Accounting policy update

Newsletter – Edition No. 38, June 2020

**Scope: This biannual newsletter outlines areas of importance in public sector financial reporting. Please distribute to both budget and financial reporting areas of Victorian public sector entities.**

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# Overview

As most of our controlled public sector entities and departments prepare for their 30 June 2020 financial year end reporting requirements, we provide an update of the key changes that are relevant to the reporting period.

The [*2019-20* *Model Report for Victorian Government Departments*](https://www.dtf.vic.gov.au/sites/default/files/document/2019-20%20Model%20Report.pdf) has been released and is available from the DTF website. The major changes made in this edition are the changes in the financial statements and accompanying notes relating to the adoption of the new accounting standards, effective this reporting period.

As a reminder, a suite of new Financial Reporting Directions (FRD) was released in April, prescribing the transitional requirements for the new accounting standards. Some existing FRDs have also been reviewed and updated.

Valuation assessments for 2019-20 need to be finalised using the April indices provided by the Valuer-General Victoria (VGV).

Coronavirus (COVID-19) has or may have an impact on financial reporting in the following areas which are detailed in the newsletter:

* **Annual report attestations**. These should be completed as usual for the 2019-20 financial reporting period in relation to all applicable Standing Directions 2018 and Instructions, unless the timing is impacted by COVID-19. Entities will be specifically contacted by the DTF Financial Frameworks team where this is the case.
* Due to the delay of the 2020-21 Budget, the wage rate of 4.25 per cent has continued to rely on economic assumptions made for the *2019-20 Budget Update* and continues to be appropriate at this time until the 2020-21 Budget is released.
* Key financial publication dates including changes to publication dates for non-material entities and the budget papers.
* **Financial statement disclosures**. Guidance has been developed to assists entities to consider the specific impact COVID-19 has or may have on them, ensuring the impact and any significant judgements, assumptions and estimates are appropriately disclosed.

The new Resource Management Framework takes effect from 1 July 2020 with the old Financial Reporting Operation Framework retired at 30 June 2020.

# 2019–20 reporting year

## Major updates/reminders

***2019‑20 Model Report for Victorian Government Departments***

The Department of Treasury and Finance (DTF) has released the *2019-20 Model Report for Victorian Government Departments* (Model Report) and made it available on the DTF website – <https://www.dtf.vic.gov.au/model-report/2019-20-model-report>, including a list of the key changes from the previous year’s publication.

The key changes include:

* transitional disclosures in the financial statements and associated notes arising from the first-time adoption of the following suite of Australian Accounting Standards becoming effective in the 2019-20 reporting year:
  + AASB 15 *Revenue from Contracts with Customers*;
  + AASB 1058 *Income of Not-for-Profit Entities*;
  + AASB 16 *Leases*; and
  + AASB 1059 *Service Concession Arrangements: Grantors*,
* relocating appendices relating to accounting standard guidance, tools and associated checklists to the DTF website (<https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists>); and
* editorial changes and enhancements.

**Note**: Since the Model Report was released on the website in late June, it has been identified the *Protected Disclosures Act 2012* was renamed to the *Public Interest Disclosures Act 2012* on 1 January 2020. This has now been updated in the Model Report to reflect the name change only. There are no changes in the disclosures required by the Act. FRD 22H *Standard disclosures in the report of operations* has also been updated to reflect this change.

The Accounting policy team held a model report workshop in mid-July for departmental finance representatives. Attached are the slides which were discussed that focused on the new accounting standards disclosure notes.



## New Accounting Standards position papers

The position papers that were initially issued in the instruction pack to facilitate the preparation of the *2019‑20 Budget* have been updated following VAGO review and have been distributed to departmental finance representatives. The documents are also published on the DTF’s website (<https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists>).

There has been an update to the incremental borrowing rate calculator which now incorporates a weighted average life matrix which provides the weighted average lives of amortising the loans based on quarterly payments and the length of the loan. The matrix now calculates the appropriate TCV bond yield rate based on the weighted average lease term of each respective lease. Calculations performed to date indicate that the difference between this calculator and the previous calculator is not material, but entities are encouraged to validate this assumption as they see fit.

A new position paper has been added in relation to subsequent measurement of right-of-use assets (RoU) for 30 June 2020. This paper is a practical expedient for 30 June 2020 to relieve the burden of having to revalue RoU assets if certain conditions are met and also incorporates disclosure requirements.

Other than those noted above, there have been no significant changes to the position papers.

## AASB 124 *Related Party Disclosures* project

***Ministerial declarations for the 2019‑20 reporting period***

To support the compliance and preparation of financial reports by not‑for‑profit public sector entities, information consistent with the requirements of AASB 124 *Related Party Disclosures* is collected twice in each financial year from Cabinet ministers, as not all Victorian public sector not-for-profit entities have a 30 June year-end. For example, the year-end for Alpine Resort entities, TAFEs and schools is 31 December.

At the time of publication of this newsletter, all but two Cabinet ministers have submitted their declarations for the period 1 January to 30 June 2020, with the majority having a nil return.

Where information was included in a Minister’s declaration, DTF has provided information extracted from declarations to the relevant portfolio entities to perform a ‘significance’ and a ‘materiality’ assessment of the nature and amount of the related party transactions for disclosure, where relevant, in the entities’ annual financial reports.

Entities are reminded that, under the agreed protocols, consultation is required with the relevant Minister(s) and DTF, where disclosures are proposed.

***Movements in key management personnel for departments and agencies***

Disclosure for the 2019-20 reporting period will need to include information relevant to all key management personnel appointed during the period, including any recent executive appointments and departures during the relevant financial reporting period**.**

***Guidance information***

A declaration certificate, checklist and comprehensive guidance are included on DTF’s website to assist entities to comply with AASB 124 at: <https://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures>

Some of these resources were previously included in Appendices 9 and 10 of the *2018-19 Model Report*. They have been moved to the website to streamline the Model Report.

## Interim valuation assessments

Entities are reminded to ensure they have conducted their interim valuation assessments in preparation for year-end.

You would have already conducted your 2019-20 interim valuation assessments using the October 2019 indices as a preliminary indicator to assess how the fair values for land have moved for the period, prior to finalising your valuation assessment using the April 2020 indices. In instances where the cumulative fair value movements have moved substantially, and movements are greater than 30 per cent but less than 40 per cent, we strongly recommend you alert the Valuer-General Victoria (VGV) in anticipation that the 40 per cent threshold may be triggered before the formal fifth valuation year, requiring a formal valuation for that class of assets for the 30 June 2020 reporting year.

The Valuer-General’s land indices can be found at: <https://www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices>.

Victorian Government departments, agencies and entities should contact their portfolio department in the first instance for the login details to access the land indices. Our December 2016 Newsletter, Edition No. 31 contains information on interim valuation assessments, including an example of how to assess fair value movements on a cumulative basis. The publication can be found at [www.dtf.vic.gov.au/Accounting-policy-newsletters](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Accounting-policy-update-newsletters).

### COVID-19 impacts on land indices

The financial year indices that were released in April 2020 are based on market data that was available up to the first week of March, which is prior to any effect of COVID-19.

VGV only releases postcode indices twice a year: in April and Calendar in October.

It is the VGV’s view that the effects of COVID-19, if any, will take over three months to flow through into the internal property databases from the sale contract date. This means that VGV will not see any significant sales numbers for the April-June 2020 period until September. The next release in October should reflect any market fluctuations throughout the year, if any, and adjust for the current figures.

As agreed with the Victorian Auditor General’s Office, entities should continue to use the April 2020 indices as published. However, if management is able to present other evidence to justify why the particular index is not an appropriate measurement basis, then that is acceptable, but the evidence will need to be agreed with your audit team.

## Machinery of government manual

The revised *Victorian public sector operating manual on machinery of government changes* (MoG Manual) was released in January 2020. It outlines the agreed framework and protocols for working through MoG changes across government. The updated version is available on the DTF website <https://www.dtf.vic.gov.au/financial-management-government/machinery-government-changes-vps-operating-manual>

The MoG Manual provides a comprehensive source of guidance to assist departments in planning and implementing machinery of government (MoG) changes. The guide was updated to include departmental and central agency feedback following the implementation of the machinery of government changes announced by the Premier in November 2018.

***Key updates to the MoG Manual***

* Update of references to last round of MoG where relevant e.g. PAA Orders, AAA Orders, Appropriation Bill, etc.
* Includes requirement for departments to provide DPC with a copy of any Section 28 Transfers made.
* Includes a requirement for DTF to consult with departments to discuss impacts including resourcing, timelines and other issues that could affect the delivery of the MoG prior to issuing timelines.
* Departments to consider appointing an independent third party to be a sounding board as part of negotiations. DTF/DPC may nominate someone to assist with the negotiation process if there are delays.
* If one of the central agencies is a party to an arbitration, the other central agency would drive the arbitration process.
* Secretaries to trigger arbitration in writing.
* A separate Sample MOU will be uploaded on the DTF website based on what is considered to be the best example from the recent round.
* Includes specific guidance on year-end processes when part-year MoGs have occurred, based on experience to date.
* The miscellaneous reference checklist updated for some practical suggestions from departments e.g. collect cab charges from department areas, cancel subscription services.

## Financial reporting directions and guidance notes

The following new FRDs were issued in April prescribing the transitional requirements on the application of the new accounting standards:

* FRD 121 *Transitional requirements on the application of AASB 15 Revenue from Contracts with Customers*;
* FRD 122 *Transitional requirements on the application of AASB 1058 Income of Not-for-Profit Entities*;
* FRD 123 *Transitional requirements on the application of AASB 16 Leases*; and
* FRD 124 *Transitional requirements on the application of AASB 1059 Service Concession Arrangements: Grantors*. This was reissued in June to clarify that service concession intangible assets shall be subsequently measured applying the revaluation model. FRD 109A *Intangible Assets* was also reissued in June to clarify this.

The transitional elections are all consistent with the elections communicated as part of the 2019-20budget process.

The Accounting Standards Checklists for these standards are available on the DTF website at: <https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists>.

***FRD 103H Non-financial physical assets***

Minor editorial amendments have been made to FRD 103H. These include:

* entities being referenced by their new classifications; entities are now classified by functions of government (COFOG) which have been issued by the ABS;
* an updated schedule of asset revaluations (as from 2019-20) following the last machinery of government changes and for consistency with the new COFOG classifications. The schedule has been included in the guidance paper ‘Guidance on the application of FRD 103H *Non-financial physical assets’*, to provide a reference point on entities revaluation years, and is available on the DTF website <https://www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance>; and
* clarifying that service concession assets under construction/development shall be measure at fair value (current replacement cost).

***FRD 120N Accounting and Reporting pronouncements***

FRD 120N includes the accounting and reporting pronouncements applicable to departments and public bodies for the 2019-20 reporting period. This includes the newly issued FRDs and amendments outlined above, as well as the Accounting Standards and Standing Directions. It also includes details of new and amending standards that will apply in future reporting periods.

A guidance document has been added to the FRD, which outlines the Australian Accounting Standard reporting requirements for for-profit and not-for-profit entities in the Victorian public sector.

# Financial reporting legislation

## Standing Directions – annual report attestation

The Standing Directions 2018 under the *Financial Management Act 1994* (2018 Standing Directions) require a formal attestation statement in your annual reports. All agencies with a 30 June reporting date must complete an attestation statement for the period **1 July 2019** to **30 June 2020,** covering **all** applicable 2018 Standing Directions and Instructions as required and in a form prescribed by [**Instruction 5.1, clause 2**](http://www.dtf.vic.gov.au/files/0b43b325-68cc-4285-9055-a5a6010a5a01/Standing-Directions-Instructions-2016.docx)**.2**.

However, please note that in light of the COVID-19 pandemic and its impacts on the operations of agencies, specific advice on the 2019-20 timing and other requirements for attestation is being provided to agencies by the DTF Financial Frameworks team.

If you have any further queries on the Standing Directions, please direct your queries to the DTF Financial Frameworks team mailbox: [standing.directions@dtf.vic.gov.au](mailto:standing.directions@dtf.vic.gov.au).

## Superannuation Guarantee Levy

There has been no change to the Superannuation Guarantee Levy (SGL) schedule since the last update on the SGL in the December 2017 newsletter edition. Consistent with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014, the future SGL rates will remain at 9.5 per cent until 2021, before increasing by 0.5 per cent annually between 2021 and 2025.

The next SGL rate change for departments and agencies will be effective from 1 July 2021 when the rate will increase to 10 per cent.

## Wage inflation and discount rates

DTF publishes the wage inflation and discount rates quarterly for the September, December and March quarters. Rates are released monthly for the June quarter of each financial year. The current rates should be used by entities to remeasure their employee benefit provisions for the 2019-20 reporting period.

The wage inflation and discount rates are published for both the 2004 and 2008 Long Service Leave Models. Wage inflation rates reflect current economic assumptions made in the preparation of the Budget. The discount rates are representative of the yield of Commonwealth Treasury bonds, published by the Reserve Bank of Australia.

The graph above illustrates the downward trend of the annual discount rate during 2019-20 (a considerable decrease of 45.2 basis points since 30 June 2019) which, all else being equal, will increase the present value of the annual and long service leave liabilities.

The wage inflation rate has remained stable and currently sits at 4.25 per cent. Due to the deferral of the 2020‑21 Budget, the rate has continued to rely on economic assumptions made for the *2019-20 Budget Update*. At this time, the wage rate is still appropriate and will be reviewed when the 2020-21 Budget is released.

## Proposed amendments to financial management legislation financial framework

The Financial Management and Constitution Acts Amendment Bill 2017 lapsed when the previous Parliament expired on 30 October 2018. The Government is currently analysing and assessing various options for financial management reform, which may result in proposals for legislative change. Departments will be consulted on any such proposals as applicable.

## Resource Management Framework

The Resource Management Framework (RMF) assists Victorian Government departments in understanding the legislative and policies for the State’s financial management framework, encompassing the areas of goal setting, public sector planning, budgeting, service delivery, accountability and review.

The RMF was recently updated and the new version is available on the DTF website, taking effect from 1 July 2020. The former Financial Reporting Operations Framework (FROF) was also retired as at 30 June 2020. Some of the topics in the FROF were incorporated into existing Financial Reporting Directions, while other topics were merged into the updated RMF.

A complete list of the changes in the RMF since the last edition can be found on pages 4 and 5 of the updated RMF.

## Key financial publication dates for the State of Victoria in 2019‑20

The following table shows the indicative key publication tabling dates for some of the State’s upcoming financial publications.

|  |  |  |
| --- | --- | --- |
| Reporting year | Publication | Anticipated release dates – actual dates to be confirmed |
| **2020-21** | Interim Appropriation (Supply) Bills, for the period 1 July-31 December 2020 | Introduced and passed by Parliament 23 April 2020. |
| **2019**-**20** | Annual Financial Report | **Legislative due date**: 15 October 2020 |
| **2019-20** | Department and entity reporting (for entities with a 1 July-30 June reporting period) | **Legislative due date**: 31 October 2020, and this will apply for material entities. For non-material entities release will depend on audit timing as determined by the Auditor‑General. The Assistant Treasurer has extended by six weeks the period within which non‑material agencies must submit their financial statements to the Auditor‑General. |
| **2020-21** | Budget papers | **TBD** |
| **2020-21** | September Quarterly Financial Report | **Legislative due date**: 15 November 2020 |
| **2020-21** | Budget Update | **Legislative due date**: 15 December 2020 |
| **2020-21** | Mid-Year Financial Report | **Legislative due date**: 15 March 2021 |

# Net debt impacts of new accounting standards

## Lease liabilities

The introduction of AASB 16 *Leases* resulted in most operating leases being recognised as borrowings on the State’s balance sheet, in turn impacting net debt. Net debt is a crucial key fiscal aggregate for the State. Due to this, borrowing lease limits have been imposed to ensure monitoring and control in relation to key fiscal targets. These limits were set based on the *2019-20 Budget* and will be reviewed as part of the annual borrowing approval process. Due to the deferral of the 2020-21 Budget, the annual borrowing approval review will be undertaken in two parts. An initial six-month approval is based on *2019-20 Budget Update*, and an additional review will be undertaken following 2020-21 Budget.

Entities need to closely monitor the value of their lease portfolio to ensure that borrowings are maintained within their total limit.

Any queries regarding the lease liability limit policy should be directed to Stephanie Braun in DTF Balance Sheet Management on 7005 9266 or via email ([stephanie.braun@dtf.vic.gov.au](mailto:stephanie.braun@dtf.vic.gov.au)) and any queries on the estimates update process should be directed to the relevant DTF Portfolio Analysis Relationship Manager.

## Centralised Accommodation Management

In October 2019, DTF’s Shared Service Provider (SSP) commenced a phased transition to the Centralised Accommodation Management (CAM) model. From this date all SSP clients are mandated to use SSP office accommodation management services (including real estate, facilities, projects and security) in all locations (CBD, metropolitan and regional areas).

Since 1 July 2019, property leases have been recorded as both right of use asset (ROU) and an associated ROU liability by each CAM department or agency. With the transfer of control of these under CAM to DTF, these were derecognised by departments and recognised by DTF as at 1 November 2019. The transfer of these leased assets and associated liabilities was approved to be designated as a transfer of capital contribution from 1 November 2019 under FRD 119 5(d). In addition, SSP has engaged with departments to transition office accommodation and relaxed budgets. Departments have actively engaged with SSP to work through the funding complexities and seek agreement on the quantum of their lease profile over the budget and forward estimates.

In June 2020, the Assistant Treasurer endorsed the funding model for CAM, including documenting and recording a two-year short-term arrangement between SSP and departments from 1 November 2019 to 31 October 2021. DTF met with all affected client departments during June to discuss the new arrangements and ensured the new short-term agreements were signed by 30 June 2020.

It was agreed in collaboration with VAGO that the two-year short-term arrangement is to be treated as a service contract, where departments need to record the payments as service expenses and not leases and disclose in the commitments note of the financial statements the following:

* the existence of the occupancy service agreement with SSP, including the fact that a significant judgement was made that it is not a lease; and
* disclose the remaining cash commitments under the arrangement.

After this transition the finalised CAM occupancy principles are expected to replace this arrangement.

The external lease arrangements will continue to be reflected within SSP as they have been since CAM became operational on 1 November 2019.

Any queries regarding CAM should be directed to your DTF relationship manager.

DTF has developed suggested disclosures for the two-year short-term arrangement for entities to consider for 30 June 2020 financial reporting. These disclosures are not mandatory:



# AASB update

## Key AASB standards effective for 2019-20

### AASB 15, AASB 1058 and AASB 16

For not-for-profit entities, the following accounting standards apply to reporting periods beginning on or after 1 January 2019:

* AASB 15 *Revenue from Contracts with Customers*;
* AASB 1058 *Income of Not-for-Profit Entities*; and
* AASB 16 *Leases*.

For Victorian Government entities with a 30 June year end, the initial application date was 1 July 2019.

Amending standards that have been issued between 1 January and 30 June 2020 to amend the application of AASB 16 include:

### AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*

This Standard amends AASB 16 to provide a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications (e.g. account for as variable lease payment instead).

The Standard applies to annual periods beginning on or after 1 June 2020 with earlier application permitted.

No similar relief is provided to lessors, and therefore the lease modification requirements of AASB 16 will need to be applied where rent concessions have been provided to lessees in response to COVID-19.

A number of amending standards affecting AASB 15, AASB 16 and AASB 1058 were issued between 1 July to 31 December 2019 and entities should refer to the December 2019 newsletter for specific details of these, as well as other information included in previous newsletters. Information about the application of these standards have also been included in previous newsletters and entities should refer to these for guidance.

Entities can also refer to FRDs 121, 122 and 123 which prescribe the transition requirements on the application of the new standards.

### AASB 1059 *Service Concession Arrangements: Grantors*

AASB 1059 *Service Concession Arrangements: Grantors* applies to reporting periods beginning on or after 1 January 2020, however, the State has adopted it one year earlier. This means that for entities with a 30 June year end, the initial application date was 1 July 2019.

Information about AASB 1059 has been included in previous newsletters and entities should refer to these for guidance, including information about amending standards issued from 1 July to 31 December 2019 in the December 2019 newsletter.

No amending standards have been issued from 1 January to 30 June 2020 that impact AASB 1059.

## Key AASB Standards issued but not effective for 2019‑20 issued since 1 January 2020

There have been no key AASB Standards issued from 1 January 2020 that will affect Victorian public sector reporting.

## Other new standards issued since 1 January 2020

We have only included amending standards below that may have an impact on Victorian public sector reporting. There have been other amending standards issued by the AASB, however, information has not been included below because we deem them to have no impact.

### AASB 2020-1 *Amendments to Australian Accounting Standards* *– Classification of Liabilities as Current or Non-Current*

This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. A liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

The standard was issued to apply to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. ED 301 *Classification of Liabilities as Current or Non-current – Deferral of Effective Date* was issued, with comments closing in May 2020, which proposed deferring the effective date of the amendments to reporting periods beginning on or after 1 January 2023. Earlier application is still permitted.

This standard is not expected to have a significant impact on the Victorian public sector.

### AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*

This Standard amends AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 and AASB 141 which arise from changes made by the International Accounting Standards Board. Specific changes include amendments to:

* AASB 9 to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability,
* AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related costs in profit or loss, instead of deducting the amounts received from the cost of the asset; and
* AASB 137 to specify the costs that an entity includes when assessing whether a contract is loss-making.

This Standard applies to annual reporting periods beginning on or after 1 January 2022 with earlier application to individual standards permitted.

This Standard is not expected to have a significant impact on the Victorian public sector.

Entities can refer to previous newsletters and Appendix 2 *Issued but not yet effective Australian accounting standards and reporting pronouncements* of FRD 120N which summarises standards (including amending standards) that have been issued but are not effective for the 2019-20 reporting period.

## Exposure drafts issued for comment by the AASB since 1 January 2020

We have only included exposure drafts (ED) below that may have an impact on Victorian public sector reporting. There have been other exposure drafts issued, however, information has not been included below because we deem them to have no impact. All exposure drafts can be accessed by searching ‘Exposure Drafts’ on the following page: <https://www.aasb.gov.au/Work-In-Progress/Search-for-a-specific-document.aspx>.

### ED 298 *General Presentation and Disclosures*

This ED was issued by the International Accounting Standards Board (IASB) to improve how information is communicated in financial statements, with a focus on information about performance and the statement of profit or loss.

The proposed changes are due to it becoming increasingly common for entities to report measures of financial performance that do not reflect the requirements of the accounting standards. Measures include ‘underlying profit’, ‘cash profit’, ‘core earnings’ and different forms of ‘EBITDA’. These are not always clearly reconciled to profit in the financial statements. With no clear authoritative guidance on the measures reported on, comparability is reduced both between entities and also for any given entity over time.

Comments to the AASB are due on 15 August 2020. The AASB will submit their comments to the IASB by 30 September 2020.

DTF reviewed the ED and is of the view that it is private-sector focused. Further, it should be tailored to public sector needs.

### ED 299 *Interest Rate Benchmark Reform – Phase 2*

This ED was issued by the IASB and sets out proposals for amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurements*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*.

It follows the *Interest Rate Benchmark Reform* which was issued in September 2019 (refer to AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*).

ED 299 is the next phase of the project for the IASB to consider the effects of the interest rate benchmark reform on an entity’s financial statements when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates that are based on transaction data.

The objective is to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition to alternative benchmark rates.

It is anticipated that the proposals in the ED will affect entities with financial assets and financial liabilities, including lease liabilities, that are referenced to an interest rate benchmark (e.g. IBOR) and have been or will be required to replace the interest rate benchmark with an alternative benchmark rate as a result of the reform. It will also affect entities that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are directly affected by the reform and entities that provide disclosures applying the requirements in IFRS 7.

The IASB proposes that the amendments will apply to annual reporting periods beginning on or after 1 January 2021 with earlier application permitted. Comments on the ED were due to the AASB by 15 May 2020 for their consideration before providing comment to the IASB on 25 May 2020.

This will have limited impact on Victorian public sector reporting.

# Other developments

## Financial reporting considerations – COVID-19

DTF have provided a guidance document to the sector that covers the key areas anticipated to be impacted by COVID-19 and the disclosure requirements/considerations for 30 June 2020 financial reporting. This guidance does not need to be mandatorily applied:



# How to contact us

## AccPol mailbox

When directing accounting policy enquiries to DTF at [accpol@dtf.vic.gov.au](mailto:accpol@dtf.vic.gov.au), **departments** are requested to support their questions with the facts and with clear referencing to Accounting Standards, FRDs and other authoritative pronouncements related to their queries.

**Other entities** are requested to contact their portfolio department in the first instance to resolve any accounting policy issues.

## Useful websites

**AASB**– [www.aasb.com.au](http://www.aasb.com.au) for information on AASB pronouncements, discussion papers and ED publications.

**International Public Sector Accounting Standards Board** (IPSASB) – [www.ipsasb.org](http://www.ipsasb.org) for information on IPSASB and IPSAS pronouncements.

## DTF website

**The DTF website (for all internet users)** – [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au/Government-Financial-Management/Financial-reporting-policy) covers FRDs and guidance, the Model Report, accounting policy updates, long service leave models and related data input, including wage inflation and discount rates. From the menu on the top of the home page, users should select Financial Management of Government, then Financial Reporting Policy.

**VPS users** should contact their portfolio department in the first instance for the login details to access the information relating to the 2008 Long Service Leave Model and/or, the Valuer‑General building and land indices.

For assistance with technical difficulties using the DTF website, e.g. broken links, please contact the DTF web team via email at [dtfweb@dtf.vic.gov.au](mailto:dtfweb@dtf.vic.gov.au)

## About the Accounting Policy Update

Accounting Policy Update is published by the Accounting Policy team of DTF twice a year. The aim of the newsletter is to highlight changes in financial reporting requirements affecting public sector entities, outlining any financial reporting related policy decisions reached by DTF and to inform readers of other developments that are under consideration by the AASB.

**Disclaimer:** No responsibility is taken for any action(s) taken on the basis of information contained in this Newsletter nor for any errors or omissions in that information.

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