The Looking Glass

NSW GOVERNMENT The Treasury

Insights into financial reporting

Welcome

Welcome to the second issue of *The Looking Glass*. In this issue we take a very high-level look at the new disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. We also continue our summaries of some emerging financial reporting developments relevant to the public sector.

As well as considering the impacts of new accounting standards, Treasury plays a key role in informing standard setters, as a member of The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). Understanding the potential impacts of emerging issues on agencies is key to HoTARAC's activities. A brief article explains what HoTARAC does, and we encourage you to consider how developing issues will impact you and to share your views with us.

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AASB 12 *Disclosure of Interests in Other Entities* (AASB 12)

As part of the revised suite of standards relating to consolidation, joint arrangements and associates, related disclosure requirements are now located in AASB 12. This standard requires extensive disclosure of information to enable users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the financial statements.

AASB 12 has considerably increased the level of disclosures required, so agencies should consider the level of detail and how much emphasis to place on each of the requirements to meet the objective of AASB 12. It contains extensive disclosure requirements, including levels of aggregation, additional disclosures, reconciliations etc. The table below is a summary of the key areas of disclosure, agencies should refer to the standard for full details.

Key AASB 12 disclosure requirements	Consider if your agency has:		
	Subsidiary	Joint arrangement/ associate	Unconsolidated structured entity
Significant judgments and assumptions made in determining relationship (including why entities have/have not been consolidated and whether the entity is an agent or a principal).	✓	✓	✓
Significant judgments and assumptions made in determining the type of joint arrangement.		✓	
Details of group composition, non-controlling interests, restrictions on the group's ability to access or use assets and settle liabilities, consolidated structured entities, changes in control/ownership interest of a subsidiary.	✓		
Nature, extent and financial effects of interests in joint arrangements and associates, including details of relationships, ownership interests, accounting treatment, summarised financial information, contractual relationship with other investors, and risks of and restrictions on the arrangement.		✓	
Commitments and contingent liabilities relating to joint ventures and associates should be disclosed separately from other types of commitments and contingent liabilities.		✓	
Qualitative and quantitative information on the nature and extent of an entity's interest in unconsolidated structured entities, information about the nature of associated risks, even if the entity no longer has any contractual involvement with the structured entity at reporting date, any non-contractual support, and any current intentions to provide financial or other support in the future.			✓
If an entity has sponsored an unconsolidated structured entity (financial or other support) in which it does not have an interest, or previously had an interest, the entity will need to disclose information in relation to the support provided including any current intentions to provide financial or other support in the future.			✓

Note: If an agency is an "investment entity" as defined under AASB 10, there are disclosure requirements under AASB 12 that are not included in the table above.

New Treasury Policy and Guidelines Papers (TPPs) and Circulars (NSWTCs)

A number of Treasury financial reporting pronouncements have been updated for FY2015. Key changes are summarised below:

TPP 15-01 Financial Reporting Code for NSW General Government Sector Entities

- Budget amounts in the financial statements must now be drawn from the original budgeted financial statements presented to Parliament
- Agencies with administered items included in their original budgeted financial statements presented to Parliament must now disclose the original budgeted administered items presented to Parliament in their financial statements.

NSWTC 15/03 Mandates of Options and Major Policy Decisions under Australian Accounting Standards

- Updated mandates and references for AASB 10, AASB 128 and AASB 1055
- Removed the reference to NSW TC 14/09 Financial Distribution Policy for Government Businesses.

NSWTC 15/05 Financial reporting requirements for NSW Government entities including those affected by restructures and NSWTC 15/07 Financial and Annual Reporting requirements arising from personnel service arrangements

- Updated control principles and practical examples of control to reflect the new consolidation standard AASB 10

NSWTC 14/04 Accounting for Long Service Leave and Annual Leave will be re-issued for FY2015.

Agencies should refer to Treasury's website for the latest Circulars and Policy Papers.

HoTARAC

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) comprises senior executives from State and Territory treasuries and the Commonwealth Department of Finance. Through sharing of ideas and research, HoTARAC seeks to develop a consensus on major developments in financial reporting. At the most recent meeting at NSW Treasury's offices in Sydney in February, HoTARAC was honoured to welcome Kris Peach the Chair of the AASB as a guest.

As part of its work HoTARAC makes submissions to Australian and international standard setters in response to exposure drafts and other consultations. In 2014 this included submissions to The International Public Sector Accounting Standards Board (IPSASB) on matters such as the definition of government business enterprises and improvements to IPSAS's, and the Australian Accounting Standards Board (AASB) on matters including disclosure initiatives. This year AASB exposure drafts that will be examined include service concession arrangements for grantors and income from transactions of not-for-profit entities.

Understanding the impact of accounting treatments on agencies is key to well informed engagement with the standard setters. In turn this means Treasury and agencies should engage on emerging issues as early as possible. Questions to consider include:

- What challenges are there in implementing existing accounting standards?
- Which emerging issues are likely to have a significant impact on the public sector generally or specific agencies?
- What areas are particularly challenging for the public sector?
- Where is public sector specific guidance warranted?

By highlighting upcoming developments, including in *The Looking Glass*, we plan to enhance Treasury's engagement with the sector on these questions.

Other developments

Key financial reporting developments that may impact agencies in future periods are outlined below.

Financial reporting development	Estimated issue date	Suggested action
AASB 124 *Related Party Disclosures* The AASB has finalised proposals to require related party disclosures for not -for-profit public sector entities for annual reporting periods beginning on or after 1 July 2016.	An amending Standard is expected to be issued by the end of March 2015.	Consider how the amendments may impact your agency.
AASB 9 *Financial Instruments* AASB 9 will replace the current suite of financial instruments standards (AASB 132, AASB 139 and AASB 7) in 2018. AASB 9 adopts a new basis for classification of financial assets and financial liabilities, and introduces a new impairment model as well as new hedge effectiveness requirements for hedge accounting.	Effective for reporting periods beginning on or after 1 January 2018	Consider the AASB 9 requirements and review current classification of financial assets, financial liabilities and hedge arrangements.
Income from transactions of not-for-profit entities The AASB is reviewing the income recognition requirements in AASB 1004 *Contributions*. The project includes an examination of how the 'performance obligation' approach in the new AASB 15 *Revenue from Contracts with Customers* (effective for financial period beginning on or after 1 January 2017) can be applied to not-for-profit entities.	Exposure Draft expected Quarter 1, 2015	Monitor the progress of this project and consider how the proposed changes may impact income recognition.
Grantor Accounting for Service Concession Arrangements Service concession arrangements are arrangements where an operator (usually the private sector) uses a service concession asset to provide a public service on behalf of the grantor (the government). The service concession asset may be built by the operator or provided by the grantor. It is expected that, where the grantor controls or regulates the service concession asset, the grantor will be required to recognise the service concession asset and a corresponding liability in their statement of financial position. The Exposure Draft will be based on IPSAS 32 *Service Concession Arrangements: Grantor* (IPSAS 32). The proposed standard will approximately mirror the requirements of AASB Interpretation 12 *Service Concession Arrangements*.	Exposure Draft expected Quarter 1, 2015	Assess the requirements of IPSAS 32 and consider whether the proposed standard may apply to you. Monitor the progress of this project.

Questions?

Please contact Kaveh Daemi if you would like to discuss any of these Standards.
Please email accpol if you have any feedback or would like to subscribe to The Looking Glass.