Intro:	Hello and welcome to The CPA Australia Podcast, your weekly source of business, leadership, and public practise accounting information.
Ram Subramanian:	Hello and welcome. I'm Ram Subramanian. Policy advisor in reporting at CPA Australia. Joining us today is Doug Niven, Senior Executive Leader for Financial Reporting and Audit at the Australia Securities and Investments Commission. ASIC has published its focus series of financial reporting for years ended 31st of December 2018, on the 3rd of December of 2018. Doug is here with us today discuss ASIC's focus areas and other important initiatives that ASIC is currently undertaking. Doug is also here to tell us a little bit about the financial reporting surveillance findings that were published earlier. Doug will tell us a little bit about what those findings are and what they mean for the market in Australia. Welcome, Doug.
Doug Niven:	Thank you, Ram.
Ram Subramanian:	Doug, if we perhaps turn our attention to the focus areas publication that came out earlier this month on the 3rd of December, obviously ASIC publishes these focus area documents quite regularly, and we usually find a pattern where there are ... Some topics are quite popular as far as from the regulators' perspective, and you continue to seem them appear time and again. There are very good reasons obviously for having that, but there also are some differences I suppose year on year, from one period on to the other. Could you tell us a little bit about the main focus areas for this period? Also perhaps tell us what is different in the most recent publication?
Doug Niven:	Thanks, Ram. You're right, we do put out ... The releases are now available on our website, so I won't go through all of the detail, but some of the highlights. Certainly this reporting period, there are a number of new accounting standards that we're focusing the people's attention on. That's a continuation of a focus that we've had in previous periods, but obviously we're live now on a couple of the stands around revenue and financial instrument valuation and leading into the first year coming soon for the new lease standard. People need to remember there's also new conceptual framework internationally which puts in place a new definition, recognition requirements for assets liable using income expenses. Of course, there is an insurance standard coming, although the operative date may be changed by the international board in 2019. Apart from the new standards, which are incredibly important 'cause they can have very significant impacts on the financial ports of particular companies and their new disclosure requirements, they can have real business impacts. They

can affect financial conditionary requirements, and therefore people really need to engage with them. If they haven't already done so they really should have been looking at it. Looking at system changes and so forth already. Now the rubber's hit the road, because for December year ends, it's the first full year and of course with union companies, December is the first half year under these new standards on revenue and financial instrument evaluation.

In addition, you're right, there are some continuing areas of focus. We still do focus on impairment and valuation of non-financial assets. That's an area where we've had issues over quite a number of reporting periods. It'd be nice to say we don't need to focus on that anymore, and we'll come to it in our findings, but of course we continue to have significant findings in this area. It is about people being more realistic around the assumptions they made, the cash flows particularly in DCF calculations, discount cash flow calculations.

Revenue recognition as well as new standard, it was an ongoing focus in any event, making sure that the recognition policies are appropriate. Typically speaking, companies not recognising revenue earlier than they should under the new standard will be around performance obligations. Under the old standard, you largely get in many cases the same answer by looking at where the controls pass for goods and services are being provided, so although similarities, but the new standard is more detailed. Expense deferral is another one of the areas. A best way to go through the full list otherwise, people might be attracted looking at our website for the full media release. They're certainly worthwhile having a look at that.

Perhaps I should focus as you say on the changes. One of the biggest changes is that we're going back to having a look at both the operating and financial review and the use of non-interest financial information. We did put out regulatory guides in these areas a number of years ago. Regulatory Guide 230 for the non-interest financial information, and 247 on the operating and financial review, which is particularly for listed companies. We found that companies' directors focus very much on these areas of time that those were put out. We found that significant improvements in reporting practise.

It also isn't we haven't been looking at these areas, but not in any concerted and focused fashion, and we thought it was timely to go back and have a look at these areas and just make sure that practises aren't falling away in these areas. Particularly with the non-interest financial information is about making sure that the information is not appearing in the financial port except where permitted for management basis for operating segments, for example. In particular, it's around the use of the information outside of the financial port that's not given undue prominence and so forth.

Now, that's all actually all about better information for investors. We're not trying to stop people from presenting information. It's useful for them, but they need to understand how the information's put together. The operating of financial review is similarly about better information for investors and other users of financial reports. Making sure that they're meeting requirements not only for [inaudible 00:06:31] information about financial position and the operations in the entity, but also very importantly, around business strategies and prospects.

That does lead you into risks, which includes a broad range of risks that need to be discussed that are relevant to the business and its particular circumstances. It could be something to do with performance of the products and competition in the market. It could be about Brexit, it could be about climate. There's a whole range of risks that need to be considered.

We particularly wanted companies to refocus on those areas, and that's timely because it does fit in with some of the discussion around non-financial information more generally. Sustainability, climate change, integrated reporting, and so on. That's important obviously. We've talked about the new standards and we're closer to the adoption date of particular standards and live on other standards. We did de-emphasise some areas.

That's not necessarily to say that there's any change, but we took away some of those commentary around proprietary company reporting so it could be more focused on the areas that we wanted people to pay attention on and some of the other comments we had around things like recognition measurement of disclosure is still the case. We're focused on the most important disclosure issues and not having clutter in financial reports, but we don't need to keep saying that every period.

Also take away some of the commentary around the enhanced audit reports, which we'll continue to look at in our auditing spectrum programme. That enables people to focus more on those other areas as well as the operating and financial review and the non-interest financial information.

Ram Subramanian: Thank you, Doug. If we perhaps now turn to the financial reporting surveillance programme that ASIC passed. You just published the findings from that surveillance programme for periods ending 20th of June of 2018. Are you able to share with us some of the key findings from your recent report and what that means for the market?

Doug Niven: Definitely, Ram. I should say that although we put the release out in December, there still are some matters that we're still working through with particularly companies, so not all of the matters are resolved at this time. Needless to say, the largest numbers of inquiries that we made and issues that we found were in impairment area. Impairment of non-financial assets, goodwill, property, plant, and equipment, identifiable intangibles and the like. That's consistent with prior periods.

As I mentioned before, a lot of that is around how realistic companies are about their future cash flows and future performance. Maybe that historically they haven't met the forecast in various periods. They don't really have a good explanation of why. Their performance is going to increase in future periods, so that's been an issue, but it can be a whole range of the key assumptions that they need to pay attention to, discount rats and so on. There are other areas which we continue to find issues on, but they're clearly the main issues that we've identified in that area. As I mentioned before, revenue recognition is at the top of the list.

Interesting enough, the third one on the list at the moment is tax accounting. It's not just around the deferred tax balances and whether they can be carried forward, it's also about whether the tax calculations actually make sense. Are the temporary and the permanent differences appropriate? We've had a number of issues in those areas and companies really need to ... A little bit like impairment, I have to say.

Think about the cross-over between the use of experts and the accountants. Accountants know a lot about the numbers in the business. The experts know a lot of the technical side about taxable evaluation, but how you bridge the two. How the experts know more about the numbers that are gonna be so important to their judgments, and how the accountants are gonna also understand the tax side of things and how that generates some of the accounting balances that you would expect to appear. That may come through in a number of different ways. It could be the tax rate or the reconciling items that you see, but really there needs to be more focus in that area.

Some of the other areas included consultation accounting, business combinations, and again, mentioned before, expense deferral. Those continue to be in there along with this crisis around the key judgments in financial port, the accounting estimates and the significant accounting policy choices.

Ram Subramanian: Looking at the surveillance findings, one of them relates to key ordered matters in enhanced order reports. I found it interesting that you included that in your financial reporting surveillance findings. I think the point that is being made there is that some of the key ordered matters were being described in general terms rather than being so specific to the circumstances on the entity. Could you tell listeners what exactly your findings were in that space and why you found it important to include it in this particular set of findings?

Doug Niven: Definitely. Well, firstly, we look at about 300 financial ports in a proactive basis, this could be these and other public interest entities each year as a part of our financial reporting surveillance. It's around about 65 audits that we look at in the audit inspection programme. We were actually looking at the audit reports on the whole 300. When you look at the whole 300 across the population of around say 3,300 listed companies, you start to see trends where the same sorts of key ordered matters appear, and that may be quite appropriate of course. The text is quite similar.

Now, there could be good reasons why there are some similarities, but you also expect there to be a degree of tailoring to the circumstances of the entity itself in what you're seeing and what procedures have actually been performed by the auditor. They won't be identical in every case. That's what we weren't seeing, so it's an area where perhaps auditors need to think more about not just copying what they've seen before, and that also applies to subsequent years after the fact you've actually produced these reports. Making sure that the information is very relevant.

It's partly about not using the boilerplate, but also being clear, which can be quite challenging when you think that this audit report is going to be potentially read by a broad range of users with different levels of sophistication. There is a challenge there. We'll probably cover it in a separate podcast, but we do look at the reports here now, audit inspections, and one of the challenges there was that not always was the audit work that was described in the audit report actually the audit work that was performed by the auditor. Overall, we do actually think auditors have done a good job in adopting the new standards I should say, but there's room for improvement as well.

Ram Subramanian: As always. One of the points you mentioned earlier is the requirement that you feel entities should ... Companies should focus on the risks and disclose certain matters around the risks in the operating and financial review. One of the points that is mentioned in the focus areas is disclosures around the risks associated with climate change. I want to try and take that a little bit further and explore it with you if possible.

You're hearing that in other countries ... There's an example in the U.S. where there's a lawsuit alleging that fossil-based company ... A fossil resources-based company hasn't necessarily considered the risks associated with climate change and the impact it could have on its assets, it's fossil-based assets and the potential for impairment of those assets, hasn't been taken into account.

There is a view surmising that it's not only about disclosures, it's also possibly having an impact on the assets that a company carries on its balance sheet and whether those assets have been impaired as a result of climate change-related activities and incidents. Can you share a little bit ... Your thoughts on what you expect to see as a regulator in that space?

Doug Niven: Yeah, definitely, because we've been calling this out for a few reporting periods now. That as a part of looking at the impairment of non-financial assets, you need to look at the broad range of risks, and that can include a whole lot of things. It can be risk ... Digital disruption, changes in markets, competitors. It can also be around Brexit, it can be around climate, and really all of these factors do need to be taken into account and thinking about, well, if there is going to be significant impact on your business because potentially of climate issues, that creates either uncertainty or perhaps a loan impact. That does need to be factored into either or both of the cash flows and discount cash flow calculation or the risk elements in terms of the discount rate. Better to deal with it in the cash flows if that's possible, of course, but as a minimum through the discount rate.

We've called that out for a reason, that ... By the way, I shouldn't say ... We called it out in our financial reporting surveillance releases, but we will also amend our guide for directors around impairment of non-financial assets. There's a new information sheet available on our website to specifically refer to these risks and focus people's attention on that. It is relevant that in particular industries climate will have a greater impact potentially than in some other industries. You're right, in some of the fossil fuel industries, it's quite possible that they'll have to look at other energy sources going forward, and it will vary depending upon the companies and they need to make reasonable assumptions in that regards.

It is about the numbers, not just the disclosures. Disclosures continue to be important. In the operating of financial review, we're talking about before. One of the risks that many need to think about in terms of future business prospects and strategies ... By the way, we're not looking for financial forecasts necessarily there. We're not preventing them. You do need to talk about the risks and, what are the relative risks for the entity in a proportionate way? If climate is one of those, it's going to impact on the business. You need to talk about it in that context.

The flip side I guess to be balanced is, you wouldn't want a situation where someone talks about climate for 20 pages and doesn't say anything about the fact that, "Well, actually, the company's not gonna exist in six months time", for example. You do need to balance up the analysis or risks, but climate is clearly one that directors and others are very focused on at the moment.

Ram Subramanian: Yes. Just going back to one of the significant focus areas that you mentioned right at the beginning, the new accounting standards, particularly looking at WSP 15, under revenue from contracted customers ... With that particular standard I suppose, because the standards that are recognised is how challenging upon this major news as it would be, they've provided some transitional relief. A company can adopt a modified approach.

They don't necessarily have to restate their comparative pay, but in doing so and in making sure that you have a comparison of like with like, the standards that as required are not disclosure. This is where the comparatives have not been restated. There will be a not disclosure required. The current year's numbers are recalculated and disclosed based on the old standard, which would be WSP 118 or one of the other related standards that would apply.

I suppose my question is around interim period reports. If you got a junior end, the first time it'll ... AASB 15 would apply would be 30th of June 2019 and listed entities will now be looking to prepare interims for the December period. In that interim period, would you expect ... Assuming that they'd take the modified approach ... Would you expect the same non-disclosure to be included in the notes off that restatement approach that the standard prescribes?

Doug Niven: We would be expecting disclosure of the impact. I should say that we have been looking at the half year for our natural reports of 30 June '18 and again we will at 31 December '18, looking at the impact of the adoption of the standards. We do expect to see disclosures there. There are a number of reasons for that. When you think about the philosophy for interim reports, the reason you get the cutdown disclosures, to start off with interim financial reports, is it's viewed as being an update to the last full financial report. To an extent the accounting policies are the same. You don't need to focus on that, but you do need to talk about what has changed. There's that underlying principle already there in the standard.

Now, they do make a caveat where they transition is covered by specific accounting standard, and the real new standard talks about disclosures for a period. It doesn't talk about disclosures for a full financial year. You would expect a logical flow of follow on is there the disclosures, but the standards centre is deemed again to be relevant for people who don't understand what's happening on the adoption of the standard in this first financial report, which happens to be an interim financial report.

It's incredibly important information for the users of financial report to understand what is actually happening as a result of performance of the business, how it's operating in the market, competitors, all of those sorts of things, compared to what is actually simply the result of this change in accounting policy, which is reflected not in the comparative numbers, but in the current year numbers. Unless you have that comparison number two basis, you can't really understand those numbers.

It's not only that there's a requirement there, it's logical to do it and important information to convey to the users.

Ram Subramanian: Maybe if I could turn my attention to another new accounting standard, AASB 9, financial instruments. Under the new standard, impairment is calculated on the expected loss model compared to the implied loss model that we were more used to under the old standard, 129. It is a possibility that the provision for impairments will increase on transition from the old standard to new. There's a possibility that that would be the case.

Do you think that some companies that have been perhaps optimistic in their impairment assessment under the old requirements will take advantage of it right down through it in earnings on transition to the new standard? Will ASIC be reviewing any large adjustments that may arise out of transition from the old to the new standard AASB 9?

Doug Niven: Yeah. You're right. It is a possibility and we've seen it happened before that sometimes issues in reporting under the old accounting standards are cleaned up when a company adopts a new accounting standard. We saw that also to some extent with the revenue standard and I won't cite particular incidences, but where companies were making changes after discussions with ASIC because they couldn't adopt the treatment under either the old or the new accounting standard, and they'd say it's on the adoption new standard when in fact it was actually under both. It is important for the market to know what the real results were, historically and under the old standards and what's caused by the change in the accounting standard itself.

Similarly, when you come to the expected loss model, the same logic applies. You should be able to tell what's caused by really the expected loss model and what is caused by problems with your model previously. Yes, we would expect those to be separated, understand the issues that can occur, and obviously be interested in, do the adjustments make sense?

Now, there are a couple of possibilities here, and one is that they weren't necessarily fully on an incurred loss model previously, their expected loss model. There's an interesting challenge there perhaps in unravelling what was caused by what I guess. Obviously, if you're gonna provide useful information to users, you should be following the standards of ensuring the correct information. Obviously our biggest focus, of course, is getting the right numbers going forward as well.

Ram Subramanian: Absolutely. Just turning our mind to proprietary companies, which you mentioned earlier as having been taken out of your focus areas ... That doesn't mean that the focus doesn't exist on those companies, but you've taken that out of your list. We know that treasuries currently consulting on raising the thresholds for the financial report preparation and largely by large proprietary companies, essentially they're looking at doubling the thresholds. We'll have to wait to see what the outcome of that consultation and project progress is gonna be. Is that going to have any effect on how you approach your own surveillance programme in relation to proprietary companies?

Doug Niven: Okay, well, firstly to state the obvious, there's been no change in legislation as yet and companies continue to report based on the current sized test, and that's what we would expect and companies need to meet their obligations. It's still important information to use. These are the financial reports, until government makes a decision to change it.

In terms of our surveillance programme, going forward we will continue to focus on proprietary company reporting and that's in two regards. One, where the companies are actually launching financial reports when they should. You may be aware that recently we've followed quite a number of companies using information we honestly obtained the tax office that assisted us to determine where the companies really ... Well, appear to be large and we asked the questions and quite ... A number of companies are reporting that right before.

Irrespective with it's changed or not, you can expect that we will be looking at that under the appropriate text.

We do also look at financial ports of proprietary companies. Not on a proactive basis like those 300 financial ports of listed entities and other public interest entities, which by the way could include proprietary companies, but that would be a very small number. It's on a reactive basis that we would look at the financial ports of proprietary companies. On the basis of complaints, intelligence, something like that, that we will then go and make inquiries around the quality of the reporting by proprietary companies. That will continue to be the case.

Ram Subramanian: Doug, thank you very much for our very insightful and useful podcast. I'm sure listeners will benefit hugely from this conversation. Thank you once again.

Doug Niven: Thank you.

Ram Subramanian: Listeners who are interested in learning a bit more about the conversation that we've had with Doug Niven from ASIC, we have included the links to the focus areas media release and other relevant information, and also a link to the financial reports surveillance programme findings on the same page where this podcast resides. Thank you.

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