



## Mazars corporate risk & reporting newsletter February 2024

### Introduction

Welcome to the Mazars corporate risk & reporting newsletter.

This quarterly publication will provide a comprehensive summary of the most recent financial reporting advancements from local and international standard setters together with insightful analysis of emerging business risks, assisting finance leaders navigate the ever-evolving landscape of corporate risk and reporting.

Staying abreast of regulatory priorities and emerging challenges is paramount for directors, preparers of financial reports, and auditors. This edition provides an overview of ASIC's recommendations, key findings from its Annual financial reporting and audit surveillance report 2022–23 (Report 774), and the essential considerations for directors, preparers, and auditors in ensuring high-quality financial reports and audits. In its report, ASIC highlights focus areas for the 31 December 2023 reporting period, urging stakeholders to prioritise disclosures about uncertainties, key assumptions, and sensitivity analysis.

This edition also explores the proposed Australian Sustainability Reporting Standards, legislative changes mandating climate-related risk disclosures, and the Governance Institute's guidance on avoiding greenwashing.

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# Financial reporting

## ASIC highlights focus areas for 31 December 2023 reporting

The Australian Securities & Investments Commission has urged directors, preparers of financial reports and auditors to assess the impact of uncertain market and economic conditions.

Financial-report disclosures about uncertainties are vital for investors, the commission stressed.

The focus areas highlight elements of financial reports and audits where ASIC has identified the most significant and common instances of non-compliance with Australian Accounting Standards or issues with the audit in the past and areas that are emerging as more significant challenges for preparers.

Key findings in ASIC's Report 774 *Annual financial reporting and audit surveillance report 2022–23* form the basis for identifying areas for particular consideration included:

- Impairment and asset values
- Provisions
- Events occurring after year-end and before completing a financial report
- Disclosures in the financial report and operating and financial review, and
- The effect of a new accounting standard for insurers.

Disclosures in the financial report about uncertainties, key assumptions, and sensitivity analysis were important to investors, the commission said.

Uncertainties may lead to a wider range of valid judgements on asset values and other estimates. They might change from time to time, and documenting and updating information supporting judgements was expected.

Directors and management should assess how an entity's current and future performance, the value of its assets and provisions, and business strategies might be affected by changing circumstances, uncertainties and risks.

ASIC commissioner Kate O'Rourke said, 'Directors should ensure that company financial reports provide investors with useful and meaningful information on the impact of changing and uncertain economic and market conditions and other developments on their company's financial position and future performance.'

'Directors should ensure there are adequate resources, skills and expertise applied to promote quality in the reporting process so that assumptions underlying estimates and assessments for financial reporting purposes are reasonable and supportable.'

'Finally, auditors should focus their professional judgement and scepticism on those areas of the financial report preparation process that are most reliant on estimates and are uncertain. Auditors occupy a privileged position in the financial reporting cycle and are essential to maintaining market integrity.'

High-quality financial reports supported by robust auditing were essential for market integrity and investor confidence.

ASIC will review the full-year financial reports of selected listed entities and other public-interest entities for each reporting period.

See *Appendix – ASIC focus areas for 31 December 2023 reporters* for the detail.

The following standards and amendments were effective from 1 January last year and applied to 31 December balance dates:

- *AASB 17 Insurance Contracts*
- *Disclosure of Accounting Policies* (amendments to AASB 101 and AASB practice statement 2)
- *Definition of Accounting Estimates* (amendments to AASB 108)
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (amendments to AASB 112), and
- *International Tax Reform – Pillar 2 Model Rules* (amendments to AASB 112).



# Financial reporting

## Directors must shoulder responsibility, says ASIC

ASIC has emphasised that directors were primarily responsible for the quality of a financial report.

This included ensuring that management produced quality and timely financial information for audit that was supported by robust position papers with appropriate analysis and conclusions referencing relevant accounting standards.

Companies must have appropriate processes, records, and analysis to support information in a report, the commission stressed.

Appropriate experience and expertise should be applied to reporting and auditing, particularly in more difficult and complex areas such as asset values, provisions, and other estimates.

The circumstances in which judgements on accounting estimates and forward-looking information had been made and their bases should be properly documented at the time and disclosed as appropriate.

Operating and financial reviews should complement financial reports and tell the story of an entity's performance. Underlying drivers of results and financial positions should be explained as well as risks, management strategies and prospects. Forward-looking information should have a reasonable basis and the market should be updated through continuous disclosure if circumstances change.

Audit fees should be reasonable and have regard to increased auditors' costs and extra effort required in judgement areas.

## ASIC probes bring \$215 million in adjustments

Adjustments totalling \$215 million have been made to ASX-listed companies and big entities following surveillance by the Australian Securities & Investments Commission.

The changes are reflected in ASIC's integrated financial-reporting and audit-surveillance program for 12 months to 30 June.

Report 774 *Annual financial reporting and audit surveillance report 2022–23* outlines findings related to insufficient disclosure of material business risks in operating and financial reviews, impairment of assets, revenue recognition, and other disclosures.

ASIC reviewed 180 financial reports by ASX-listed and other big entities as well as 15 related audit files from 1 July 2022 to 30 June.

ASIC's assessments revealed that preparers and auditors of financial reports need to focus on accounting for non-financial assets, asset values, revenue recognition, and disclosure of material business risks.

The commission has provided the audit findings to 11 company directors to encourage constructive discussions between companies and auditors to improve the quality of reports and audits.

ASIC executive director for regulation and supervision Greg Yanco, said he expected preparers, approvers, and auditors to focus on the commission's areas of concern.

'Under our integrated financial reporting and audit surveillance program, ASIC targets financial reports for review using risk-based criteria', said Mr Yanco.

'These include where we have identified potential issues in revenue recognition or asset valuation.

'From this pool of reports, we then select audit files to review where we see the potential for a report to be materially incorrect.

'This approach acknowledges that everyone in the financial-reporting chain, from report preparers to directors to auditors, have a role to play in improving the quality of financial reports and audits.

'ASIC will publicly report on the issues we find in financial reports and audit files to promote high-quality financial reporting and continuous improvement in audit quality. Where we see significant deficiencies in financial reports and audit files, we will refer those companies and auditors to ASIC's enforcement team.'

ASIC also expects audit firms to focus on quality. They must identify and address the root causes of audit findings and develop and implement action plans to foster an effective and sustainable audit-quality system. ASIC will continue to review aspects of the quality management systems of the larger audit firms.

# Financial reporting

## Super standard becomes a legislative instrument

The Australian Accounting Standards Board has reissued AASB 1056 *Superannuation Entities* as a legislative instrument under section 334 of the *Corporations Act*.

The AASB first issued the standard without reference to its authority under the act. At the time, the act did not require superannuation entities to prepare and lodge financial statements with ASIC.

The move responds to amendments to the act that require registrable superannuation entities to prepare annual financial statements that comply with Australian accounting standards and lodge them publicly with ASIC.

Since the requirements of AASB 1056 differ slightly from other Australian standards, a legislative instrument had to take precedence over other standards.

In converting AASB 1056 into a legislative instrument, the board has not changed requirements. Some outdated mandates and material have been deleted.

AASB 1056 applies to annual reporting periods beginning on or after 1 July that end on or after 31 December 2023. Earlier application is permitted for periods beginning before 1 July last year.

## Goodwill accounting recommendations

The Board of the International Organisation of Securities Commissions published its report *Recommendations on Accounting for Goodwill* for issuers, audit committees, those charged with governance, and external auditors. The report is aimed at enhancing the reliability, faithful representation and transparency of goodwill recorded and disclosed in the financial statements.

The report results from work of IOSCO's Committee on Issuer Accounting, Audit and Disclosure in recognition that the risk of unrecognised impairment on accumulated goodwill and related disclosures, including 'close call' situations, is an area of concern, particularly in times of increasing economic uncertainty.

IOSCO has reminded issuers that their accounting and disclosures give a fair and transparent presentation of a company's financial position, performance, and cash flows.

Goodwill should not exceed its recoverable amount, impairment losses should be recognised in a timely manner, and disclosures of significant judgements and key assumptions on recoverability be transparent.

ASIC is a member of IOSCO.



# Sustainability reporting

## New bill proposes obligatory climate risks

Treasury released in January an exposure draft legislation *Treasury Laws Amendment Bill 2024: Climate-related financial disclosure* that seeks to amend parts of the ASIC and Corporations acts.

The new act would introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. Comments sought by 9 February.

The bill requires entities that lodge financial reports under Chapter 2M of the *Corporations Act* to meet

certain minimum-size thresholds and/or have emissions-reporting obligations under the NGER scheme to make disclosures relating to climate in accordance with AASB sustainability standards.

The amendments would be phased in over four years.

Climate disclosures would be subject to assurance requirements like those in force for financial reports. They would require entities to obtain an assurance report from their financial auditor. The extent and level of assurance would be set out in standards developed by the AUASB.

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least <u>two of three</u> criteria:			National Greenhouse and Energy Reporting (NGER) reporters	Asset owners
	Consolidated revenue	EOFY consolidated gross assets	EOFY employees		
1 July 2024 Group 1	\$500 million or more	\$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	\$200 million or more	\$500 million or more	250 or more	All other NGER reporters	\$5 billion assets under management or more
1 July 2027 Group 3	\$50 million or more	\$25 million or more	100 or more	N/A	N/A



# Sustainability reporting

## Proposed sustainability standards released

The AASB has released ED SRI 1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* to propose climate-related financial-disclosure requirements.

The exposure draft includes three draft Australian Sustainability Reporting Standards (ASRS standards):

- ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* as the baseline, but with a limitation to climate-related financial disclosure
- ASRS 2 *Climate-related Financial Disclosures*, developed using IFRS S2 *Climate-related Disclosures* as the baseline, and
- ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service standard that would be updated periodically to list relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS standards.

## Climate-related trends disclosed

The AASB and the AUASB have published updated research in *Trends in climate-related disclosures and assurance in the annual reports of ASX-listed entities*. It builds on the previously issued *Climate-related disclosures and assurance in the annual reports of ASX-listed companies* by extending the 2018-2021 sample period to 2022.

- The report identifies several trends in climate-related reporting and assurance, including:
- Entities are increasingly disclosing climate-related information in their annual reports and governance statements
- Climate-sensitive industries continue to be more likely to disclose climate-related information with extant reporting standards and/or guidelines
- Most disclosures are outside financial statements and therefore not subject to audit
- An increase in the number of disclosers referencing Task Force on Climate-Related Financial Disclosures recommendations, including reporting against the ‘four pillars’

- An increase in the amount of climate-related content in key audit matters, and
- Limited assurance remains the dominant level of assurance being provided about climate-related information. Only three instances where both limited and reasonable assurance were provided.

## Sustainability and internal control assistance

The International Federation of Accountants has published *Building Trust in Sustainability Reporting: The Urgent Need for Integrated Internal Control* to address the demand for high-quality sustainability reporting and to prepare accountants for mandatory international and jurisdictional reporting and assurance requirements.

The analysis highlights how companies can integrate sustainability information within their existing internal controls and governance frameworks.

*COSO Internal Control – Integrated Framework* has long provided a good foundation for delivering confidence in corporate reporting. In an integrated internal-control environment, it can provide the foundation for enhancing the quality of sustainability data used for measuring progress on key sustainability objectives and deliver confidence to investors.

To bring about sustainability and climate transitions, companies and investors need to make economic decisions based on information they can trust – related to risks and opportunities, performance and resilience.

An integrated internal-control approach would lead to higher quality and more integrated reporting, IFAC believes, and help companies avoid perceptions of greenwashing and regulatory and legal action.

‘The professional accountant’s skillset is instrumental in bringing about a step change in the quality of sustainability reporting through applying new reporting standards and integrated internal controls’ said Kevin Dancey, IFAC CEO.

‘Integrated internal control can put sustainability information on par with financial information, enhance its assurance readiness, and set the foundation for transitioning to a more sustainable business model.’

# Governance

## Prioritise cyber security, says ASIC

The Australian Cyber Security Centre estimated that cyber-crime cost Australia \$42 billion in 2021. ASIC has called on organisations to prioritise cyber security after its report into corporate Australia's cyber situation identified significant gaps.

*Spotlight on cyber: Findings and insights from the cyber pulse survey 2023* summarises the commission's results.

The survey measured participants' ability to govern and manage organisational-wide cyber risks, identify and protect information assets that support critical services, and detect, respond to, and recover from cyber-security incidents.

The survey's results have exposed deficiencies in the risk management of critical cyber capabilities, indicating that organisations are reactive rather than proactive when it comes to managing cyber security.

Survey result highlights included:

- 44 per cent of participants did not manage third-party and supply chain risks
- 58 per cent had limited or no capability to protect confidential information adequately
- 33 per cent did not have a cyber incident response plan, and
- 20 per cent did have a cyber-security standard.

ASIC chair Joe Longo said, 'For all organisations, cyber security and cyber resilience must be a top priority. ASIC expects this to include oversight of cyber-security risk throughout the organisation's supply chain – it was alarming that 44 per cent of participants are not managing third-party or supply-chain risks. Third-party relationships provide threat actors with easy access to an organisation's systems and networks.'

Participating organisations indicated well-developed capabilities in identity and access management, governance and risk management, and information asset management, big organisations consistently self-reporting more mature cyber capabilities.

Due to competing demands for limited human and financial resources, small organisations lagged in third-party risk management, data security, consequence management, and adoption of industry standards than larger entities.

There is a need to go beyond security alone and build up the ability to respond to and recover from an incident. Plans are not enough. They must be tested regularly. Cyber risks need constant reassessing.

'An effective cyber-security strategy and governance and risk framework should help identify, manage, and mitigate cyber risks to a level that is within the risk tolerance of senior leadership and boards', said Mr Longo.

## Guidance on AI use

The Governance Institute's latest *Good Governance Guide – Generative Artificial Intelligence* explains what you need to know about generative AI in an easy-to-read summary of the risks and benefits of the growing technologies.

The guide offers recommendations for directors and boards about what good governance should look like if they use AI within their organisations.

Generative AI can conduct simple tasks and produce 'new' content that differs from the information from which it is derived. The technology can respond in a 'human-like' conversation or with a finished 'product.' The most familiar example is ChatGPT.

For an organisation, AI can play a role in decision-making, giving rise to ethical dilemmas and reputational issues, and therefore requires solid oversight.

The institute's guide acts as a useful tool for professionals in determining the roles and responsibilities of both boards and directors to ensure its lawful and ethical use.

Governance Institute's CEO Megan Motto welcomes the guide as a 'helpful prompt' for directors and boards to consider the impact of generative AI on their organisations.

'These technologies are rapidly evolving. Organisations must look at the skills and roles needed at a board level and throughout the organisation to support the ethical use of generative AI', she said.

The guide outlines the responsibilities of directors in considering both an approval mechanism for AI used within an organisation as well as the processes employed in the development of applications that contain AI.

Failure to carefully consider the need for an AI strategy to develop and use AI may also result in strategic risks for an organisation and missed opportunities for growth.

## Governance

### Governance Institute guides on greenwashing

The Governance Institute of Australia has released guidance on how to avoid greenwashing.

*Greenwashing: a governance perspective* responds to several recent, high-profile anti-greenwashing moves made by ASIC and the Australian Competition & Consumer Commission over allegedly misleading claims by businesses.

A European Commission review of corporate websites found that 42 per cent of environment-related claims were exaggerated, false, or deceptive. An ACCC 2022 review of Australian corporate websites found that 57 per cent of businesses made concerning claims about their environmental credentials.

The guide examines the extent of greenwashing in Australia, the legal and regulatory environment, and the risks and guiding principles of how to manage environmental disclosures and statements.

## Regulators and legislators

### ASIC announces 2024 enforcement priorities

ASIC has announced its enforcement priorities for 2024, including putting the superannuation industry under the microscope.

ASIC will examine the industry's member-services failures and misconduct relating to the erosion of superannuation balances.

New priorities relating to insurance-claims handling, compliance with financial hardship obligations and the reportable-situation regime have also been added.

Gatekeepers such as auditors, registered liquidators, and financial services and credit licensees who do not comply with legal obligations will also be examined.

'We are taking matters to court and pursuing higher penalties than ever before', said ASIC deputy chair Sarah Court.

'In delivering [...] our priorities this year, we took action against some of Australia's biggest corporations. And we are not deterred from taking challenging cases where legal outcomes are not guaranteed.

'We must test the scope of the laws that parliament has enacted to protect market integrity, consumers, and investors, [and] to ensure those laws have a wide protective application. Where the law is complex, new, or open to interpretation, we are not doing our job if we do not fully explore its reach.'

Greenwashing remains under the commission's spotlight, as are distribution obligations and failures of governance and by directors.



# Regulators and legislators

## ACCC guidance on environmental claims

The ACCC has published eight principles to help businesses ensure that any of their environmental marketing and advertising claims are clear, accurate, and do not mislead consumers.

*Making environmental claims: A guide for business* sets out the ACCC's view of good practice when making environmental claims. It also details obligations under Australian Consumer Law.

The eight principles are:

- Make accurate and truthful claims
- Have evidence to back up your claims
- Don't hide or omit important information
- Explain any conditions or qualifications on claims
- Avoid broad and unqualified claims
- Use clear and easy-to-understand language
- Visual elements should not give the wrong impression, and
- Be direct and open about your sustainability transitions.

'Misleading environmental and sustainability claims continue to be an enforcement and compliance priority for the ACCC', said ACCC acting chair Catriona Lowe.

'[We] have several active investigations underway.

'Our final guidance is intended to improve compliance by helping businesses make meaningful and truthful claims that meet their obligations under the Australian Consumer Law.

'Environmental claims are often technical and can be difficult for businesses to communicate clearly. By following the principles in our guidance, businesses can more confidently make meaningful claims that consumers can understand and trust.

'It is important for businesses to consider whether they are exaggerating the environmental benefits of their product or services and whether they have a reasonable basis to make the claims, otherwise they risk breaching the [law].'

The ACCC will release further guidance for businesses and consumers on emissions and offset claims as well as the use of trust marks. The commission will also develop guidance to help consumers assess and rely on environmental claims.

## ASIC's red light for greenwashing

ASIC's enforcement actions in response to concerns about greenwashing range from warning letters and infringement notices to Federal Court action.

Greenwashing matters that ASIC is currently pursuing broadly allege misleading and deceptive conduct.

Future enquiries may move to examining licence obligations, directors' and officers' duties, and a range of other obligations. New focus areas include:

- Net-zero statements and targets
- Use of terms such as 'carbon neutral', 'clean' and 'green', and
- The scope and application of investment exclusions and screens.

Where public statements are made that assert aspirational environmental positions with a sound basis and supported by business plans and investments, ASIC is unlikely to have concerns.

When statements are made in marketing campaigns designed to encourage investment and promote products with little substance to back up assertions or substantiate how the transition will be achieved, ASIC is likely to request more information.

ASIC has published information sheet 271 *How to avoid greenwashing when offering or promoting sustainability-related products*.

## APRA releases credit-risk observations

The Australian Prudential Regulation Authority has released observations on credit-risk provisioning practices for locally incorporated authorised deposit-taking institutions.

APRA wrote to local ADIs that *do not apply* prescribed provisioning under Prudential Standard APS 220 *Credit Risk Management* to outline key observations on the application of expected credit-loss provisioning.

The authority has recently engaged with a range of ADIs and auditors on ECL practices. It has observed that some ADIs have made progress in reflecting a forward view in provisioning estimates having regard to the current and anticipated risk environment.

It continues to observe a range of provisioning practices and sees opportunities to further embed consistently robust practice across the industry.

APRA's key observations cover:

## Regulators and legislators

Topic	Observation
Controls around model risk management	<p>Many ADIs continue to apply <i>sizeable</i> judgement-based adjustments to compensate for model and data limitations to ensure that provisions reflect credit-risk expectations. Their focus has shifted towards adjustments to capture the impact on borrowers of rising interest rates, high inflation, and commodity market volatility.</p> <p>APRA acknowledges that judgement-based adjustments have a role to play, and models alone might not be calibrated to capture adequately and reflect credit-risk drivers. Such adjustments include the addition or removal of overlays, based on expert judgement, to ensure that provisions reflect actual credit-risk expectations.</p> <p>Where judgemental adjustments are made, APRA expects that <i>they be supported by appropriately documented analysis and robust controls and governance</i>. This includes sound processes for the application of adjustments, controls to ensure the efficacy of outputs and senior management oversight and accountabilities.</p> <p>While APRA recognises the need for judgemental adjustments, it is important that ADIs <i>monitor and continuously improve model performance</i> for credit quality-assessments and provisioning.</p>
Capturing economic uncertainty	<p>Sensitivity analysis is used by ADIs to capture the impact on borrowers of macro-economic headwinds. ADIs often use sensitivity analysis to understand how provisions respond to changes in key underlying drivers of credit risk.</p> <p>In the current environment, it is important that ADIs can perform comprehensive <i>sensitivity analysis on a regular and timely basis</i> across credit portfolios (by appropriate industry, geographical, and other segmentations). This can support management and boards in understanding the sensitivity of the credit portfolio to key credit-risk drivers and help to inform appropriate provisioning levels.</p> <p>Such sensitivity analysis could form part of an ADI's overall stress-testing capability as part of CPG 110 <i>Internal Capital Adequacy Assessment Process and Supervisory Review</i> and risk-appetite review processes.</p> <p>As with judgemental adjustments, APRA expects that <i>appropriate governance</i> be in place for sensitivity analysis, including clear accountabilities, robust controls, and oversight. This underpins both the process of, and decisions made, in the sensitivity-analysis exercise.</p>
Identifying credit deterioration in vulnerable sectors and borrowers	<p>Many ADIs continue to apply manually intensive, and judgement-driven processes to understand and capture the impact of emerging risks on vulnerable borrowers and sectors.</p> <p>It is important for ADIs to <i>invest in systematic processes</i> to identify vulnerable sectors and factor sectoral risks into loss estimates.</p> <p>Processes would include the use of collective assessments, the level of segmentation of models and data, and indicators used to transfer loans in vulnerable sectors into impairment Stage 2 under AASB 9 <i>Financial Instruments</i>.</p>

APRA expects ADIs to consider the Basel Committee's *Guidance on credit risk and accounting for expected credit losses* (December 2015).

## Appendix

### ASIC focus areas for 31 December 2023 reporters

Area	Consideration
Asset values – impairment of non-financial assets	<p>Goodwill, indefinite useful life intangible assets and intangible assets not yet available for use must be tested for impairment annually.</p> <p>Entities adversely impacted in the current environment may have new or continuing indicators of impairment that require testing for other non-financial assets.</p> <p>The appropriateness of key assumptions supporting the recoverable amount of non-financial assets.</p> <p>The valuation method used for impairment testing should be appropriate, use reasonable and supportable assumptions, and be cross-checked for reliability using other relevant methods.</p> <p>An entity's market capitalisation will generally not represent an appropriate fair-value estimate for its underlying business but may be useful as an impairment indicator or in a valuation cross-check.</p> <ul style="list-style-type: none"> <li>▪ Share prices may reflect transactions of relatively small proportionate interests as part of an investor's strategy for a share portfolio.</li> <li>▪ Business may be sold in illiquid markets with few potential participants.</li> <li>▪ A business acquirer may seek synergistic benefits or make significant changes to a business.</li> </ul> <p>Values from applying the ratio of market capitalisation to revenue for other entities to the entity's own revenue will generally be more appropriately used in valuation cross-checks.</p> <ul style="list-style-type: none"> <li>▪ Information may be dated and the limitations in using an entity's own market capitalisation may apply.</li> <li>▪ The other entities must have closely comparable businesses, products, markets, cost structures, funding, and so on.</li> </ul> <p>Disclosure of estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios.</p>
Asset values – property assets	<p>Factors that could adversely affect commercial and retail property values should be considered such as changes in office space requirements of tenants, on-line shopping trends, future economic or industry impacts on tenants, and the financial condition of tenants.</p> <p>The lease-accounting requirements and the impairment of lessee right-of-use assets.</p>
Asset values – expected credit losses on loans and receivables	<p>Whether key assumptions used in determining expected credit losses are reasonable and supportable.</p> <p>Any need for more reliable and up-to-date information about the circumstances of borrowers and debtors.</p> <p>Short-term liquidity issues, financial condition and earning capacity of borrowers and debtors.</p> <p>Ensuring the accuracy of ageing of receivables.</p>

# Appendix

## ASIC focus areas for 31 December 2023 reporters

Area	Consideration
Asset values – expected credit losses on loans and receivables (continued)	<p>Using forward-looking assumptions and not assuming recent debts will all be collectible.</p> <p>The extent to which history of credit losses remains relevant in assessing ECLs.</p> <p>Whether possible future losses have been adequately factored in, using probability-weighted scenarios as necessary.</p> <p>Disclosure of estimation uncertainties and key assumptions.</p> <p>ECLs should be a focus for companies in the financial sector and other sectors. Financial institutions should have particular regard to the impact on ECLs of current uncertainties and economic and market conditions. This includes assessing whether there are significant increases in credit risk for particular groups of lenders. Adequacy of data, modelling, controls and governance in determining ECLs. Disclosing uncertainties and assumptions.</p>
Asset values – financial asset classification	<p>Financial assets are appropriately measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss.</p> <p>Criteria for using amortised cost include whether both:</p> <ul style="list-style-type: none"> <li>▪ Assets are held in a business model whose objective is to hold the assets to collect contractual cash flows, and</li> <li>▪ Contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.</li> </ul>
Value of other assets	<p>The net realisable value of inventories, including whether all estimated costs of completion and necessary to make the sale have been considered in determining net realisable value.</p> <p>Whether it is probable that deferred tax assets will be realised.</p> <p>The value of investments in unlisted entities.</p>
Provisions	<p>The need for and adequacy of provisions for matters such as onerous contracts, leased property make good, mine site restoration, financial guarantees given and restructuring.</p>
Subsequent events	<p>Events occurring after year-end and before completing the financial report should be reviewed as to whether they affect assets, liabilities, income and expenses at year-end or relate to new conditions requiring disclosure.</p>
Disclosure – general considerations	<p>When considering the information that should be disclosed in the financial report and OFR, directors and preparers should put themselves in the shoes of investors and consider what information investors would want to know.</p> <p>Disclosures should be specific to the circumstances of the entity and its businesses, assets, financial position, and performance.</p> <p>Changes from the previous period should be considered and disclosed.</p>

## Appendix

### ASIC focus areas for 31 December 2023 reporters

Area	Consideration
Disclosures in the financial report	<p>Uncertainties may lead to a wider range of valid judgements on asset values and estimates. The financial report should disclose uncertainties, changing key assumptions, and sensitivities. This will assist investors in understanding the approach taken, understanding potential future impacts, and making comparisons among entities.</p> <p>Entities should also explain where uncertainties have changed since the previous full-year and half-year financial reports.</p> <p>The appropriate classification of assets and liabilities between current and non-current categories on the statement of financial position should be considered. That may have regard to matters such as maturity dates, payment terms, and compliance with debt covenants.</p>
Disclosures in the OFR	<p>The OFR should complement the financial report and tell the story of how the entity's businesses, results and prospects are affected by economic and market conditions and changing circumstances. The overall picture should be clear, understandable, and be supported by information that will enable investors to understand the significant factors affecting the entity, its businesses, and the value of its assets.</p> <p>The OFR should explain the underlying drivers of the results and financial position, as well as risks, management strategies, and prospects.</p> <p>All significant factors should be included and given appropriate prominence.</p> <p>The most significant business risks at whole-of-entity level that could affect the achievement of the disclosed financial performance or outcomes should be provided, including a discussion of environmental, social and governance risks.</p> <ul style="list-style-type: none"> <li>▪ The risks will vary depending upon the nature and businesses of the entity and its business strategies. An exhaustive list of generic risks that might potentially affect many entities would not be helpful.</li> <li>▪ Risks should be described in context – for example, why the risk is important or significant and its potential impact and, where relevant, factors within the control of management.</li> </ul> <p>Climate change risk could have a material impact on the prospects of entities. Directors may also consider whether to disclose information that would be relevant under the recommendations of the Task Force on Climate-Related Financial Disclosures. Following the TCFD recommendations will help position entities for any future reporting under standards being developed by the International Sustainability Standards Board.</p> <p>Cyber-security risks could have a material impact for particular entities and require disclosure. Considerations include the impacts of a loss of personal data or a denial-of-service attack, such as the extent and nature of personal data held and possible impacts on revenue.</p>
Non-IFRS financial information	<p>Any non-IFRS profit measures (that is, measures not in accordance with all relevant accounting standards) in the OFR or market announcements should not be presented in a potentially misleading manner (see RG 230 <i>Disclosing non-IFRS financial information</i>).</p>

## Appendix

### ASIC focus areas for 31 December 2023 reporters

Area	Consideration
Disclosure in half-year reports	Reports should disclose information on significant developments and changes in circumstances since 30 June 2023.
New insurance accounting standard	<p>Insurers with full years or half-years ending 31 December 2023 will need to follow the recognition and measurement requirements of the new standard and make disclosures on changes in accounting policies on the adoption of that standard.</p> <p>Insurers should refer to ASIC media release 20-286MR <i>Insurers urged to respond to new accounting standard</i> (17 November 2020) for more information.</p>
Other matters	<p>Consideration of whether off-balance-sheet exposures should be recognised on the statement of financial position, such as interests in non-consolidated entities.</p> <p>Ensuring the recognition of 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 in substance.</p> <p>Large proprietary companies that were previously 'grandfathered' are required to lodge financial reports for years ending on or after 10 August 2022.</p>

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