Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Interest Rate Benchmark Reform – Phase 1**	**Meeting:**	AASB November 2019 (M173)
Topic:	**Tier 2 – Reduced Disclosure Requirements**	**Agenda Item:**	17.1
		Date:	6 November 2011
Contact(s):	Thomas Liassis tliassis@aasb.gov.au 03 9617 7636 Fridrich Housa fhousa@aasb.gov.au 03 9617 7618	**Project Priority:** **Decision-Making:** **Project Status:**	Low Low n/a

Objective of this paper

1 The objective of this paper is to seek the Board's decision on staff proposals to not provide any concessions for reduced disclosure requirements (RDR) for Tier 2 entities through applying the current RDR decision-making framework to AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* in respect of the amendments to disclosure requirements in AASB 7 *Financial Instruments: Disclosures*.

Attachments

AgendaPaper 17.2 AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* [included in the supplementary folder]

Background

2 The AASB issued AASB 2019-*3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* in October 2019, which amends some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform and requires entities to provide additional information in financial statements about their hedging relationships that are directly affected by these uncertainties.

3 The International Accounting Standards Board (IASB) has also started work on Phase 2 of its IBOR Reform project, which will consider the potential consequences on financial reporting from the

replacement of an existing benchmark with an alternative. The AASB is closely monitoring and contributing to this project where appropriate.

Application of the RDR decision-making framework to disclosure requirements in AASB 2019-3

4 Staff noted that the IASB decided to exempt entities from the requirement in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the reporting period in which an entity first applies the amendments to IFRS 9 and IAS 39 as respondents to the IASB's Exposure Draft ED/2019/1 indicated that such disclosures would not provide useful information to users of financial statements and would therefore be onerous for preparers.

5 AASB Staff analysis in this Staff Paper applies the current RDR decision-making framework and its operational guidance as set out in the *Tier 2 Disclosure Principles*[1]. In general, when the recognition and measurement requirements are the same (or substantively the same) in the *IFRS for SMEs* Standard as in the full IFRS Standards, the proposals for disclosure concessions in a respective Standard are determined by benchmarking to disclosures in the *IFRS for SMEs* Standard – unless the relevant Tier 1 disclosures are new or revised disclosures that were not considered in the development or revision of the *IFRS for SMEs* Standard. In such cases (i.e. when relevant Tier 1 are disclosures are new), the 'user need' and 'cost-benefit' principles have to be applied to determine the disclosures for Tier 2 entities. The 'user need' and 'cost-benefit' principles also have to be applied to determine the disclosures for Tier 2 entities in cases when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

6 Staff also noted that the AASB is currently undertaking a project to replace the current RDR framework and issued Exposure Draft ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities* (August 2019) with a proposed effective date of annual periods beginning on or after 1 July 2020. The amendments contained in AASB 2019-3 are effective for annual periods beginning on or after 1 January 2020 and therefore there is a need to consider RDR disclosures for these amendments.

7 AASB 2019-3 amends AASB 7 by adding new disclosure requirements in respect of the hedging relationships where an entity applies the amendments to AASB 9 and AASB 139 during the period of uncertainty. Staff noted that the IASB decided to exempt entities from the requirement in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the reporting period in which an entity first applies the amendments to IFRS 9 and IAS 39 as respondents to the IASB's Exposure Draft ED/2019/1 indicated that such disclosures would not provide useful information to users of financial statements and would therefore be onerous for preparers.

8 Paragraph 24A of AASB 7 has been quoted below to show the existing partial RDR concessions (shaded), including the nominal amounts of the hedging instruments. Paragraph 24H was added to AASB 7 by AASB 2019-3 and also requires disclosure of the nominal amounts of instruments in an affected hedge relationship (paragraph 24H(e)).

Extract from AASB 7

24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

[1] AASB Tier 2 Disclosure Principles

(a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);

(b) the line item in the statement of financial position that includes the hedging instrument;

(c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and

(d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

...

Uncertainty arising from interest rate benchmark reform

24H For hedging relationships to which an entity applies the exceptions set out in paragraphs 6.8.4–6.8.12 of AASB 9 or paragraphs 102D–102N of AASB 139, an entity shall disclose:

(a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;

(b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

(c) how the entity is managing the process to transition to alternative benchmark rates;

(d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and

(e) the nominal amount of the hedging instruments in those hedging relationships.

Staff recommendation

9 Staff do not recommend any concessions for RDR in respect of the disclosure requirements added to AASB 7 by AASB 2019-3 for the following reasons:

(a) in respect of RDR considerations, the disclosures will only affect Tier 2 entities with variable rate loans that are referenced to the interest rate benchmarks that are subject to the uncertainty referred in paragraph 2 above and have designated hedging instruments in a hedge relationship;

(b) disclosures (a)-(d) of paragraph 24H provide further detail about the entity's risk management and hedging strategy, which Tier 2 entities must disclose as well, so these disclosures are consistent with the current level of RDR disclosures;

(c) while RDR doesn't require disclosure of the nominal amount of hedging instruments classified by risk category and type of hedge (paragraph 24A(d)), the information required by paragraph 24H(e) (i.e. the nominal amount of the hedging instruments in the hedging relationship where an entity applied the amendments to AASB 9 and AASB 139 during the period of uncertainty) is expected:

(i) to be available to an entity given the information required by paragraphs 24H (a)-(d) and therefore the preparation of such disclosure is not expected to be onerous; and

(ii) to be short-term disclosures which will cease to be required for Tier 2 entities when the uncertainties cease to exist.

(d) following the guidance provided in *Tier 2 Disclosure Principles,* staff notes that that users of financial statements of non-publicly accountable for-profit private sector entities are interested in information about measurement uncertainties, and therefore staff consider that user needs and the benefits of the information outweigh the limited cost of the preparation of the disclosures required by paragraph 24H(e).

10 The Staff proposal is consistent with the New Zealand Accounting Standards Board (NZASB) decision at its October 2019 meeting not to provide any RDR concessions in relation to the new disclosures.

Question to Board members

Q1 Do Board members agree that no RDR concessions should be provided for the disclosures added to AASB 7 by AASB 2019-3?