



## Mazars corporate risk & reporting newsletter

April 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.

This edition explores how Tier 2 entities are required to disclose supplier financing information and the implications of extended legislative instruments as well as the complexities of valuing data and its significance in today's digital economy. We also review emerging trends in sustainability reporting, including climate-reporting bills and global standards, and ASX's new governance principles draft. Last, this edition touches on fraud prevention measures and resources to navigate financial accounting and reporting challenges.



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# Financial reporting

## Tier 2 entities must disclose supplier finance

A Tier 2 entity must provide additional disclosures about its supplier-finance arrangements to enable users to assess their effects on liabilities, cash flows, and exposure to liquidity risk AASB 2024-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures*.

AASB 2024-1 amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to require an entity to disclose:

- The terms and conditions of the arrangements
- The carrying amount of the liabilities that are part of the arrangements
- The carrying amount of those liabilities for which suppliers have already received payment from the finance providers, and
- The range of payment due dates and the effects of non-cash changes.

AASB 2024-1 applies to annual periods beginning on or after 1 January 2024 and that end on or after 30 June 2024, earlier application permitted.

## Parent-entity legislative instrument extended

ASIC has extended the operation of the parent-entity financial statements legislative instrument for a further five years.

*ASIC Corporations (Parent Entity Financial Statements) Instrument 2021/195* allows a parent entity, which is required to include consolidated financial statements in its financial report, also to include its single-entity financial statements.

ASIC has also amended the instrument to provide the same relief to registrable superannuation entities that is currently granted to companies, registered managed investment schemes, and other disclosing entities.

## Valuing data explained

As part of its ongoing series on intangible assets, the International Valuation Standards Council has published a new *Perspectives Paper: Data and Valuation* aimed at navigating valuation of data as an asset.

It offers an overview of methodologies and future considerations.

The paper addresses the complexities of data valuation, emphasising its critical role as an intangible asset within the modern economy. It explores themes, including the economic significance of data, the challenges in its valuation, its impact on financial reporting, and practical considerations for valuation professionals.

It provides a structured exploration of how data acquires value, the influence of artificial intelligence on valuation practices, the intricacies of monetising data while ensuring its protection, and the interplay among data and other intangible assets.

A framework presented aligns with international valuation standards, emphasising enhanced transparency in disclosing the costs associated with data to improve valuation accuracy.

IVSC is a non-profit organisation dedicated to establishing and promoting global valuation standards to serve the public interest. Valuations hold a pivotal position in the global financial landscape. Their importance spans many financial domains, including financial reporting, mergers and acquisitions, financing, insurance, taxation, mortgage lending, asset sales, and the assessment of financial institutions' capital adequacy.



# Financial reporting

## Materiality well understood, says IFRS Foundation

International Financial Reporting Standards Foundation's recent research has shown that there is a 'good understanding of the concept of materiality'.

Companies must judge whether information is material – whether it might reasonably be expected to influence an investor's decisions – when determining recognition, measurement, presentation, and disclosure in financial statements. Judgements about materiality are essential to the application of IFRS standards.

In 2017 and 2018 the International Accounting Standards Board clarified its definition of 'material' and published guidance and a series of case studies to make it easier for companies to make materiality judgements.

National standard-setters have responded to the IASB's 2022 call for research to assess the effect of these initiatives on investors, companies, auditors, and regulators. Working in partnership with academics from their jurisdictions, Australia, Botswana, China, Malaysia, Mexico, and New Zealand researched the issue.

Results showed that there was a good understanding of the concept of materiality. Use of guidance published in 2017 and 2018 varied across jurisdictions. It was found to be helpful when used. Research also suggested that it would be beneficial to continue raising awareness among stakeholders about the guidance.

The IASB is considering how to provide further support to companies in applying materiality judgements in its projects, including in its *Climate-related and Other Uncertainties in the Financial Statements* project. The research will inform such discussions.

In the local context refer to:

- AASB 101 *Presentation of Financial Statements*
- AASB practice statement 2 *Making Materiality Judgements*
- AASB research report 22 MASB research report 2 *Making Materiality Judgements – Malaysian Preparers and Auditors' Perspectives A Joint AASB-MASB Project*, and
- AASB research report 21 *Auditors' Perspectives: The Impacts of IFRS Practice Statement 2 Making Materiality Judgements*.

## Mixed reporting by UK's largest private companies

The UK Financial Reporting Council has published a review of reporting by the UK's biggest private companies. In absence of Australian specific findings for such companies by ASIC, the UK results provide a strong indication of matters that should be considered locally.

Reporting quality was mixed, particularly in terms of how clearly companies explained material matters that were complex or judgemental.

Large private companies are economically significant in the UK, providing a substantial number of jobs and supporting extensive supply chains. High-quality reporting of key matters is important for users of their annual reports and accounts.

Key findings that companies and their auditors should take into account for future annual reports were:

- The best strategic-report disclosures focused on matters that were key to understanding a company. These were explained in a clear, concise and understandable way consistent with financial-statements disclosures. Good-quality reporting did not necessarily require more words.
- Better examples of judgement and estimates disclosures included detail of the specific judgement involved and clearly explained the rationale for conclusions. The significance of estimation uncertainty was much more apparent when sensitivities were quantified.
- Accounting policies for complex transactions and balances were often untailored, providing boilerplate wording.

Entity-specific policies were particularly critical for revenue, where better examples explained the nature of each significant revenue stream, the timing of recognition, and how the value of revenue was determined.

# Sustainability reporting

## Climate-reporting bill introduced

Federal treasurer Jim Chalmers has introduced the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* into parliament.

The bill mandates climate reporting for entities required to prepare and lodge financial reports with the Australian Securities & Investments Commission under Chapter 2M of the *Corporations Act 2001*.

Reporting requirements will begin on 1 January 2025 for Australia's largest listed and unlisted companies and financial institutions, and they will be phased in over time for other big businesses.

More detail when bill is passed.

## Sustainability reporting and assurance are improving

The biggest global firms are reporting on sustainability in finer detail and getting better assurance on these disclosures, according to a report by three accounting bodies.

The International Federation of Accountants, the Chartered Institute of Management Accountants, and the American Institute of Certified Public Accountants gathered environmental, social, and governance information from 1400 companies in 22 jurisdictions. One hundred were from the six biggest economies.

*The State of Play: Sustainability Disclosure and Assurance 2019-2022, Trends and Analysis* found that:

- 98 per cent of companies reported some level of detail on sustainability
- 69 per cent obtained assurance on at least some of their sustainability disclosures, and
- The mix of reporting standards used by companies was fragmented.

The study, an annual benchmark, found that varying sustainability standards and frameworks continued to make it difficult for investors, lenders, and other stakeholders to find consistent and comparable information.

While progress is being made, the report highlights the need for companies worldwide to move towards a global system of sustainability-disclosure requirements.

The study found that more than half of the companies used Sustainability Accounting Standards Board standards and the Task Force on Climate-related Financial Disclosures framework, which should ease a transition to International Sustainability Standards Board standards released last year.

'While we're moving toward commonly accepted global standards, some 87 per cent of companies continued to use a mix of standards and frameworks for reporting', said David Madon, IFAC's director of sustainability, policy and regulatory affairs.

'That leaves investors and lenders in a bind when it comes to having consistent, comparable and high-quality sustainability information at hand.'

Among the study's highlights were:

- 98 per cent of companies reported some information on sustainability, an increase from 91 per cent in 2019 when IFAC, AICPA, and CIMA first began researching sustainability
- Use of standalone sustainability reports had declined by 27 per cent in the past three years, only 30 per cent of companies using them in 2022, reflecting the growing inclusion of that information in companies' annual and integrated reports
- 69 per cent of companies obtained assurance on at least some of their sustainability disclosures, up 5 per cent from last year and 18 per cent from 2019, and
- The scope of assurance areas also expanded, yet still remains limited assurance in general.

Accountancy firms (as opposed to consultants and other service providers) handled 58 per cent of assurance engagements related to sustainability in 2022, 1 per cent better than the previous year. In some markets, notably the United States, the figure was well below 50 per cent.

'When companies use accounting firms for sustainability assurance, they're more likely to choose the same firm they use to audit their financial statements', said Sue Coffey, AICPA & CIMA's CEO, public accounting.

'Because the level of confidence with and reliability on sustainability disclosure should be the same as financial information, we expect more companies will recognise that accounting firms are best suited for this critical work,' she added.

'We think this is a likely driver behind the increase from 16 per cent to 23 per cent for US accounting firms performing this work.'

# Sustainability reporting

## More companies disclosing climate risks

Thirty-five per cent of entities canvassed in new research said they disclosed climate-related risks in financial-statement notes.

The figure is almost double the proportion (18 per cent) disclosing climate risks two years ago.

The research is done jointly by CA ANZ, the University of Melbourne, and the University of Queensland.

The main area in financial statements affected by climate-related risks is impairment of non-current assets. Climate-risk reporting is most prevalent among energy and utilities companies.

'Climate risks are impacting companies' disclosures concerning asset valuations, impairment testing, financial risks, and provisions', said Chartered Accountants ANZ's reporting and assurance leader, Amir Ghandar.

'As you would expect, emissions-intensive industry sectors such as energy and utilities have a larger proportion of companies [affected], but we're also seeing sectors such as consumer staples and financials calling out climate risks as a key financial consideration', Mr Ghandar said.

Climate-risk reporting is least prevalent in information technology and communications.

'Interestingly, none of the 10 largest global tech companies mentioned climate-related risks in their financial statements', said Mr Ghandar.

The report follows the release last month of commonwealth Treasury's final policy statement on mandatory climate-related disclosures and draft legislation for consultation. Disclosure requirements over and above existing financial-reporting requirements might be added.

## Global standards on sustainability ethics coming

Two new exposure drafts set forth the first comprehensive suite of global standards on ethical considerations in sustainability reporting and assurance.

The proposed standards aim to foster greater trust in publicly-communicated sustainability information through the application of a consistent ethical approach.

The exposure draft on *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* proposes a clear framework of expected behaviours and ethics provisions for use by sustainability assurance practitioners regardless of their professional backgrounds as well as professional accountants involved in sustainability reporting.

The standards' goal is to lessen greenwashing and elevate the quality of sustainability information, thereby fostering greater public and institutional trust in sustainability reporting and assurance.

The exposure draft on *Using the Work of an External Expert* proposes an ethical framework to guide professional accountants and sustainability-assurance practitioners to work out whether an external expert has the necessary competence, capabilities, and objectivity to use his or her work for the intended purposes. The proposals also include provisions to help apply the code's conceptual framework when using the work of an external expert.

These proposed ethics (including independence) standards are especially relevant in a context where sustainability information is increasingly important for capital markets, consumers, corporations and their employees, governments, and society at large, and when new providers outside accounting profession play a prominent role in sustainability assurance.

To coincide with the launch of public consultation, the International Accreditation Forum has announced its intention to stipulate to national accreditation bodies around the world that the International Ethics Standards Board for Accountants proposed ethics standards for sustainability assurance are to be used when accrediting and authorising conformity assessment bodies to carry out assurance work on corporate sustainability disclosures.

The creation of effective sustainability standards requires not only high-quality sustainability reporting and assurance standards but also a global baseline of ethics (including independence) standards to ensure the integrity and objectivity of sustainability information. The IESBA's proposed standards are aimed at completing and supporting its effectiveness.

The IESBA seeks comment on *Using the Work of an External Expert* by 30 April and on the sustainability exposure draft by 10 May.

# Governance

## Being a director isn't easy

A speech by ASIC chair Joe Longo at the Australian Institute of Company Directors Australian Governance Summit addressed the following themes:

- Complying with directors' duties may be difficult, but ASIC expects you to do it; it can be done, and there are benefits
- Developments in AI, cyber threats, sustainable finance, and ESG mean greater complexity in the business environment, and
- Directors need to ask themselves the right questions: Are you acting honestly? Are you putting the company first? Do you have a continuous curiosity to understand the business and associated risks? And are you challenging management and getting professional advice?

## ASIC prosecutes a director without ID

ASIC has begun the first prosecution of a director for failing to comply with the obligation to have a director-identification number.

A director appeared in Downing Centre Local Court and was formally charged with one count of contravening section 1272C(1) of the *Corporations Act 2001* by failing to have a director ID. The court granted an interim non-publication order prohibiting the defendant's identity. The charges were listed for a further mention in April.

Directors are required by law to verify their identity with Australian Business Registry Services before receiving a director ID. They must apply for their IDs within the following timeframes:

- Directors appointed before 1 November 2021 had until 30 November 2022 to apply
- New directors appointed for the first time between 1 November 2021 and 4 April 2022 had 28 days from their appointment to apply, and
- From 5 April 2022, intending new directors had to apply before being appointed.

The maximum penalty for an offence against section 1272C(1) of the act is 60 penalty units. The defendant in this matter is facing a maximum penalty of \$13,320.



# Governance

## Know the new workplace laws

The Fair Work Ombudsman is encouraging employers to learn and comply with workplace-law changes or risk facing new significantly higher penalties.

The second set of *Closing Loopholes* changes were legislated in February and follow the federal government's first *Closing Loopholes* changes passed in December.

The second set of changes take effect at various dates throughout this year and next, many already in effect. The new laws cover gig work, casual employment, and the right to disconnect, among other areas.

'Employers, employees and independent contractors need to understand the changes, which create new or changed responsibilities and rights in a range of areas', Ms Booth said.

'The changes substantially increase the penalties which a court can order for non-compliance with a range of workplace laws, by up to five times for non-small business employers.

'This sends a clear message and expectation -- employers must invest the time and resources to meet their new legal obligations.'

## Big hikes in Fair Work Act penalties

New maximum penalties that courts can impose for certain contraventions of the Fair Work Act have come into effect. They apply only to employers who aren't individuals or small businesses.

Maximum penalties have increased five times to a total of \$469,500 per contravention for a company.

For serious contraventions, maximum penalties have increased also five-fold, to \$4,695,000 for a company (previously \$939,000).

Maximum penalties applying to individuals and small businesses are \$18,780 per contravention for an individual and \$93,900 for a company.

Maximum civil penalties available for non-compliance with a compliance notice have doubled for employers of any size to a total of \$18,780 for an individual and \$93,900 for a company per contravention.

From no earlier than 1 January, penalties for underpayment-related contraventions by non-small businesses can be three-times the amount of the underpayment if an applicant chooses to pay this way.

A serious contravention under the Fair Work Act has become one that is done either knowingly or recklessly (it is no longer required to prove a breach was done knowingly and systematically).

## Workers to be redefined in August

From no later than 26 August, there will be new definitions of *employee* and *employer* under the Fair Work Act.

In determining whether an employment relationship exists, the totality of the relationship must be considered, including the 'real' substance, practical reality, and true nature of the working relationship.

Definition changes mean an employee is a casual only when:

- There fails to be a firm advance commitment to continuing and indefinite work, factoring in the real substance, practical reality, and true nature of the employment relationship, and
- The employee is entitled to be paid a casual loading or a specific pay rate for casuels.

A new pathway will also replace existing rules for eligible casual employees to change to permanent employment if they want to.

## 'Employee-like' workers to be protected

From no later than 26 August, the interests of 'employee-like' workers in the gig economy will be protected under new laws.

'Employee-like' workers work through a digital labour platform and can have low bargaining power and pay and little say in how they perform their work.

The Fair Work Commission – a separate government organisation from the FWO – will be able to set minimum standards by making orders, and will be able to establish guidelines. They will also be able to deal with disputes on the unfair 'deactivation' of an employee-like worker from a digital labour platform.

Unions that are registered organisations representing employee-like workers will be able to make collective agreements with digital-labour-platform operators.

Independent contractors who earn less than a high-income threshold, including employee-like workers, will be able to apply to the commission if they think their services contract contains unfair terms. The threshold is yet to be set.

Similar rules and processes will also apply to independent contractors in the road-transport industry.

# Governance

## Workers to have a right to leisure time

Employees will soon have the right to refuse to monitor, read, and respond to contact or attempted contact from an employer or third party outside working hours.

The change will be mandated in 18 months for small-business employers and in six months for other employers.

An employer may deem that the refusal is unreasonable in certain cases, including the reason for the contact, the level of disruption, any compensation the employee receives to be available or work additional hours, and the employee's role, responsibilities, and circumstances.

Disputes can be taken to the Fair Work Commission if they can't be resolved at work.

If you have any questions pertaining to the Fair Work Act changes, Mazars HR and IR specialists can assist.

## How to respond to cyber-attacks

New guidance on cyber security aims to help company directors respond to cyber-attacks.

*Governing Through a Cyber Crisis – Cyber Incident Response and Recovery for Australian Directors* has been developed by the Australian Institute of Company Directors in partnership with the Cyber Security Cooperative Research Centre and law firm Ashurst.

Based around the 'four Rs' – readiness, response, recovery, and remediation – the guidance covers the most vexing issues directors face in cyber crises, from the development of a cyber-incident readiness plan, execution of an effective crisis communications strategy, whether or not to make a ransom payment, and the road to rebuilding reputation.

Federal Minister for Cyber Security Clare O'Neil said business leaders, boards, and directors have important obligations to protect their organisations and customers from cyber risks.

'Australians rightly expect businesses to take cyber security seriously. The explosion of cyber incidents over the past two years has shown that we cannot be complacent on cyber. All Australian organisations need to embrace better cyber governance from the board down', she said.

'This guidebook [provides] detailed guidance to corporate leaders on cyber preparation, response and recovery. I commend this guidance to Australian organisations of all sizes and encourage leaders to embed these principles into how they do business.'

AICD managing director and CEO Mark Rigotti said cyber security was at the forefront of contemporary Australian governance.

'Boards have a key governance role to play in dealing with increasing cyber threat. Cyber security is consistently the number one thing keeping directors awake at night and this resource will put them in a stronger position to navigate the challenges posed by cyber risks.'

The guidance builds on the joint 2022 AICD and Cyber Security Cooperative Research Centre's *Cyber Security Governance Principles*.

An accompanying *Snapshot of Governing Through a Cyber Crisis – Cyber Incident Response and Recovery For Australian Directors* includes a checklist of practical steps for SME and NFP directors to respond to a critical cyber incident.



# Governance

## Be wary about who handles personal information

The risk of outsourcing personal-information handling to third parties is highlighted in *Notifiable data breaches report July to December 2023* by the Office of the Australian Information Commissioner.

Information commissioner Angelene Falk said the OAIC continued to be notified of a high number of multi-party breaches, most resulting from a breach by a cloud or software provider.

‘Organisations need to proactively address privacy risks in contractual agreements with third-party service providers’, said Commissioner Falk.

‘This includes having clear processes and policies in place for handling personal information and a data-breach response plan that assigns roles and responsibilities for managing an incident and meeting regulatory reporting obligations.’

From July to December 2023, 483 data breaches were reported to the OAIC, up 19 per cent from the first half of the year. There were an additional 121 secondary notifications, a significant increase from 29 in January to June.

Malicious and criminal attacks remained the leading source of data breaches, accounting for 322 notifications. Most (211) were cyber-security incidents. The health and finance sectors remained top reporters of data breaches, 104 and 49 notifications respectively.

Commissioner Falk said the notifiable data breaches scheme was well established and the OAIC expected organisations to comply with their obligations.

‘The OAIC is escalating its regulatory actions into data breaches, and we have commenced civil penalty proceedings in the Federal Court’, she said.

‘We are prioritising regulatory action where there appears to be serious failures to comply with the scheme’s reporting requirements and to take reasonable steps to protect personal information and where organisations are holding onto data much longer than is necessary.

‘As the guardians of Australians’ personal information, organisations must have security measures in place to minimise the risk of a data breach.

‘If a data breach does occur, organisations should put the individual at the front and centre of their response, ensuring they are promptly told so their risk of harm can be minimised.’

## Supply-chain management questions

The latest release by the Institute of Internal Auditors Australia aims to help directors ask the right questions about supply-chain management.

*What Directors should ask about Supply Chain Management* is part of the institute’s critical-questions series.

A supply chain is a sequence of processes involved in production and distribution of a commodity. Supply-chain steps include moving and transforming raw materials into finished products and transporting and distributing them to end users. Entities involved in supply chains include producers, vendors, warehouses, transportation companies, distribution centres, and retailers.

A big question the institute asks is how management, audit committees, and governing bodies know that supply chains are sound, transparent, and ethical.

## Twenty greenwashing questions directors should ask

The Institute of Internal Auditors Australia has released *What Directors should ask about Greenwashing* in its 20-critical-questions series.

Greenwashing is deliberately false or careless claims about environmental performance that represent an organisation as environmentally friendly. They are often characterised by spending more on marketing than on minimising environmental impact – they over-represent the extent to which organisation practices are sustainable or ethical.

An important question is whether a board and audit committee know if environmental-performance statements are meaningful and accurate.

Has an organisation released statements about its commitment to the environment? What has it done or not done to tackle climate change?

Has it issued an ESG statement? Has it considered the matter and noted what competitors are doing? What is the mood of its shareholders towards the environmental and social and governance issues?

Has the organisation established internal processes to verify accuracy and completeness of ESG data and outcomes as part of its overall assurance arrangements.

These are just some of the questions the IIAA is posing.

## ASX

### ASX releases draft of new governance principles

The ASX Corporate Governance Council has released for comment a draft fifth edition of its *Principles and Recommendations*.

The new edition retains eight fundamental principles with refinements in expression, and includes 33 general recommendations alongside seven additional ones applicable in specific circumstances.

Among key updates are provisions related to board skills and diversity disclosure, stakeholder engagement practices, non-executive directors' remuneration structures, and provisions for clawing back performance-based executive pay.

The proposed fifth edition includes emphasised disclosure regarding code-of-conduct breaches and verification processes for periodic reports, along with assessing and disclosing material and ESG risks.

Stakeholders are invited to provide feedback on the proposed changes before 6 May. The fifth edition is slated for release in early 2025, potentially taking effect for financial years beginning on or after 1 July 2025.

## Fraud

### Billions lost through fraud

To support organisations and anti-fraud professionals, the Association of Certified Fraud Examiners has released *Occupational Fraud 2024: A Report to the Nations*.

The 13th edition of the ACFE's biennial research continues a pivotal role in shedding light on occupational fraud, offering insights into the mechanics of fraud within organisations worldwide.

The report contains:

- Global fraud statistics, highlighting the impact globally of occupational fraud, losses in the cases analysed amounting to more than \$3.1 billion
- Case studies and implications analysing 1921 actual fraud cases investigated by the examiners, providing insights into the schemes used and lessons learned
- The impact of COVID-19 as cases were investigated between January 2022 and September 2023. As the typical fraud case lasts 12 months before being detected, most cases in the study probably occurred at the height of the COVID-19 pandemic, and 53 per cent of them had at least one pandemic-related factor contribute to the fraud
- Profile of a fraudster, detailing the typical fraudster, including his or her position within an organisation, tenure, and the methods he or she most commonly used to conceal fraud
- Methods of detection, emphasising the increasing role of technology and data analytics in uncovering fraudulent activities, and
- An evaluation of the importance of effective anti-fraud controls, more than half of occupational frauds occurring due to a lack of internal controls or an overriding of them.



# Regulators and legislators

## New help in handling FAR

ASIC and the Australian Prudential Regulation Authority have published new information to help banks, insurers, and superannuation trustees prepare for the commencement of the Financial Accountability Regime.

The FAR, which took effect for banks from 15 March, imposes a strengthened responsibility and accountability framework to improve risk-governance cultures of APRA-regulated entities, their directors, and most senior executives.

The regime will be mandated for the insurance and superannuation entities from 15 March next year.

An information package includes the following guidance materials:

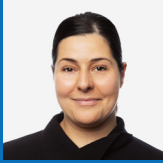
- A paper to assist entities and their accountable persons to understand and comply with their FAR obligations
- An updated accountability-statement guide and template to help entities subject to FAR enhanced-notification obligations to prepare accountability statements, and
- Instructions to help entities to report FAR breaches to APRA and ASIC.

The information package also includes a consultation relevant for insurance and superannuation entities comprising:

- A joint letter introducing the consultation package and outlining steps that insurance and superannuation entities should take ahead of the FAR mandate, and
- Proposed amendments to regulator rules and draft key functions descriptions for insurance and superannuation entities.



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