be reported separately for each reportable segment, if the amounts are included in the measure of segment profit or loss, or are otherwise regularly reported to the chief operating decision maker, unless the majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue when making resource allocation decisions and to assess segment performance.

Additionally, amendments to AASB 134 arising from AASB 2007-3 will result in greater disclosure of segment information in the interim financial report.

Illustrative examples

We have illustrated the early adoption of AASB 8 and AASB 2007-3 with effect from 1 July 2007 in the illustrative annual report presented in Section B.

AASB 2008-1 'Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations'

The amending Standard will be applicable to annual reporting periods beginning on or after 1 January 2009 and:

- clarifies that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;
- restricts the definition of vesting conditions to include only service conditions and performance conditions;
- amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets; and
- specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

AASB 101 'Presentation of Financial Statements' (revised September 2007) and AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'

The AASB issued a revised AASB 101 during September 2007, along with AASB 2007-8 which specifies consequential amendments to various accounting standards arising from AASB 101, including changes to AASB 134 'Interim Financial Reporting'. The Standards apply to reporting periods beginning on or after 1 January 2009. Earlier application of the Standards is permitted, however, AASB 2007-8 must be similarly early adopted where AASB 101 is early adopted by an entity.

The main changes from the October 2006 revision of AASB 101 include requirements to:

- present all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity;
- present an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement (this would mean that three balance sheets are presented in these circumstances);
- disclose income tax relating to each component of other comprehensive income; and
- disclose reclassification adjustments relating to components of other comprehensive income.

Additionally, AASB 101 amends the titles of financial statements as follows:

- 'balance sheet' will become 'statement of financial position';
- 'income statement' will become part of the 'statement of comprehensive income', unless a separate income statement is presented; and
- 'cash flow statement' will become 'statement of cash flows'.

Although these new titles will be used in all future accounting standards, they are not mandatory for use in financial statements.

AASB 123 'Borrowing Costs' (revised June 2007) and AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]'

During June 2007 the AASB issued a revised AASB 123 along with AASB 2007-6, which specifies consequential amendments to a number of accounting standards resulting from the issue of AASB 123. The Standards are effective for annual reporting periods beginning on or after 1 January 2009, and may be simultaneously early adopted. AASB 123 contains specific transitional provisions that permit an entity to retrospectively apply its requirements from any date prior to or on initial application of the Standard.

The main departure from the previous version of AASB 123 is the elimination of the choice to expense borrowing costs that relate to qualifying assets. Consequently revised AASB 123 requires the capitalisation method.

2008-2 Amendments to Australian Accounting Standards Puttable Financial Instruments and Obligations Arising on Liquidation

During March 2008, the AASB published a series of amendments to AASB 132 and AASB 101, which are effective for annual reporting periods beginning on or after 1 January 2009. The amendments are relevant to entities that have issued financial instruments that are (i) puttable financial instruments, or (ii) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation. Under the revised IAS 32, subject to specified criteria being met, these instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities.

The AASB considers that some puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of net assets of the entity only on liquidation are equity. The amendments deal with these two types of instruments separately and set out extensive detailed criteria that need to be met in order to present the instrument as equity. The impact of the amendments is restricted to the specific cases cited – no analogies can be made to these requirements.

New Australian Interpretations applicable to reporting periods beginning 1 November 2006

Interpretation 10 'Interim Financial Reporting and Impairment'

AASB 136 'Impairment of Assets' and AASB 139 'Financial Instruments: Recognition and Measurement' prohibit the reversal of impairment losses recognised in relation to goodwill and certain financial assets. Interpretation 10 clarifies whether impairment losses recognised in the interim period in relation to such assets should be reversed where a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent balance sheet date. The Interpretation concludes that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost shall not be reversed.

The consensus decision shall not be extended by analogy to other areas of potential conflict between AASB 134 'Interim Financial Reporting' and other standards.

The Interpretation shall be applied to goodwill prospectively from the date at which an entity first applied AASB 136, and to investments in equity instruments or in financial assets carried at cost prospectively from the date at which an entity first applied the measurement criteria of AASB 139.

The Interpretation is effective for annual reporting periods beginning on or after 1 November 2006.

New Australian Interpretations applicable to reporting periods beginning 1 March 2007

Interpretation 11 'AASB 2 – Group and Treasury Share Transactions' and AASB 2007-1 'Amendments to Australian Accounting Standards Arising from Interpretation 11'

Interpretation 11 addresses whether various transactions should be treated as equity-settled or cash-settled in accordance with the requirements of AASB 2 'Share-based Payment'. The Interpretation clarifies that:

(a) share-based payment arrangements in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled, regardless of how the share-based arrangement is settled and whether the rights to the equity instruments are granted by the entity or by its shareholders;

(b) where a subsidiary grants rights to equity instruments of its parent to its employees and the subsidiary has the obligation to provide its employees with the equity instruments, the subsidiary should treat this arrangement as a cash-settled share-based payment transaction, regardless of how the equity instruments are obtained; and

(c) where a parent grants rights to its equity instruments to employees of its subsidiary and the parent has the obligation to deliver the equity instruments, provided that the arrangement is treated as equity-settled in the consolidated financial statements, the subsidiary shall measure services received from its employees based on the transaction being accounted for as equity-settled, and should recognise a capital contribution in equity.

The Interpretation further clarifies that when the type of share-based payment arrangement described in paragraph (c) above is structured such that an employee is able to transfer between group companies without any change to the non-market vesting conditions of the original share-based payment transaction, and without his or her right to equity instruments being affected, the change in employment from one group entity to another does not represent a new grant of equity instruments (nor a failure to meet a non-market vesting condition) because the equity instruments were granted by the parent rather than the subsidiary company.

Each subsidiary is to measure the services received from the employee based on the original grant date fair value of the equity instrument and the proportion of the vesting period served by the employee with the subsidiary. If an employee fails to satisfy the non-market vesting conditions, in accordance with AASB 2, each subsidiary will adjust the amount previously recognised such that, on a cumulative basis, no amount is recognised for the services of that employee in any subsidiary.

AASB 2007-1 was issued simultaneously and makes consequential amendments to AASB 2 'Share-based Payment' relating to this Interpretation. Both Interpretation 11 and AASB 2007-1 are effective for annual reporting periods beginning on or after 1 March 2007.

New Australian Interpretations applicable to reporting periods beginning 1 January 2008

Interpretation 12 'Service Concession Arrangements' and AASB 2007-3 'Amendments to Australian Accounting Standards Arising from Interpretation 12'

Service concessions are arrangements whereby a government or other public sector entity ('the grantor') grants contracts for the supply of public services (e.g. roads) to private sector operators. The Interpretation addresses the accounting by service concession operators in instances where the grantor controls the use of the infrastructure and any significant residual interest in the infrastructure at the end of the term of the arrangement. 'Whole of life' type arrangements are also scoped into the Interpretation.

The Interpretation clarifies that, for arrangements within its scope, the infrastructure assets received or constructed by operators are not property, plant and equipment of the operator. However, certain assets may have been provided to the operator by the grantor as a form of consideration of their services – these should be recognised as assets of the operator.

Revenue and costs relating to the construction or upgrade of the infrastructure assets are recognised in income in accordance with AASB 111 'Construction Contracts'. During this phase, depending on the terms of the arrangement, the resulting asset is recognised by the operator as either:

(a) a financial asset (where the operator is entitled to received a specific amount of cash over the arrangement's life);
(b) an intangible asset (where the operator's future cash flows are contingent); or
(c) both a financial asset and an intangible asset (where the operator's return is provided partially by a financial asset and partially by an intangible asset).

The operator shall recognise revenue and costs relating to operation services in accordance with AASB 118 'Revenue'.

The Interpretation is effective for annual reporting periods beginning on or after 1 January 2008.

Simultaneous to the issue of Interpretation 12, the AASB also reissued Interpretation 4 'Determining whether an Arrangement Contains a Lease' and Interpretation 129 'Service Concession Arrangements: Disclosure' (formerly 'Disclosure – Service Concession Arrangements'). The revised Interpretation 4 excludes from its scope service concession arrangements that fall within the scope of Interpretation 12, while the revised Interpretation 129 requires disclosure about the classification of the service concession arrangement and the amount of revenue and profits or losses recognised during the period on exchanging construction services for a financial asset or intangible asset. Additionally, the revised Interpretations have been amended to use terminology consistent with Interpretation 12.

Simultaneous to Interpretation 12, the AASB released AASB 2007-2, which makes consequential amendments to AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 and AASB 139. These amendments are predominantly editorial in nature (with the exception of some amendments to AASB 1) and are effective for annual reporting periods beginning on or after 1 January 2008 (with certain elements of the Standard applicable to financial reporting periods ending on or after 28 February 2007).

Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. Minimum funding requirements are defined as 'any requirement to fund a post-employment or other long-term defined benefit plan' and would therefore include both statutory and contractual requirements. Three issues are addressed by Interpretation 14. These are:

- when refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of AASB 119 'Employee Benefits';
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

The Interpretation is applicable to annual reporting periods beginning on or after 1 January 2008.

New Australian Interpretations applicable to reporting periods beginning 1 July 2008

Interpretation 13 'Customer Loyalty Programmes'

The Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits' in the Interpretation) as part of a sales transaction. Common examples are airline and hotel loyalty schemes and credit card reward schemes.

The Interpretation requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple element revenue transaction' and allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. This treatment applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them. For arrangements falling within the scope of the Interpretation, the treatment of recognising the full consideration received as revenue, with a separate liability for the cost of supplying the awards, is prohibited.

The Interpretation is applicable to annual reporting periods beginning on or after 1 July 2008.

Interpretation 1003 'Australian Petroleum Resource Rent Tax'

This Australian-specific Interpretation prescribes that Australian Petroleum Resource Rent Tax falls within the scope of Accounting Standard AASB 112 'Income Taxes'.

Pronouncements approved by the IASB/IFRIC where an equivalent pronouncement has not been issued by the AASB

IFRS 3 'Business Combinations (revised)', IAS 27 'Consolidated and Separate Financial Statements (revised)'

These revised standards result from the joint IASB-FASB Business Combinations Phase II project and amend the manner in which business combinations and changes in ownership interests in subsidiaries are accounted for. There are also consequential amendments to other standards, most notably IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'.

These revised Standards are effective for annual reporting periods beginning on or after:

- IFRS 3 – (business combinations occurring after the beginning of annual reporting periods beginning) 1 July 2009
- IAS 27 – (beginning) 1 July 2009.

The revised Standards introduce significant change, including:

- a greater emphasis on the use of fair value;
- introducing further volatility in the income statement – transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations; and
- focusing on changes in control as a significant economic event – introducing requirements to remeasure interests to fair value on gaining or losing control and recognising all transactions between controlling and non-controlling shareholders whilst control is retained, directly in equity.

The following table summarises at a very high level the significant impacts of the revised IFRS 3 and IAS 27.

Area	Overview
Measuring goodwill	More emphasis on fair value, but a free choice in how to measure non-controlling interests (NCIs), allowing NCIs to be measured either including or excluding goodwill.
Previous ownership interests	Previous ownership interests must be measured at fair value at the date that control is obtained.
Contingent consideration	Contingent consideration must be measured at fair value at the time of the business combination.
Acquisition related costs	Must be accounted for separately from the business combination and expensed, unless they relate to debt or equity securities.
Pre-existing relationships	Must be accounted for separately from the business combination and will generally result in the recognition of a gain or loss in the income statement. However, reacquired rights are recognised as an intangible asset.
Replacement share-based payment awards	New rules for determining the amount taken into account in the recognition of goodwill and the amount recognised in post-combination profit and loss.
Intangible assets	Must always be recognised and measured, i.e. there is no 'reliable measurement' out
Changes in ownership interests	Only affects assets, liabilities and income statement where control is obtained or lost. All other transactions are equity transactions.
Other changes	The revised Standards also contain a number of other changes in accounting for business combinations and consolidation.
Transitional requirements	The revised Standards must generally be applied on a prospective basis, with some exceptions.

As at the time of going to print the AASB had approved an Australian equivalent to IFRS 3 and IAS 27 for 'for-profit' entities, however the revised Accounting Standards had not yet been published.

New/Revised Accounting Standards and Interpretations relating to public sector entities

The following Accounting Standards and Interpretations have been issued or revised recently:

- AASB 1004 'Contributions' (revised December 2007), effective for annual reporting periods beginning on or after 1 July 2008;
- AASB 1049 'Whole of Government and General Government Sector Financial Reporting' (revised October 2007), effective for annual reporting periods beginning on or after 1 July 2008;
- AASB 1050 'Administered Items', effective for annual reporting periods beginning on or after 1 July 2008;
- AASB 1051 'Land Under Roads', effective for annual reporting periods beginning on or after 1 July 2008;
- AASB 1052 'Disaggregated Disclosures', effective for annual reporting periods beginning on or after 1 July 2008;
- AASB 2007-9 'Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31', effective for annual reporting periods beginning on or after 1 July 2008; and
- Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities' (revised December 2007), effective for annual reporting periods beginning on or after 1 July 2008.

Visit www.deloitte.com.au for further information on the changes introduced by the above pronouncements.

Corporations Act 2001 developments

Corporations Legislation Amendment (Simpler Regulatory System) Act 2007 and related pronouncements

The Corporations Legislation Amendment (Simpler Regulatory System) Act 2007 (SRS Act) was passed by Parliament on 21 June 2007 and received Royal Assent on 28 June 2007. The proclamation date is 1 September 2007.

The SRS Act implements the Australian Government's response to a number of recommendations made by the Banks Regulation Taskforce in its report 'Rethinking Regulation: Report of the Taskforce on Reducing the Regulatory Burden on Business' (April 2006). It also aims to improve the efficiency of corporate and financial services legislation based on the proposals outlined in the Corporate and Financial Services Regulation Review Proposals Paper (November 2006).

The SRS Act contains provisions amending the Corporations Act 2001 in the following areas:

- company reporting obligations;
- auditor independence;
- financial services regulation;
- corporate governance;
- fundraising;
- takeovers; and
- compliance.

Some of the key changes affecting financial reporting include:

- raising the threshold for a proprietary company to be classified as a large proprietary company to at least two of:
  i. the consolidated revenue for the financial year of the company and the entities it controls (if any) is $25 million or more;
  ii. the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is $12.5 million or more; or
  iii. the company and the entities it controls (if any) have 50 or more employees.

  The amendments to the size thresholds apply to financial years ending on or after 28 June 2007. Consequential amendments to various existing ASIC Class Orders were required on introduction of these amendments and effected via ASIC Class Order 07/505 (discussed further below);
- extending the requirements of s.300A (presentation of a remuneration report) to all disclosing entities which are companies, amending the current disclosure requirements of s.300A, and introducing new s.308(3C), which requires that the auditor express an opinion on the remuneration report's compliance with s.300A. These amendments apply to financial years beginning on or after 28 June 2007.

  Amendments to the current disclosure requirements of s.300A

  The amendments include various changes to the current s.300A disclosure requirements, one of which is a new requirement to disclose the board policy in relation to key management personnel and the top five company and group executives hedging their incentive remuneration's exposure to risk, and how that policy is enforced. Other changes include the extension of the s.300A requirements to the key management personnel of the company (where consolidated financial statements are required, the key management personnel of the consolidated entity) in addition to the top five company executives and the top five group executives, and the removal of the requirement to disclose the aggregate of options (in relation to remuneration) granted, exercised or lapsed during the current financial year.

  In addition to the amendments made by the SRS Act to s.300A, the Treasury has also issued related Corporations Amendment Regulations 2007 (No. 2), which applies to financial years beginning on or after 30 June 2007, and which:
  - amends the disclosures specified by Regulation 2M.3.03 (the prescribed details) of the Corporations Regulations 2001 to be more consistent with the requirements of AASB 124 'Related Party Disclosures' while retaining the additional disclosures already prescribed by the existing legislation; and
  - repeals Regulation 2M.6.04 and Schedule 5B of the Corporations Regulations 2001, which provided relief to certain disclosing entities by removing some of the duplication of director and executive remuneration disclosures through allowing the transfer of specified requirements of AASB 124 into the remuneration report; and
- amending the default option for receiving annual reports to be via an entity's website rather than hard copies. The amendments to the default option apply to a report for a financial year that ends on or after 28 June 2007.

Various other amendments introduced by the SRS Act and related Corporations Amendment Regulations 2007 may also be of interest to entities. Copies of the Act and Corporations Amendment Regulations 2007 are available from the Commonwealth Law website (www.frli.gov.au).

Illustrative examples

The disclosure requirements amended or introduced by the revisions to s.300A and Regulation 2M.3.03 are illustrated in the remuneration report in the illustrative annual report presented in Section B.

ASIC Class Order 07/505 'Variation and revocation of financial reporting instruments'

In July 2007, ASIC issued Class Order 07/505 'Variation and revocation of financial reporting instruments' in order to update various ASIC class orders affected by amendments to the Corporations Act 2001 introduced by the Corporations Legislation Amendment (Simpler Regulatory System) Act 2007. ASIC Class Order 07/505 is effective from 17 July 2007.

Class Order 07/505 amends existing class orders that include a size test consistent with that previously included in the Corporations Act 2001. Thresholds in ASIC class orders CO 98/96 'Synchronisation of financial year' with a foreign parent company, CO 98/98 Small proprietary companies which are controlled by a foreign company but which are not part of a large group and CO 02/1432 Registered foreign companies – financial reporting requirements are updated to refer instead to the new thresholds levels incorporated into the Corporations Act 2001 via the SRS Act (refer page A14).

Transitional relief was also introduced into CO 98/98 to allow new small proprietary entities to qualify under this class order provided they lodge the notice of the directors' resolution with ASIC:

- in relation to a financial year ended between 28 June 2007 and 30 June 2007 (inclusive), within 4 months of the end of the financial year; and
- in relation to a financial year ending between 1 July 2007 and 30 June 2008 (inclusive), by 31 October 2007.

The transitional relief period available to entities has passed.

Note, Class Order 98/98 is further amended by Class Order 07/822 'Variation of Class Order [CO 98/98]' (effective 18 December 2007). Class Order 07/822 amends Class Order 98/98 such that entities that continue to qualify for and apply the relief offered by CO 98/98 are no longer required to annually advise ASIC of their intention to apply the relief after the first Relevant Financial Year. However, ASIC must be advised of any non-reliance on the relief in any immediately subsequent financial year, except where the company lodges a Chapter 2M annual financial report in respect of that financial year.

Class Order 07/505 also revokes existing ASIC class orders CO 05/83 'Timing of auditor's independence declaration' and CO 05/910 'Auditors' independence declaration – exemption' as the relief these class orders provided has been incorporated into the Corporations Act 2001 via the SRS Act.

ASIC Class Order 08/15 'Disclosing entities – half-year reporting relief'

On 18 January 2008, the ASIC issued Class Order 08/15 'Disclosing entities – half-year financial reporting relief'. The Class Order relieves disclosing entities whose first financial year is eight months or less from the requirement to prepare and lodge a half-year financial report and directors' report for that financial year, provided certain conditions are met. ASIC Class Order 08/15 is effective from 26 February 2008.

Under s.323D of the Corporations Act 2001 the first financial year of an entity can be any period of no longer than 18 months from the day the entity is registered, and the first half-year is the first six months of that year. The class order removes the need for ASIC to provide case-by-case relief in respect of short first financial years of disclosing entities where the conditions for relief under the class order are satisfied.

The relief under the class order is available to disclosing entities whose first financial year is eight months or less on condition that:

(a) a listed disclosing entity gives a notice to the market on or before the deadline for lodging the reports explaining the effect of the order and stating that the entity intends to rely on it;

(b) an unlisted disclosing entity gives a notice to the ASIC on or before the deadline for lodging the reports explaining the effect of the order and stating that the entity intends to rely on it; and

(c) the directors' report for the first financial year explains the effect of the order and states that the entity relied on it.

Listed disclosing entities

The class order does not exempt eligible listed disclosing entities from their Australian Stock Exchange listing rule obligations. Listing rule obligations related to half-yearly reports include:

- ASX Listing Rule 4.2A.1, which requires a listed disclosing entity to give the ASX a copy of the half-year financial report required to be lodged with ASIC. The note to Listing Rule 4.2A states that an entity must still give the ASX the half-year report that s.320 of the Corporations Act 2001 requires to be prepared, whether or not the entity has been granted relief from the obligation to lodge half-yearly financial information by ASIC; and
- ASX Listing Rule 4.2A.3, which requires that a listed entity (other than a mining exploration entity) provide the ASX with the information set out in Appendix 4D.

Revised ASX corporate governance principles and recommendations

During August 2007, the ASX Corporate Governance Council released the revised 'Corporate Governance Principles and Recommendations'. In addition, during December 2007 the ASX reissued Guidance Note 9A 'Corporate Governance – ASX Corporate Governance Council – Revised Corporate Governance Principles and Recommendations' to include discussion of the revised Principles. The revised Principles will apply for financial years beginning on or after 1 January 2008 (i.e. for a 30 June balance date company, 30 June 2009), however, an early transition to the revised Principles is encouraged. The new Principles continue the non-prescriptive 'if not, why not' disclosure-based approach to Australian corporate governance.

Structural refinements to the existing principles were limited but include:

- improved alignment and structure of content by reducing the number of Principles from ten to eight and reducing the number of recommendations from 28 to 26;
- removal of the phrase 'best practice' reflecting the principles-based approach and to reinforce that there is no singular best way for corporate governance; and
- removal of as much prescription as possible.

The Principles are:

- Principle 1: Lay solid foundations for management and oversight
  Companies should establish and disclose the respective roles and responsibilities of board and management.
- Principle 2: Structure the board to add value
  Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
- Principle 3: Promote ethical and responsible decision-making
  Companies should actively promote ethical and responsible decision-making.
- Principle 4: Safeguard integrity in financial reporting
  Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.
- Principle 5: Make timely and balanced disclosure
  Companies should promote timely and balanced disclosure of all material matters concerning the company.
- Principle 6: Respect the rights of shareholders
  Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.
- Principle 7: Recognise and manage risk
  Companies should establish a sound system of risk oversight and management and internal control.
- Principle 8: Remunerate fairly and responsibly
  Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Each Principle includes a number of Recommendations, which are accompanied by commentary and guidance. Detailed below are key changes to the principles, in particular to Principle 7.

Principle 7: Recognise and manage risks – key changes

Principle 7 is concerned with establishing a sound framework of risk oversight, risk management and internal control. The revisions to Principle 7 are not about eliminating risk but about how to live with it and use it to the entity's advantage.

Key changes to the Principle include new or revised Recommendations 7.1, 7.2 and 7.3, which provide as follows:

- Recommendation 7.1: The board should require management to design and implement a risk management and internal control system to manage the company's material business risks;
- Recommendation 7.2: The board should require management to design and implement a risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks; and
- Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Group of 100 has published guidance to assist companies to meet their obligations under Principle 7 in 'Principle 7 – Guide to Compliance with ASX Principle 7 – Recognise and Manage Risk' (2003). In addition, the ASX Corporate Governance Council has also issued 'Supplementary Guidance to the Revised Principle 7' to assist companies seeking to develop appropriate risk management (this guidance will be revised in early 2008).

Other Principles – key changes

Independence of directors

The revised Principles have removed the suggestion of a definition of independence. Determination of a directors' independence remains with the Board – having regard to a number of factors. Should a director be regarded as independent, not withstanding their proximity to any particular factor, the disclosure of the reasons why they are considered independent is required.

Trusts and other externally managed entities

It was found that these structures do not fit neatly into the old Principles, particularly with regard to independence and remuneration. The ASX Corporate Governance Council wanted to ensure consistency across all listed entities and to avoid regulatory arbitrage. Modifications have been made to ensure these entities have regard to the spirit of the Principles.

Equity remuneration to executives

There was ambiguity in the application of existing Principle 9.4 regarding disclosure of equity payments made to executives under plans approved by shareholders. This requirement has been removed as it should be dealt with through the Corporations Act 2001 and ASX Listing Rules (consistent where other similar remuneration matters have been dealt with). Nevertheless, appropriate consultation and disclosure with stakeholders should be considered by listed entities where new equity payments are made.

Useful reference websites

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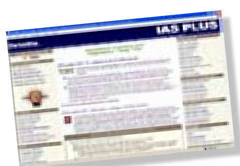

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