TECHNICAL UPDATE

A SUMMARY OF CHANGES TO FINANCIAL REPORTING REQUIREMENTS APPLICABLE FOR YEARS ENDING 30 JUNE 2023

June 2023

Contents

OUTLINE

This Technical Update provides you with an overview of Australian Accounting Standards, Interpretations and IFRIC Agenda decisions issued up to 1 June 2023. It outlines:

- Australian Accounting Standards mandatorily applicable for the first time for years ended 30 June 2023;
- Australian Accounting Standards available for early adoption for years ended 30 June 2023; and
- IFRIC Agenda decisions made during the year.

In addition to ensuring that your Organisation has appropriately applied all the new relevant standards in their financial report, this publication can help you to meet your disclosure obligations under AASB 108 *Accounting Policies, Change in Accounting Estimates and Errors.* Organisations are required to disclose the:

- impact of the initial application of new accounting standards
- potential impact of standards issued but not yet effective

Organisations preparing Tier 2 Simplified Disclosure financial statement do not have to disclose the potential impact of standards issued but not yet effective.

STANDARDS APPLICABLE FOR THE FIRST TIME FOR 30 JUNE 2023 YEAR ENDS

The following IFRSs and amendments are mandatorily applicable for the first time for 30 June 2023 year-ends:

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
AASB 2020-3	**Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments** This Standard amends: a) AASB 1 to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences; b) AASB 3 to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. c) AASB 9 to clarify that an organisation only includes fees paid between itself and the lender in the assessment of whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability and not fees paid to other third parties. d) AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset. e) AASB 137 to specify when an entity is assessing whether a contract is loss-making it must now include both incremental costs and an allocation of overhead costs relating to that contract in making that assessment. f) AASB 141 to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRSs.	**1 January 2022**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	The amendments to AASB 1, AASB 3, AASB 9, AASB 137 and AASB 141 are all to be applied prospectively. The amendment to AASB 116 will be applied retrospectively	
AASB 2022-3	**Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15** This Standard adds Illustrative Example 7A to the examples attached to AASB 15 to clarify the accounting for upfront fees by a not-for-profit entity. The amendments do not change the requirements of AASB 15 and are only relevant to not-for-profit entities.	**1 July 2022**

STANDARDS ISSUED BUT NOT YET EFFECTIVE:

The following standards have been issued by the IASB but are not yet mandatory. They are available for early adoption.

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
AASB 17	**Insurance Contracts** AASB 17 *Insurance Contracts* supersedes AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* and establishes a comprehensive model for accounting for all types of insurance contracts. The scope of AASB 17 includes some contracts that appear to provide fixed fee services. However, organisations may be able to elect to apply AASB 15 *Revenue from Contracts with Customers* to these contracts if specific requirements are met. AASB 17 contains the principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, and performance of the organisation. In addition to the full measurement model, the standard also contains a simplified approach for insurance contracts that are shorter than 12 months from date of issuance. Early adoption is permitted if AASB 9 and AASB 15 have been adopted on or before the initial date of application for AASB 17. AASB 17 contains detailed transition guidance.	**1 January 2023**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
AASB 2022-1	**Amendments to Australian Accounting Standards - Initial Application of AASB 17 and AASB 9 – Comparative Information** This amendment updates AASB 17 and is relevant when an organisation adopts AASB 17 and AASB 9 for the first time on the same date. It adds a transition option referred to as 'a classification overlay' relating to comparative information about financial assets. This is relevant where an organisation has elected not to restate comparative information for AASB 9 transition. Applying this transition option permits organisations to present comparative information about such financial assets as if the classification and measurement requirements of AASB 9 had been applied. This enables insurers to reduce potentially significant accounting mismatches between financial assets and insurance contract liabilities in the comparative period.	**1 January 2023**
AASB 2022-8	**Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments** This amends the application requirements of AASB 17 to defer the mandatory application date for public sector entities until 1 July 2026 and permit the public sector entities to continue to apply AASB 4 and AASB 1023 until that time. This standard also repeals AASB 1038, which will no longer be applicable after the adoption of AASB 17 and is not relevant for public sector entities. (See discussion on AASB 2022-9 below).	**1 January 2023**
AASB 2021-2	**Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates** This amendment makes minor changes to the references to accounting policies, such that disclosures should be of material accounting policies rather than significant accounting policies and further clarifies what an accounting estimate is. Specifically, it amends: a) AASB7, to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements.	**1 January 2023**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	b) AASB 101, to require entities to disclose their material accounting policy information rather than their significant accounting policies. c) AASB 108 to clarify that accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty and also clarifies how entities should distinguish changes in accounting policies and changes in accounting estimates. d) AASB 134, to identify material accounting policy information as a component of a complete set of financial statements rather than significant accounting policies; and e) AASB Practice Statement 2, to provide guidance on how to apply the concept of materiality to accounting policy disclosures. This amendment is to be applied prospectively..	
AASB 2021-5	**Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabilities arising from a Single Transaction** This amendment updates AASB 112 *Income Taxes* to clarify the accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences. The amendments clarify that where organisations recognise both an asset and a liability and that gives rise to equal taxable and deductible temporary differences the related deferred tax assets and deferred tax liabilities must both be recognised. This may arise with transactions such as leases and decommissioning, restoration, and similar obligations. These amendments are to be applied retrospectively to leases and decommissioning liabilities, and prospectively for all other transactions.	**1 January 2023**
AASB 2021-6	**Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards** AASB 2021-6 makes changes in the references from significant accounting policies to material accounting policies in AASB 1049 *Whole of Government and General Government Sector Financial Reporting,* AASB 1054	**1 January 2023**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	Australian Additional Disclosures and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 entities* consistent with AASB 2021-2. This standard is to be applied prospectively.	
AASB 2022-7	**Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards** This standard makes minor editorial amendments to a range of standards. These editorial amendments are not expected to have an impact on the application of these standards. As Accounting standards and the amendments, are legislative instruments, the repeal of superseded and redundant standards, is a mechanism to simplify what is on the list of in-force legislative instruments on the Federal Register of legislation. It does not impact the application of the requirements.	**1 January 2023**
AASB 2020-1	**Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current** This amendment changes AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. The amendments clarify that if a liability is subject to covenants, the organisation may only classify a liability as non-current if it meets the covenant tests as at the reporting date, even if the lender does not test compliance until a later date. The meaning of settlement of a liability is also clarified. This amendment has been further amended by AASB 2022-6 *Amendments to Australian Accounting Standards - Non-current Liabilities with Covenants* and should be considered together. The mandatory application date of this amendment has been deferred to 1 January 2024. If an entity early adopts this amendment after October 2022, it must also early AASB 2022-6 at the same time.	**1 January 2024**
AASB 2022-6	**Amendments to Australian Accounting Standards - Non-current Liabilities with Covenants** This amendment changes AASB 101 to clarify the presentation of liabilities in the statement of financial position as current or non-current. It further amends AAS 2020-1	**1 January 2024**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current amendments as discussed above. Under these amendments, covenants that are to be complied with after the reporting date do not affect the classification of the debt as current or non-current. Instead, the amendments require the organisation to disclose information about these covenants in the notes. This amendment can be early adopted and if early adopted AASB 2020-1 must be early adopted on or before this amendment.	
AASB 2022-5	**Amendments to Australian Accounting Standards - Lease Liability in a Sale and Leaseback** This amendment updates AASB 16 to clarify that the requirements for Right of Use assets and lease liabilities in AASB16 apply to a sale-and-lease back after initial recognition. It also clarifies that the 'lease payments' shall be determined in such a way that the seller-lessee would not recognise any gain or loss that relates to the Right-of-Use asset retained by the seller-lessee. This amendment is applied retrospectively.	**1 January 2024**
AASB 2022-10	**Amendments to Australian Accounting Standards – Fair Value Measurement of – Non-financial Assets of Not-for-Profit Public Sector Entities** This Standard amends AASB 13 *Fair Value Measurement*, including adding implementation guidance illustrative examples, for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.	**1 January 2024**
AASB 2021-7	**Amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* - Sale or contribution of assets between an investor and its associates or joint venture** These amendments update AASB 10 and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the	**1 January 2025**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	sale or contribution of assets between an investor and its associate or joint venture. The amendments require: a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. This Standard also makes editorial corrections to AASB 10. The IASB have deferred this amendment indefinitely, and therefore the AASB will continue to push out the mandatory application date.	
AASB 2022-9	**Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector** This standard makes amendments to AASB 17 *Insurance Contracts* to include modifications for public sector entities to make it more functional in a public sector context. The standard also amends AASB 1050 *Administered Items* to provide an accounting policy choice for government departments to apply either AASB 17 or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to determine what information to disclose about administered captive insurer activities. This standard also repeals AASB 4 and AASB 1023 and reverses the temporary amendments made to AASB 17 by AASB 2022-8 which provided deferred application of AASB 17 for public sector entities.	**1 July 2026**

The following amendments have been issued by the IASB but have not yet been approved by the AASB. These amendments cannot be formally early adopted by Australian companies until issued by the AASB but should be considered in the disclosures of standards issued but not yet adopted if relevant to comply with the requirements of IFRS.

TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) This amendment gives organisations temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Developments (OECD) international tax reform. In addition to providing the recognition exemption organisations will also be required to provide additional disclosures to better explain the organisations exposures to additional income taxes arising from this reform.	1 January 2023
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) This amendment requires organisations to disclose additional information and improve the transparency around supplier finance arrangements and their effects on organisation's liabilities, cash flows and exposure to liquidity risk	1 January 2024

IFRIC PROUNOUNCEMENTS

The IFRS Interpretations Committee (IFRIC) is the interpretive body of the IASB Board that assists with supporting the consistent application of the IFRS Accounting Standards. IFRIC did not release any Interpretations this year but did release a number of IFRIC Agenda Decisions.

The IASB has stated that organisations that are required to comply with the requirements of IFRS should also apply with the requirements of IFRIC Agenda Decisions. Whilst these Agenda Decisions do not change the requirements of IFRSs they are supporting explanatory material that clarify how the requirements of the IFRSs should be applied and are considered to have the same authority as the standards themselves.

IFRIC Agenda Decisions have no mandatory application date and are effective once confirmed by the IASB, however entities are allowed 'sufficient time' to consider and implement the Agenda Decisions. It is expected that this 'sufficient time' should be a matter of months and not years. If your organisation is not able to comply with the requirements of a relevant Agenda Decision issued during the year, you should discuss the implications with your Auditor.

All IFRIC Agenda Decisions should be applied retrospectively as a change in accounting policy in accordance with the requirements of IAS 8 *Accounting Policies, change in estimates and Errors.*

The following is a detailed summary of the IFRIC Agenda Decisions since 1 July 2022. For the full details, refer to the relevant IFRIC Update:

- **Negative Low Emission Vehicle Credits (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)**
  June 2022 IFRIC, confirmed by the IASB July 2022

  IFRIC received a request regarding whether a car company needed to recognise a provision for negative carbon emissions in a scenario where a car company receives positive credits for producing/importing low emission vehicles and negative credits for producing/importing high emission vehicles. The company needs to eliminate all negative credits by either purchasing from another entity or generating sufficient positive credits in the next year. If it fails to eliminate negative credits, the government can impose sanctions, although these are not fines. As at balance date the company is in a negative credit position.

  Referring to the guidance in IAS 37.17, IFRIC considered that:

  a) Any means of eliminating these negative credits, either by purchasing positive credits or generating them themselves, would require an outflow of resources. Utilising positive credits generated themselves was an outflow of resources as they could have otherwise sold those positive credits to another party that required them.

  b) The past event that gave rise to the obligation was the production or importation of the high emissions vehicles

  c) As this obligations arise under a law in the local jurisdiction, and the government had the ability to sanction the company for failing to eliminate the negative credits, unless accepting the sanction for non-settlement is a realistic alternative, the company would need to conclude there was no realistic alternative to setting the obligation.

  Accordingly, IFRIC considered that based on the fact pattern provided would meet the requirements to recognise a provision under IAS 37. It was also noted that even if a company could conclude there is no legal obligation, they would also need to consider whether there was a constructive obligation as well.

- **Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 Financial Instruments: Presentation)** ***June 2022 IFRIC, confirmed by the IASB July 2022***

  IFRIC was asked whether SPACs should classify public shares with the following characteristics as liability or equity in accordance with IAS 32. The SPAC has two classes of shares founder shares and public shares. The public shares all had the following rights:

  a) Individually had a right to demand reimbursement of their shares if the SPAC shareholders approve an acquisition.

  b) Are reimbursed if the SPAC is liquidated, including if no target entity is acquired within a specified period.

  c) Along with the founder shareholders have the contractual right to extend the SPACs life indefinitely if no target is acquired.

  The question focused on whether the shareholders contractual right to extend the SPACs life indefinitely was within control of the SPAC. This was key to determining whether the SPAC had an unconditional right to avoid paying cash. The IFRIC concluded that they could not address this efficiently, and the IASB should address it as part of their project on financial instruments with characteristics of equity (FICE).

- **Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)**
  June 2022 IFRIC, confirmed by the IASB July 2022

  IFRIC was asked how to determine the amount of the Contract Service Margin (CSM) to be recognised in profit or loss each period for an annuity contract where the policyholder pays a single premium upfront and is guaranteed a periodic annuity payment if that policyholder is still alive. Two proposed methods were proposed:

	Current Period	Expected to be provided in the future
Method 1	Determined based on the annuity payment the policyholder can validly claim in the current period	Determined based on the present value of the annuity payment the policyholder expects to be able to claim in the future
Method 2	Determined based on the total of: (i) the annuity payment the policyholder can validly claim in the current period. (ii) the present value of the annuity payments the policyholder is expected to be able to claim in the future	Determined based on the present value of the balance of expected future annuity payments as at the beginning of each future period

IFRIC concluded that only method 1 met the requirements of IFRS 17 reflecting the insurance coverage provided each period by assigning a quantity of the benefits only to the periods in which the insured even (the policyholders survival can occur) and aligning the quantity of the benefits provided in the period with the amount the policyholder can validly claim. It was also noted that there were other factors that would need to be considered under IFRS 17 including the risk adjustment for non-financial risk, but as IFRIC were not asked to discuss this matter, they did not discuss those requirements.

- **Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates)***
September 2022 IFRIC, confirmed by the IASB October 2022

  IFRIC was asked how to account for insurance contracts with cash flows in more than one currency. Specifically, they were asked whether currency exchange rate risk is considered when identifying portfolios of contracts under IFRS 17 and how IAS 21 and IFRS 17 interact when measuring a group of insurance contracts with cash flow sin more than one currency.

  When identifying a portfolio of insurance contracts all risks including foreign currency risk should be considered and portfolios should have 'similar risks'. However, 'similar risks' does not mean 'identical risks', therefore an entity could identify portfolios that include contracts subject to different currency exchange rate risks.

  To measure multi-currency groups of insurance contracts, IFRIC observed that the insurer should apply all the measurement requirements in IFRS 17 to the group including the requirement to treat the group including the contract service margin (CSM) as a monetary item. The issuer would then apply IAS 21 to translate the group at the end of the reporting period into their functional currency. Finally, the issuer needs to determine an accounting policy that determines the currency in which the group is denominated. It may be that different contracts in the group are denominated in different currencies. This accounting policy should be applied consistently to similar transactions and facts and circumstances. It is not appropriate to just assume that the CSM for the group is denominated in the functional currency.

- **Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**
September 2022 IFRIC, confirmed by the IASB October 2022

  IFRIC was asked a question around the issuance of warrants issued by an entity as part of the acquisition of a SPAC. In the fact pattern put to IFRIC the listed SPAC did not meet the definition of a business under IFRS 3, as the only asset it held was cash. The entity will issue new shares and warrant to the SPAC's existing founders and public shareholders, cancelling the SPAC instruments and the SPAC became a wholly owned subsidiary of the entity. The SPACs founders and public shareholders were not employees and will not provide services after the acquisition. In addition, the fair value of the instruments issued to acquire the SPAC exceeds the fair value of the identifiable assets of the SPAC.

  The IFRIC concluded that this type of transaction is not a business combination as the SPAC does not meet the definition of a business, it is instead the acquisition of the underlying assets and liabilities that is accounted for as follows:

  a) As the SPAC contains cash, part of the warrants issued are in exchange for that cash and will be accounted for under the requirements in IAS 32 *Financial Instruments: Presentation*

  b) The benefit that the acquirer is getting from this transaction is the IPO listing that the SPAC has. Although there is no recognised asset associated with this IFRS 2.13A notes that the standard also applies to unidentifiable goods and services. Accordingly, the acquisition of the stock exchange listing will be accounted for under IFRS 2.

- **Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases)***
September 2022 IFRIC, confirmed by the IASB October 2022

  IFRIC received a request around how a Lessor accounts for a rent concession on an operating lease, where the only modification is the forgiveness of specified lease payments under the lease contract where:

a) some of the lease payments forgiven were contractually due but not yet paid and as such have been recognised as a lease receivable.

b) some of the lease payments forgiven were not yet contractually due.

In applying the expected credit loss requirements of IFRS 9 to the lease receivable, even before the rent concession was granted, the lessor's expectations of any forgiveness of the lease payments recognised as the receivable should be considered, which may give rise to an allowance being recognised.

Once the rent concession has actually been granted, IFRIC concluded that the derecognition requirements in IFRS 9 would apply to the lease payments forgiven that have been recognised as a lease receivable and that receivable would be derecognised first utilising any allowance that had previously been recognised and then through the income statement. The forgiveness of the lease payments that were not yet contractually due, would be accounted for under IFRS 16, and the remaining lease payments should be recognised as income either on a straight-line basis or other systematic basis over the remaining lease term.

- **Definition of a Lease – Substitution Rights (IFRS 16 *Leases)***
  March 2023 IFRIC, confirmed by the IASB April 2023

  IFRIC received a request regarding a contract to supply 100 batteries for use in electric vehicles and the application of the scoping paragraphs in IFRS 16. In the fact pattern provided, the supplier had the practicable ability to replace the batteries at any time, but it was not financially viable to do so in the first 3 years of the contracts life. Specifically, IFRIC was asked:

  a) What was the unit of account for this arrangement?

  b) Is there a substantial substitution right?

  With regards to the unit of account question, IFRIC confirmed that IFRS 16 applies to each individual asset, and accordingly there were 100 potential leases that needed to be assessed in this arrangement.

  With regards to substitution rights, IFRIC confirmed that the supplier needs to economically benefit from the substitution of the batteries for it to be substantive. IFRIC did note that the substitution rights did not need to exist at all points throughout an arrangement's life for the substitution right to be substantive and that judgement would be required. However, in this instance, as it was not financially viable to substitute the asset for the first three years of the contract, with these facts and circumstances it was clear that the right to substitution was not substantive throughout the life of the arrangement, and it should be concluded that the contract contains a lease to be accounted for under IFRS 16.

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