

The Looking Glass

Insights into financial reporting and accounting standards

Issue 8 | April 2018

Welcome

In this edition of The Looking Glass we take a high-level look at AASB 9 *Financial Instruments* and outline the key changes. There is also an update on the implementation of the new standards on leasing, revenue, income for not-for-profits and service concession arrangements, and I would like to say a big thank you to all of you who contributed to the initial estimate of what implementation might mean for the State. Finally, we continue our summary of the latest financial reporting developments relevant to the public sector.

If there are any topics you would like us to consider in the next edition, please let us know.

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AASB 9 *Financial Instruments*

As communicated in the previous editions of The Looking Glass, AASB 9 will be effective for NSW public sector agencies from FY2018-19, and replaces AASB 139 *Financial Instruments: Recognition and Measurement*. The major changes from AASB 9 are the classification of financial assets and liabilities, a new impairment model, and changes to requirements for hedge accounting.

AASB 9 introduces a new model for classifying and measuring financial assets, based on the:

- entity's business model for managing the financial assets, and
- contractual cash flow characteristics of the financial asset.

The 'incurred losses' approach under AASB 139 will be replaced by the 'expected credit losses' model under AASB 9 for impairment assessment. Under the new model, reasonable and supportable forward-looking information should be used for impairment assessment.

The mechanics of hedge accounting under AASB 9 remains broadly the same in terms of the accounting for the hedging instrument and hedged item on various types of hedges. However, the requirements for what qualifies for hedge accounting are more principle-based and less strict, which allows more hedging instruments and hedged items to qualify for hedge accounting.

Treasury will publish a guidance document which contains more detailed analysis of the impact of AASB 9 in May 2018.

Implementation of Major New Standards

Late last year Treasury established a cross-sector Implementation Working Group to manage the State's implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*, AASB 16 *Leases* and AASB 1059 *Service Concession Arrangements: Grantor*.

Since then agencies, through their clusters, have prepared initial high-level impact assessment for these new standards. These will need to be refined and do not yet include all impacts. However, the information will inform management of the State's future fiscal position, as well as the next steps in implementing the new standards.

The next stage is the implementation phase where agencies will complete a full contract review for a more accurate and robust impact assessment of these standards.

Treasury will continue to provide guidance to agencies including the transitional options for the revenue and service concession standards. Agencies are encouraged to reach out to their cluster representative on the Implementation Working Group if they have any queries or feedback.

Other Developments: The table below briefly highlights other recent accounting developments.

Financial reporting developments	Issue date	Suggested action
<p>ED 283 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors</p> <p>ED 283 proposes guidance to clarify:</p> <ul style="list-style-type: none"> • the AASB 15 definition of license and the types of licences issued by the not-for-profit public sector, and • the application of the principles of AASB 15 to licences that are not within the scope of other Australian Accounting Standards. <p>In addition, this ED provides recognition exemptions for short-term and/or low value licences. The AASB invited responses by 31 March 2018.</p> <p>Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) had some fundamental concerns with this ED, which were reflected in its response to the AASB. In particular, HoTARAC recommended that the AASB:</p> <ul style="list-style-type: none"> • clarify the distinction between taxes and licences and their differences with Australian Bureau of Statistics- Government Finance Statistics application, and • provide further guidance on how to distinguish performance obligations from mere features of an arrangement. 	<p>To be advised.</p> <p>The AASB has not met since the comments period for this ED closed on 31 March 2018.</p>	<p>Agencies should continue to monitor developments resulting from this ED.</p> <p>NSW Treasury will continue to monitor developments resulting from this ED.</p>
<p>Questions?</p> <p>Please contact Sean Osborn if you would like to discuss any of the above Standards.</p> <p>Please email accpol if you have any feedback or would like to subscribe to <i>The Looking Glass</i>.</p>	<p>This publication is made available for information purposes only and is not intended to be a substitute for, or relied upon as, specific professional advice. All persons accessing this publication are responsible for making their own enquiries in relation to assessing the relevance, completeness and accuracy of its contents. To the full extent permitted by law, the State of NSW excludes all liability for loss or damage of any kind to any person arising from or related to this publication (however such loss or damage is caused, including by negligence).</p>	