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TECHNICAL UPDATE

A summary of recent changes to financial reporting requirements applicable for years ending 30 June 2022

JUNE 2022

This Technical Update provides you with an overview of Australian Accounting Standards, Interpretations and IFRIC Agenda decisions issued up to 1 June 2022. It outlines:

- Australian Accounting Standards mandatorily applicable for the first time for years ended 30 June 2022;
- Australian Accounting Standards available for early adoption for years ended 30 June 2022; 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 2022 YEAR ENDS

The following Australian Accounting Standards (AAS) are mandatorily applicable for the first time for 30 June 2022 year-ends:

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
AASB 1060	**General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities**	**1 July 2021**
AASB 2020-2	**Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities**	**1 July 2021**
AASB 2021-1	**Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities**	**1 July 2021**
AASB 2022-2	**Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1** These standards all relate to the introduction of the new Simplified Disclosures reporting framework and the removal of the reporting entity concept for for-profit private sector organisations. Fundamentally this will entail two things: 1. A new framework for determining who can prepare Tier 1 or Tier 2 General Purpose Financial Statements (GPFS) and who can prepare Special Purpose Financial Statements (SPFS) as a result of the removal of the 'reporting entity' concept for private for-profit entities. (AASB 2020-2 which amends AASB 1053 Application of Tiers of Australian Accounting Standards and other consequential amendments to the	**30 June 2022**[1]

[1] AASB 2022-2 is applicable to years <u>ending</u> 30 June 2022

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	application paragraphs of all AAS) 2. The replacement of the Reduced Disclosure Regime (RDR) for all Tier 2 GPFS with the new Simplified Disclosures (SDS) framework for all organisations both for-profit and not-for-profit. (AASB 1060) AASB 2021-1 provides transitional relief to Not-for-Profit organisations transitioning from either Tier 1 financial statements or Tier 2 RDR financial statements to SDS to bring them in line with the options available for for-profit organisations. It permits them to not provide comparative information in note disclosures if not already provided in their previous general purpose financial statements. AASB 2022-2 provides additional transition options for organisations that are transitioning to the new reporting framework via AASB 1 *First-time Adoption of Australian Accounting Standards* where its parent or subsidiary already apply AAS or IFRS at the date the organisation transitions. For more information refer to our Guide to Transitioning to Simplified Disclosure Reporting.	
AASB 2020-5	**Amendments to Australian Accounting Standards – Insurance Contracts** This amending standard deferred the application AASB 17 *Insurance Contracts* until 1 January 2023. See discussion on AASB 17 below in section on standards issued but not yet effective.	**1 January 2021**
AASB 2020-7	**Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures** This amending standard introduces disclosure requirements to AASB 1060 for Tier 2 reporters who had applied the related to the COVID-19 related rent	**1 July 2021**

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REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	concessions in AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*, that were applicable in the prior year. The purpose of AASB 2020-4 was to provide practical relief for lessees who were given rent concessions as a result of the COVID-19.	
AASB 2020-8	**Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2**	**1 January 2021**
AASB 2020-9	**Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments** AASB 2020-8 makes amendments to a number of standards to introduce practical expedients for organisations that have to change their lease contracts, debt, derivatives, and other financial instrument arrangements as a result of interest rate benchmark reform. It also includes additional disclosure requirements. AASB 2020-9 makes related disclosure amendments to AASB 1060 for Tier 2 reporters. It is not expected that this standard will have a significant impact in Australia as BBSW and BKBM in New Zealand are not impacted by the interest rate benchmark reforms. You will only be impacted if your organisations has LIBOR, EURIBOR or other similar 'IBOR' based contracts that are required to be updated to a new benchmark interest rate.	**1 July 2021**
AASB 2021-3	**Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021** This Standard amends AASB 16 *Leases* to extend by one year the application period of the practical expedient added to AASB 16 by AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions. The practical expedient permits lessees not to assess whether	**1 April 2021**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	rent concessions that occur as a direct consequence of the covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. This Standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.	

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STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

There is one new standard noted below that will be applicable for the first time for Organisations who are preparing half -year financial statements.

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 the costs to fulfill a contract that an organisation includes when assessing	**1 January 2022** (Mandatory for June half years)

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	whether a contract will be loss-making includes both incremental costs and an allocation of overhead costs relating to that contract; and 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 AASB 141 with those in other Australian Accounting Standards. The amendments to AASB 1, AASB 3, AASB 9, AASB 137 and AASB 141 are all to be applied prospectively, whilst 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**
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	**1 January 2023**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	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. 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.	
AASB 2020-1	**Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current** This Standard amends 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 balance date, even if the lender does not test compliance until a later date. The meaning of settlement of a liability is also clarified. ED316 *Non-current Liabilities with Covenants (proposed amendments to AASB 101)* closed for comment in December 2021 and proposed further amendments to AASB 2020-1. Firstly, it proposed the deferral of the application date of AASB 2020-1 and to reverse some of its requirements. It proposes that organisations no longer have to pass covenant tests that are not tested by the lender until a date after balance date, in order to classify a liability as non-current. However, it also introduces additional disclosure requirements. It is unlikely to be beneficial	**1 January 2023**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	to adopt AASB 2020-1 early without this ED being finalised.	
AASB 2021-2	**Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates** AASB 2021-2 makes minor amendments to the references to accounting policies, such they should be material accounting policies rather significant accounting policies and further clarifies what an accounting estimate is. Specifically, it amends: a) AASB 7, to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements; 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 an accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty and 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 standard is to be applied prospectively.	**1 January 2023**

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REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
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 *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.	**1 January 2023**
AASB 2021-5	**Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction** This Standard amends 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 organization recognise both an asset and a liability and that gives rise to equal taxable and deductible temporary differences the 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. This standard is to be applied retrospective to leases and decommissioning liabilities, and prospectively for all other transactions.	**1 January 2023**
AASB 2022-1	**Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information** This Standard amends AASB 17 and is relevant when an organisation adopts AASB 17 and AASB 9 for the	**1 January 2023**

REFERENCE	TITLE	APPLICABLE FOR REPORTING PERIODS BEGINNING ON OR AFTER
	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.	
AASB 2021-7	**Amendments to AASB 10 Consolidated financial statements and AASB 128 Investments in associates and joint ventures** This Standard amends 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 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 an editorial correction to AASB 10. The IASB have deferred this amendment indefinitely, and therefore the AASB will continue to push out the mandatory application date.	**1 January 2025**

IFRIC PROUNOUNCEMENTS

The IFRS Interpretations Committee (IFRIC) is an 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.

Accordingly, organisations who apply Australian Accounting Standards, will also need to comply with the conclusions in IFRIC decisions.

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 AASB 108 *Accounting Policies, change in estimates and Errors.*

The IFRIC Agenda Decisions since 1 July 2021 are:

- **Non-refundable Value Added Tax on Lease Payments (IFRS 16 Leases)**
  September 2021 IFRIC, confirmed by IASB October 2021

  IFRIC received a request about how a lessee accounts for any non-refundable value added tax (VAT) charged on lease payments. The request asked whether, in applying IFRS 16, the lessee includes non-refundable VAT as part of the lease payments for a lease. Based on their outreach IFRIC concluded that there was limited evidence:

  a) that non-refundable VAT on lease payments is material to affected lessees; and

  b) of diversity in the way lessees in similar circumstances account for non-refundable VAT on lease payments.

  Therefore, it was not added to the IFRIC agenda.

- **Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 Financial Instruments: Presentation)**
  September 2021 IFRIC, confirmed by IASB October 2021

  IFRIC received a request about the application of IAS 32 in relation to the reclassification of warrants in a scenario where a warrant provides the holder with the right to buy a fixed number of equity instruments of the issuer at an exercise price that will be fixed at a future date. At initial recognition because of the variability in the exercise price, the issuer classified the warrant as a financial liability under IAS 32. The request asked whether the issuer reclassifies it to equity following the fixing of the warrant's exercise price, given that the fixed-for-fixed condition in IAS 32.16 would be met at that stage.

  IFRIC observed that IAS 32 contains no general requirements for reclassifying financial liabilities to equity after initial recognition when the instrument's contractual terms are unchanged. IFRIC concluded that it was too narrow an issue for IFRIC to address in a cost-effective manner, but instead it should be considered as part of the IASB's broader Financial Instruments with Characteristics of Equity (FICE) project. This issue was not added to the IFRIC agenda.

- **Economic Benefits from Use of a Windfarm (IFRS 16 Leases)**
  November 2021 IFRIC, confirmed by IASB December 2021

  IFRIC received a request about whether an electricity retailer (retailer) has right to obtain substantially all the economic benefits from use of a windfarm, and therefore a lease under IFRS 16, throughout the term of an agreement with a windfarm generator (supplier) in the following circumstances:

  a) The retailer and supplier are both registered participants of an electricity market and customers and suppliers must make all sales and purchases via the market's electricity grid at a spot price set by the market operator. The retailer therefore purchases all electricity from the grid.

  b) The retailer enters into an agreement with the supplier which:

     i. Swap the spot price per megawatt of electricity that the windfarm supplies to the grid over a 20-year period for a fixed price, settled net in cash. In effect the supplier receives, and the retailer pays, a fixed price for the volume of electricity produced by the windfarm over the period.

     ii. Transfers all renewable energy credits that accrue at the windfarm to the retailer.

  To have a lease under IFRS 16.9 the customer must have both the right to obtain substantially all the economic benefits of the identified asset at the right to direct the use of the asset. IFRIC observed that the benefits of the windfarm include the electricity it produces (primary benefit) and the renewable energy credits. IFRIC noted that whilst the agreement gives the retailer rights to the renewable energy credits, it does not give them the right to the electricity, as that must be supplied to the grid. Therefore, it does not get substantially all the economic benefit and the agreement does not contain a lease.

- **TLTRO III Transactions (IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance)**
  February 2022 IFRIC, confirmed by IASB March 2022

  IFRIC received a request about how to account for the third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank. The TLTROs link the amount a participating bank can borrow and the interest rate that the bank pays to the volume and amount of loans it makes to non-financial corporations and households. Specifically, IFRIC were asked how IFRS 9 and IAS 20 interact in accounting for these arrangements.

  IFRIC noted that the initial recognition of this liability would need to be accounted for under IFRS 9 which would require it to be measured at fair value. If the fair value is less than the transaction price, the bank would need to determine whether that difference is for something other than the financial liability. Determining whether the interest rate is below-market requires judgement based on specific facts and circumstances but having the fair value less than the transaction price may indicate that it is a below-market rate.

  If the bank determines at initial recognition of the loan that the fair value of the TLTRO III differs from the transaction price, it then needs to assess whether that difference represents a government loan at below-market rates, treated as a government grant under IAS 20. IFRIC observed that making this assessment require judgement based on the specific facts and circumstances and noted that it is not in a position to conclude on whether the TLTRO III tranches contain a benefit of a government loan at a below-market rate of interest or a forgivable loan in the scope of IAS 20. However, they concluded that IAS 20 provides an adequate basis for the bank to make that assessment. IFRIC noted that IAS 20 would only apply to the difference between fair value and the transaction price, and IFRS 9 would apply to the financial liability.

  In applying IFRS 9, IFRIC observed that how the conditionality relating to the contractual interest rate should be factored into the effective interest rate was a broad issue that the IASB should consider this as part of its post implementation review of IFRS 9.

- **Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 cash flow statements)**
  March 2022 IFRIC, confirmed by the IASB April 2022

  IFRIC received a request about whether a demand deposit is part of cash and cash equivalents in the cash flow statement when the demand deposit is subject to contractual restrictions on use agreed with a third party. In particular, where the entity has a demand deposit with a bank but has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and use it for only specific purposes. If they were to use it for other purposes they would be in breach of their contractual obligations.

  IFRIC noted that IAS 7.6 defines cash as cash on hand and demand deposits, therefore restrictions on a demand deposit arising from a contract with a third party, does not result in the deposit no longer being cash and part of cash and cash equivalents in the statement of cash flows. Further IFRIC noted if relevant to understanding their financial position, organisations could disaggregate the cash and cash equivalents line item. In addition, considerations should be given to how this would be disclosed in accordance with IFRS 7 *Financial Instruments: Disclosures.*

- **Principal versus Agent: software Reseller (IFRS 15 Revenue from Contracts with Customers)**
  April 2022 IFRIC, confirmed by the IASB May 2022

  IFRIC received a request about whether a software reseller was a principal or agent under IFRS 15 *Revenue from Contracts with Customers* in a transaction involving a software manufacturer and end customer where:

  a) Under agreement with the software manufacturer, the reseller:

     i. can sell the manufacturers standard licences to customers

     ii. provides pre-sale advice to the customer to identify the right licence for their needs

     iii. has discretion in setting the sales price to their customers

  If the customer decides not to purchase, the reseller receives nothing. If they decide enter into an agreement to purchase licences, the reseller orders the licences from, and pays, the manufacturer

  b) the software manufacture provides the licence directly to the customer. The manufacturer and the customer enter into an agreement that cover the terms of the licence and a warranty.

c) If the reseller advises the customer to order the incorrect licences, the customer may not accept the licences. The reseller is unable to return unaccepted licences and cannot sell them to another customer.

IFRIC noted that in this arrangement there was only a single performance obligation (the provision of the licence), and that the pre-sale advice was not a performance obligation as it was provided prior to any contract being entered into.

The reseller needs to then assess whether it controls the licences before they are transferred to the customer. If the normal principles of control under IFRS are not clear, then the reseller should consider the guidance in B37. IFRIC noted that there were elements that indicated it was both principal and agent. Overall, the conclusion would depend on specific facts and circumstances including the terms and conditions of specific contracts. IFRIC decided that IFRS 15 provided an adequate basis for making that assessment. IFRIC did not provide any conclusion. It was also noted that the reseller should consider the adequacy of its disclosures around material accounting policy information and judgements.

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