

# Reporting Update

January 2012, 12RU-001



## ASIC focus on fair and efficient markets for 31 December 2011

ASIC's key focus areas for 31 December 2011 financial reports include a number of new areas based on their findings from reviewing the 30 June 2011 financial reports, being:

- Minerals Resource Rent Tax (MRRT)
- rights to future income classification
- intangible asset revaluations.

ASIC have noted that whilst Australian financial reporting compares favourably with many other jurisdictions, a number of areas for improvement remain.

This Reporting Update provides an overview of ASIC's areas of concern and indicates what additional guidance is available.

### KEY POINTS

- ASIC's new areas of focus for the 31 December 2011 financial reporting season include minerals resource rent tax; rights to future income; and intangible asset revaluations
- Onus on directors to ensure financial report compliant with accounting standards
- Disclosures need to be sufficient, appropriate and specific

### ACTION POINTS

- Identify whether key focus areas are relevant
- Check documentation and disclosures are adequate to explain treatments adopted

## Areas of focus

The table below outlines ASIC's areas of focus and the questions directors should be asking in relation to the issues raised.

Questions to Consider	Relevant guidance
<b>Asset values</b>	
Have we identified our cash generating units (CGU) appropriately?	<ul style="list-style-type: none"><li>■ <a href="#">Example public – Note 1(k) &amp; note 17</a></li><li>■ <a href="#">Disclosure checklist – section 2.2</a></li><li>■ <a href="#">Insights into IFRS – chapter 3.3</a></li></ul>
Has all of our goodwill been allocated to appropriate cash generating units?	<ul style="list-style-type: none"><li>■ <a href="#">11RU-09 Financial reporting impacts of carbon price</a></li></ul>
Are the assumptions used in the calculations of recoverable amounts (particularly discount and growth rates) realistic and are they appropriately disclosed?	<ul style="list-style-type: none"><li>■ <a href="#">11RU-17 Financial reporting impacts of carbon legislation</a></li></ul>
Have we disclosed the assumptions that have a significant risk of resulting in a material impairment adjustment in the next 12 months?	
If we have a CGU including goodwill or intangible assets with an indefinite useful life and a reasonably possible change in the key assumptions would result in an impairment have we fully disclosed the amount by which the assumptions must change to create impairment?	
Have all indicators of impairment been considered, including where reported net assets are significantly higher than the entity's market capitalisation?	
Have we critically evaluated our methods for impairment testing of goodwill, identifiable intangibles and other assets?	
Have we considered topical events such as exposure to countries with economic uncertainties; the impact of exchange rate movements; carbon tax; and mineral resource rent tax?	

## Questions to Consider

## Relevant guidance

### Use of the going concern assumption

Have we made appropriate disclosures regarding any uncertainty about our ability to continue as a going concern?

Have we made disclosures regarding our ability to refinance debt due for repayment?

Have we considered the impact of foreseeable increases in the cost of borrowing?

Am I permitting our company to continue to trade whilst we are insolvent?

Have we made realistic assumptions in regards to our business' future prospects and cash flows?

- [10RU-023 ASIC finalises guidance on directors duty to prevent insolvent trading](#)
- [Example public – Note 2](#)
- [Disclosure checklist – section 1.1](#)

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### Off balance sheet arrangements

Does the overall substance of a relationship indicate that we control or have significant influence?

Why are we not consolidating an entity when we have greater than a 50% interest? Have we fully disclosed the basis for our assessment that non-consolidation is appropriate?

Have we appropriately disclosed any off-balance sheet arrangements?

- [Insights into IFRS – chapter 2.5](#)
- [Disclosure checklist – section 1.5](#)

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### Current vs non-current debt classifications

Have we ensured there are appropriate processes in place to determine the correct debt classification between current vs non-current?

Have we evaluated the classification using our knowledge of the business and its funding arrangements?

- [Insights into IFRS – chapter 7.7](#)
- [Disclosure checklist – section 1.1](#)

### **Disclosures of estimates and accounting policy judgements**

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

- [Example Public – Note 3 & note 4](#)
- [Disclosure checklist – section 1.4](#)

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

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

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

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### Alternative profit disclosures

Have we included any profit figure that is not calculated in accordance with accounting standards in the financial report? (I.e. Do we have a separate 'alternative profit' note that is not part of our segment note? Do we only have alternative profit numbers in the segment note that are actually reported to the chief operating decision maker?)

Have we given undue prominence to an alternative (underlying) profit figure at the expense of statutory profit in any of our management discussion?

Could any disclosures of an alternative profit figure in investor briefings, market announcements or management discussions be considered misleading?

Have we explained non-IFRS information and reconciled it to IFRS financial information?

Have we remained consistent in our calculation of any alternative (underlying) profit figures or other non-IFRS information?

Have we considered all guidance contained in RG 230 *Disclosing non-IFRS information*?

- [\*Underlying profits survey report \(2011\)\*](#)
- [\*11RU-020 Regulatory guide on disclosing non-IFRS information guidance effective for 31 December 2011\*](#)
- [\*ASIC RG 230 – Disclosing non-IFRS financial information\*](#)

## Questions to Consider

## Relevant guidance

### Operating and financial review

Have we provided users with sufficient information to make an informed decision about potential future performance, including meaningful disclosures of business strategies and prospects for future financial years?

Have we benchmarked ourselves against the G100 Guide to Review of Operations and Financial Condition recommendations?

Do we have more detailed information and explanations in our briefings to analysts than in the financial report?

Have we located all the relevant information in one spot? If not have we appropriately cross referenced to where it is located?

Have we checked that relevant information that must be in the Directors' Report or attachments is not located in the financial statements?

- [\*Enhancing Management Commentary – review of practice\*](#)
- [\*11RU-011 Building financial reports post-Centro\*](#)
- [\*Example Public – Directors' Report\*](#)

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### Segment Reporting

Are our AASB 8 Operating Segments disclosures consistent with our internal management reporting?

Are the management discussion and analysis (MDA) related to segments / industries / businesses consistent with the financial report segment disclosures?

Do we provide more detailed breakdown and analysis in the MDA?

- [\*First Impressions: IFRS 8 Operating Segments\*](#)
- [\*Example Public – Note 6\*](#)
- [\*Disclosure checklist – section 4.3\*](#)

## Questions to Consider

## Relevant guidance

### Financial instrument disclosures

Do our disclosures allow users to understand the nature and extent of our specific market, credit and liquidity risks from financial instruments?

- [\*Example Public – Note 34\*](#)
- [\*Disclosure checklist – section 2.5\*](#)
- [\*IFRS Practice Issues: Fair Value Hierarchy\*](#)

Are the disclosures meaningful and relevant to the operations of our entity?

Have we tailored our disclosures to our specific policies and procedures?

Have we disclosed an ageing analysis of financial assets past due but not impaired, and an analysis of any impaired financial assets?

Have we disclosed the fair value hierarchy for financial instruments at fair value?

Have we disclosed the methods and assumptions used to determine the fair value of our financial assets?

Have we included an analysis of financial assets that are past due or impaired?

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### New accounting standards

Have we considered and disclosed the impact of new standards issued that may impact materially on our financial report in current or future years?

- [\*Standards on Issue \(Jan 2012\)\*](#)
- [\*In the headlines 2011/14- Consolidation: a new single control model\*](#)
- [\*In the headlines 2011/15 – No more proportionate consolidation for joint ventures\*](#)
- [\*In the headlines 2011/38 – Reminder: Effective dates of IFRS\*](#)

## Questions to Consider

## Relevant guidance

### Minerals Resource Rent Tax (MRRT)

We will be affected or significantly affected by the tax?

Do we need to re-measure our deferred tax balances?

Do we require valuation advice from external experts?

Is there any impact of the proposed MRRT on asset impairment? Is disclosure of future impacts on deferred tax balances required?

- [Accounting for Resource Taxation in Australia](#)
- [Tax in Focus: MRRT introduced into Parliament](#)
- [Example Public – Section 3 – Forthcoming requirements](#)

### Rights to future income

Have we recognised a right to future income (i.e. management rights, performance management fees, trail commissions etc) as financial assets at fair value rather than as intangible assets at amortised cost? If so, consult with the auditors.

- [Insights into IFRS – chapter 3.3](#)

Note: This also impacts the assessment of compliance with Australian Financial Services Licence (AFSL) conditions, which may have tangible asset criteria.

### Intangible asset revaluation

Have we re-valued any identifiable intangible assets to fair value?

- [Insights into IFRS chapter 3.3](#)
- [Example Public – Note 17](#)

If so, how have we ensured that the active market test is met for any re-valued intangible assets? ASIC is not aware of any active markets for intangibles in Australia. If so, consult with the auditors.

### Other

ASIC, as part of its surveillance program may request supporting documentation for accounting treatments, including copies of reports provided to the chief operating decision maker when assessing segment disclosure, and impairment calculations.

Accordingly, directors should ensure management has appropriately documented key accounting decisions.

Further details can be found in [ASIC's media release](#).

## KPMG contacts

If you would like to discuss any of the points raised in this report, please contact your KPMG advisor.