PwC's Financial Reporting Update 2023

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Thank you for watching PwC's Financial Reporting Update 2023.

Here is a quick guide of things to think about for the 30 June 2023 reporting season

As 30 June 2023 approaches, companies should plan ahead to ensure there are no surprises with respect to accounting and financial reporting. This document highlights the key areas that might impact companies for this year-end including areas of focus for ASIC, general hot topics in the market, accounting changes from standard setting and other regulatory changes. We recommend you scan through the list to identify what might be relevant and take a deeper dive through the relevant linked guidance where needed.

Note: Some of the PwC content available via the links provided below will require a free registration to Viewpoint. Follow this **link** to register for free.

What's the issue?	Points to consider and where to go for more help
	Focus Areas and **Hot Topics**
ASIC's areas of focus	ASIC has released its focus areas for Directors and Auditors for June 2023. The themes are consistent with earlier reporting seasons, with a greater emphasis on transition to the new Insurance standard and an increasing focus on the OFR and business risks in particular the impact of climate change. The focus areas are available in this media release: **23-149MR**.
Have you disclosed material business risks in your Operating and Financial Review?	An operating and financial review (OFR) is a key part of annual reporting by listed entities. It must set out information that users would reasonably require to assess an entity's operations, financial position, and business strategies and prospects for future financial years including material business risks that could adversely affect the achievement of the financial performance or financial outcomes described. Over the past few years, numerous companies have been required to include greater disclosure of business risks in their OFR, including remediation through separate market announcements, statements at AGMs or reissuing the director's report. See the following guidance for further information in this **area Material business risk disclosure** as well as **ASIC Regulatory Guide 247- Effective disclosure in an operating and financial review**.
Do you use non-IFRS performance measures within or outside of your financial report?	Companies should remember the guidance provided in **ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information** that outlines the disclosures to be included where non-IFRS financial measures are used outside the financial report. The guide also highlights that ASIC does not consider presenting non-IFRS profit information as subtotals in the income statement to permitted under Australia Accounting Standards.
What's the impact of rising inflation and interest rates?	Rising inflation and interest rates will impact many areas of accounting and financial reporting. We highlight these impacts in the attached: **Rising inflation and interest rates**
What should be remembered when assessing impairment of non-financial assets?	Impairment continues to be an area of focus for ASIC. Refer to this document for key impairment reminders **Impairment of non-financial assets**. Refer also to the discussion of the impact of climate change on your financial report below.
Contingent liabilities and provisions – are they appropriately measured and disclosed?	ASIC has focused recently on the adequacy of provisions and clarity in the disclosures of the financial effects of contingent liabilities. It's important that entities not default to a conclusion that a provision cannot be reliably measured or that a cash outflow is not probable until near settlement. AASB 137 is clear that provisions should be recognised except in the **extremely rare circumstances** where no reliable estimate can be made. Where a contingent liability does exist, AASB 137 requires disclosure of the estimated financial effect. Companies should ensure completeness and appropriate measurement of other provisions such as make-good and restoration provisions.
Are your receivables and deferred revenue inappropriately grossed up on the balance sheet?	If you bill customers in advance of providing service, it's important to consider when to recognise a receivable and deferred revenue. Where goods and services have not been transferred to a customer, AASB 15 is clear that deferred revenue is recognised when a payment is received or the payment is due from the customer (whichever is earlier).

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Do you have any off-balance sheet exposures?	ASIC continues to focus on off-balance sheet arrangements. Entities that have interests in non-consolidated entities should consider whether any off-balance sheet exposures should be recognised on-balance sheet. The accounting for assets, liabilities, income and expenses in registered scheme balance sheets and income statements, where individual scheme members have pooled interests in assets and returns with some or all other members, should be reconsidered where they are not recorded in the financial statements. This was included as one of ASIC's areas of focus for December 2022.
Have you considered the impact of climate change on your financial report?	Climate change is a business risk that not only impacts disclosure within the OFR but might have a more direct impact on the financial information. Refer to our In depths: **Impact of ESG matters on IFRS financial statements** and **Impact of climate change on cash flow projections and IFRS impairment disclosures**.
What are the accounting implications of participating in a voluntary carbon offset arrangement?	Companies are increasingly participating in voluntary arrangements to offset emissions. This is a new and evolving area. See the attached In depth to understand the key accounting considerations for these voluntary arrangements: **IFRS considerations for entities participating in a voluntary carbon market**.
Do you make statements about your products being environmentally friendly, sustainable or ethical?	ASIC has issued this information sheet (INFO 271) **How to avoid greenwashing when offering or promoting sustainability related products** where ASIC discusses its concerns relating to greenwashing. Greenwashing is where companies misrepresent how sustainable their products or investment strategies are.
Are you impacted by Pillar 2 tax obligations?	In October 2021, over 135 jurisdictions agreed to update the international tax system to ensure that large multinational enterprises pay a minimum level of tax (15%) on the income arising in each of the jurisdictions where they operate – referred to as Pillar Two. The IASB is in the process of amending IAS 12 to provide a temporary exception to the accounting for deferred taxes in relation to Pillar Two taxes. It also proposes to require entities to disclose how they may be impacted by the taxes. Once finalised by the IASB, the guidance will need to be adopted into AAS by the AASB. See our Pillar Two guidance and tracker as to the status of enactment in countries around the world for more information: **Pillar Two Country Tracker**; **Pillar 2 accounting considerations**.
The final deadline for LIBOR transition is 30 June 2023. What does this mean for you?	After many years of preparation, 30 June 2023 is the final deadline to complete the transition away from LIBOR. As we are heading into the June 2023 reporting season, entities with financial instruments or hedging relationships that have an exposure to USD Libor interest rates (eg USD funding/borrowings) which are subject to transition should consider their transition plans and the consequent financial reporting impact. In August 2020, the IASB issued amendments to provide guidance on the accounting for changes to contractual cash flows and hedge designations as a result of LIBOR transition. Note: Some hedge accounting relationships may be impacted even if there is no contractual LIBOR reference. Refer to the following link for guidance on the financial reporting impacts: **LIBOR Transition Final Phase.**
Do you do business in Ukraine or with Russia? What are the accounting implications of the Russian invasion?	The Russian invasion of Ukraine, alongside the imposition of international sanctions continue to have a pervasive economic impact, not only on businesses within Russia and Ukraine, but also globally where businesses engage in economic activities that might be affected by the recent developments. See our publications to understand the key accounting considerations of these sanctions: **Russian invasion of Ukraine and Russian sanctions** (current updates) as well as our In depth of the **accounting implications of the Russian invasion of Ukraine**.
Is your subsidiary's functional currency hyper-inflationary? Recent additions are the Haitian Gourde, Turkish Lira or Ethiopian Birr?	Haiti became a hyper-inflationary economy for financial reporting purposes from 31 March 2023, Turkey from 30 June 2022 and Ethiopia from 31 December 2022. AASB 129 requires financial statements of an entity whose functional currency is hyper-inflationary to be restated into the measuring unit current at the end of the reporting period. Refer to our **In brief** for a list of hyper-inflationary countries and those on the watch list as at 31 December 2022.

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	Developments in Standard Setting
What's new in standard- setting that is effective for 30 June 2023 year-ends?	A few amendments worth noting for 30 June 2023 year-ends: • AASB 137 **Provisions, Contingent Liabilities and Contingent Assets** has been amended to specify that when measuring an onerous contract provision, an allocation of costs directly related to fulfilling the contract should be included in addition to "incremental" costs that would have been avoided. • AASB 116 **Property, Plant and Equipment** has been amended to prohibit the reduction of the cost of PP&E for amounts received from selling goods when preparing the asset for intended use. Such amounts should be recognised as revenue. For further information, see our **In Brief** and **In depth**.
What's new in standard- setting that is effective for annual periods beginning on or after 1 January 2023 (i.e., 30 June 2023 interims for 31 December 2023 year-ends)?	A few amendments worth noting for 30 June 2023 interims and 31 December 2023 year-ends: • AASB 17 **Insurance Contracts** – Remember that it's not only relevant to insurers. See how it might impact you in our publication: **IFRS 17 affects more than just Insurers** • AASB 112 **Income Taxes** was amended to clarify deferred tax must be recognised on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations where deferred tax assets and liabilities will be recognised on: – right-of-use assets and lease liabilities, and – decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. See guidance at **Deferred tax related to assets and liabilities arising from a single transaction** • AASB 101 **Presentation of Financial Statements** now clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. This **PwC Practice Aid** provides guidance on how to decide whether accounting policy is material or not.
Are you impacted by any decisions made by the Interpretations Committee (IFRIC) over the last 12 months?	• Are you a reseller of software? If so, ensure you've considered if you are the principal or agent in the arrangement as this can significantly impact how revenue and expense are presented: **Principal versus Agent: Software Reseller** • What are the impacts of certain government measures to encourage reductions in vehicle carbon emissions (i.e., do they give rise to a provision under IAS 37): **Negative Low Emission Vehicle Credits** • Are you involved with a Special Purpose Acquisition Company listing (i.e., SPAC)? If so, consider: **Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity** and **Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**. Read our InDepth on **listing via a special purpose acquisition company**. • If you are a lessor, have you forgiven any payments to lessees? If so, the IFRIC provides their views on the accounting impacts here: **Lessor Forgiveness of Lease Payments** • If you are impacted by IFRS 17, ensure you consider: **Multi-currency groups of insurance contracts** and **Transfer of Insurance Coverage under a Group of Annuity Contracts**
	Other Regulatory Considerations
Are you making your ASX lodgements on time?	The ASX has announced that from 31 January 2023, they will automatically suspend entities that fail to lodge documents before the market announcement office closes on the business day the document is due. Remember also that if a lodgement deadline falls on a day that is not a business day, the documents must be lodged by the preceding business day. You can find the 2023 reporting dates on the **ASX website**.
Are you not lodging accounts with ASIC because you are an 'exempt proprietary company'?	If yes, you should note that the Government passed a Bill to remove the lodgement relief that had been in place since 1995. This means: • All large proprietary companies will now have to lodge their financial statements with ASIC (unless they are covered by the wholly-owned subsidiary relief). • The change applies for financial years ending on or after 10 August 2022 and as such, applies to 30 June 2023 year-ends

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