

**Analysis of Disclosure Requirements  
Proposed in AASB Exposure Draft  
ED 208 *Hedge Accounting* with a  
View to Determining Corresponding  
Tier 2 Disclosure Requirements**

## Analysis of Disclosure Requirements

Disclosures proposed in AASB ED 208	Disclosure Requirements in <i>IFRS for SMEs</i> , Section 12	Comments
<p><b>40</b> Hedge accounting disclosures shall provide information about:</p> <ul style="list-style-type: none"> <li>(a) an entity’s risk management strategy and how it is applied to manage risk;</li> <li>(b) how the entity’s hedging activities may affect the amount, timing and uncertainty of its future cash flows; and</li> <li>(c) the effect that hedge accounting has had on the entity’s statement of financial position, statement of comprehensive income and statement of changes in equity.</li> </ul>	<p><b>12.29</b> If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 12.23-12.25) it shall disclose the following:</p> <ul style="list-style-type: none"> <li>(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss.</li> </ul> <p>...</p>	<p>Paragraph 40 is the overall principle for the disclosures relating to hedge accounting.</p> <p>Paragraphs 40(a) and 40(c) are regarded broadly as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> hedge accounting model does not reflect in the financial statements the effect of an entity’s risk management activities. Some of the requirements in the paragraphs (below) supporting paragraphs 40(a) and 40(c) are proposed to be retained in the Tier 2 disclosure requirements. Accordingly, based on paragraphs 5 and 6 of ‘Tier 2 Disclosure Principles’, paragraphs 40(a) and 40(c) should be retained in the Tier 2 disclosure requirements.</p> <p>Although the related paragraphs (below) supporting paragraph 40(b) are proposed to be excluded from the Tier 2 disclosure requirements, paragraph 40(b) broadly corresponds to some degree to the requirements in paragraph 12.29(a) of the <i>IFRS for SMEs</i>. Accordingly, based on paragraph 2 of ‘Tier 2 Disclosure Principles’, paragraph 40(b) should be retained in the Tier 2 disclosure requirements.</p>
<p><b>41</b> An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the</p>		<p>Paragraph 41 has no equivalent in the <i>IFRS for SMEs</i> and does not relate to a recognition and measurement difference. Based on paragraph 3 of ‘Tier 2 Disclosure Principles’, paragraph 41 should be excluded from the Tier 2 disclosure requirements.</p>

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<p>financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.</p>		
<p>42 When paragraphs 44-52 require the entity to separate by risk category the information disclosed, the entity shall determine each category of risk on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.</p>		<p>Paragraph 42 has no equivalent in the <i>IFRS for SMEs</i> and does not relate to a recognition and measurement difference. Based on paragraph 3 of ‘Tier 2 Disclosure Principles’, paragraph 42 should be excluded from the Tier 2 disclosure requirements.</p>
<p>43 To meet the objectives in paragraph 40, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need any additional information to evaluate the quantitative information disclosed. However, when an entity determines the level of aggregation or disaggregation, it shall consider the level of aggregation or disaggregation it uses for other disclosure requirements in AASB 7 <i>Financial Instruments: Disclosures</i>.</p>		<p>Paragraph 43 has no equivalent in the <i>IFRS for SMEs</i> but is in the nature of guidance for the application of paragraph 40, which is proposed to be retained in the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph 43 should be retained in the Tier 2 disclosure requirements.</p>
<p>The risk management strategy</p> <p>44 An entity shall explain its risk management strategy for each category of risk exposure that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):</p> <ul style="list-style-type: none"> <li>(a) how each risk arises;</li> <li>(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety</li> </ul>	<p>12.27 An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 12.17:</p> <ul style="list-style-type: none"> <li>(a) a description of the hedge;</li> <li>(b) a description of the financial instruments designated as hedging</li> </ul>	<p>Some of the requirements in paragraph 44 correspond to some degree to paragraph 12.27 of the <i>IFRS for SMEs</i>, however they are regarded broadly as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> hedge accounting model does not reflect in the financial statements the effect of an entity’s risk management activities.</p>

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<p>for all risks or hedges a risk component (or components) of an item; and</p> <p>(c) the extent of risk exposures that the entity manages.</p> <p><b>49</b> An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by category of risk for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):</p> <p>(a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); and</p> <p>(b) the notional amounts or other quantity (e.g. tonnes or cubic metres) related to the hedging instruments.</p>	<p>instruments and their fair values at the reporting date; and</p> <p>(c) the nature of the risks being hedged, including a description of the hedged item.</p>	<p>Based on paragraphs 5 and 6(f) of ‘Tier 2 Disclosure Principles’, in relation to information that relates to user needs and transactions about the entity’s risk management, paragraph 44 should be retained in the Tier 2 disclosure requirements.</p> <p>Except for the words “in a tabular format”, paragraph 49(a) corresponds to the words “... financial instruments and their fair values at the reporting date” of paragraph 12.27(b) of the <i>IFRS for SMEs</i>. Based on paragraph 2 of the ‘Tier 2 Disclosure Principles’, paragraph 49(a), except for the words “... in a tabular format,...”, should be retained in the Tier 2 disclosure requirements.</p> <p>Paragraph 49(b) has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p>
<p><b>The amount, timing and uncertainty of future cash flows</b></p> <p><b>45</b> For each category of risk exposure, an entity shall disclose quantitative information to enable users of its financial statements to evaluate the types of risk exposures being managed in each risk category, the extent to which each type of risk exposure is hedged and the effect of the hedging strategy on each type of risk exposure.</p>		<p>Paragraph 45 has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p>
<p><b>46</b> An entity shall provide a breakdown that discloses, for each subsequent period that the hedging relationship is expected to affect profit or loss, the following:</p> <p>(a) the monetary amount or other quantity (e.g. tonnes, cubic metres) to which the entity is</p>		<p>Paragraph 46 has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p>

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<p>exposed for each particular risk (for hedges of groups of items, an entity shall explain the risk exposure in the context of a group or net position);</p> <p>(b) the amount or quantity of the risk exposure being hedged; and</p> <p>(c) in quantitative terms, how hedging changes the exposure (i.e. the exposure profile after hedging such as the average rate at which the entity has hedged that exposure).</p>		
<p><b>47</b> For each category of risk, an entity shall disclose a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.</p>		<p>Paragraph 47 has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p>
<p><b>48</b> If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources and explain the resulting hedge ineffectiveness.</p>		<p>Paragraph 48 has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p>
<p><b>The effects of hedge accounting on the primary financial statements</b></p> <p>(Paragraph 49 discussed above)</p>		
<p><b>50</b> An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by category of risk for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):</p> <p>(a) for fair value hedges:</p> <p>(i) the carrying amount of the accumulated gains or losses on the hedged item presented in a separate line item in the</p>		<p>Paragraph 50 has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p>

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<p>statement of financial position, separating assets from liabilities; and</p> <p>(ii) the balance remaining in the statement of financial position of any hedges for which hedge accounting has been discontinued.</p> <p>(b) for cash flow hedges and hedges of a net investment in a foreign operation:</p> <p>(i) the balance in the cash flow hedge reserve for continuing hedges that will be reclassified when the hedged item affects profit or loss; and</p> <p>(ii) the balance remaining in the cash flow hedge reserve from any hedges for which hedge accounting has been discontinued.</p>		
<p><b>51</b> An entity shall disclose, in a tabular format, the following amounts separately by category of risk for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):</p> <p>(a) for fair value, cash flow hedges and hedges of a net investment in a foreign operation:</p> <p>(i) changes in the value of the hedging instrument recognised in other comprehensive income;</p> <p>(ii) hedge ineffectiveness recognised in profit or loss; and</p> <p>(iii) a description of the line item(s) in the income statement in which hedge ineffectiveness is included.</p> <p>(b) for fair value hedges, the change in the value of the hedged item.</p> <p>(c) for cash flow hedges and hedges of a net investment in a foreign operation:</p> <p>(i) for hedges of net positions, the hedging</p>	<p><b>12.28</b> If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19-12.22) it shall disclose the following:</p> <p>(a) the amount of the change in fair value of the hedging instrument recognised in profit or loss; and</p> <p>(b) the amount of the change in fair value of the hedged item recognised in profit or loss.</p> <p><b>12.29</b> If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk,</p>	<p>The requirement in paragraph 51 to disclose information in a tabular format has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, the words “in a tabular format” should be excluded from the Tier 2 disclosure requirements.</p> <p>Paragraphs 51(a)(i), 51(a)(ii) and 51(b) relating to fair value hedges, correspond to paragraph 12.28 of the <i>IFRS for SMEs</i> and, based on paragraph 2 of ‘Tier 2 Disclosure Principles’ should be retained in the Tier 2 disclosure requirements.</p> <p>Paragraphs 51(a)(i) and 51(a)(ii) relating to cash flow hedges and hedges of a net investment in a foreign operation, correspond to paragraphs 12.29(c) and 12.29(e) and, based on paragraph 2 of ‘Tier 2 Disclosure Principles’, should be retained in the Tier 2 disclosure requirements.</p> <p>Paragraph 51(c)(i) has no equivalent in the <i>IFRS for SMEs</i>,</p>

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<p>gains or losses recognised in a separate line item in the income statement (see paragraph 37);</p> <p>(ii) the amount reclassified from the cash flow hedge reserve into profit or loss as a reclassification adjustment (see AASB 101) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss); and</p> <p>(iii) a description of the line item in the income statement affected by the reclassification adjustment (see AASB 101).</p>	<p>commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 12.23-12.25) it shall disclose the following:</p> <p>...</p> <p>(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;</p> <p>(c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23);</p> <p>(d) the amount that was reclassified from other comprehensive income to profit or loss for the period (paragraphs 12.23 and 12.25); and</p> <p>(e) the amount of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognised in profit or loss (paragraph 12.24).</p>	<p>and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not recognise hedges of net positions. Based on paragraphs 5 and 6(f) of ‘Tier 2 Disclosure Principles’, in relation to information that relates to user needs and transactions and other events and conditions encountered by such entities, paragraph 51(c)(i) should be retained in the Tier 2 disclosure requirements.</p> <p>Paragraph 51(c)(ii), except for the words following the text “... reclassification adjustment”, corresponds to paragraph 12.29(d) of the <i>IFRS for SMEs</i> and, based on paragraph 2 of the ‘Tier 2 Disclosure Principles’, should be retained in the Tier 2 disclosure requirements.</p> <p>Paragraphs 51(a)(iii) and 51(c)(iii) have no equivalent in the <i>IFRS for SMEs</i>, and based on paragraph 3 of the ‘Tier 2 Disclosure Principles’, should be excluded from the Tier 2 disclosure requirements.</p> <p>Paragraph 12.29(b) contains requirements specific to the <i>IFRS for SMEs</i>. Based on paragraph 4 of ‘Tier 2 Disclosure Principles’, paragraph 12.29(b) should not be included in the Tier 2 disclosure requirements.</p>

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<p><b>52 An entity shall provide a reconciliation of accumulated other comprehensive income in accordance with AASB 101, either in the statement of changes in equity or in the notes to the financial statements, that:</b></p> <p><b>(a) allows users of its financial statements to identify the amounts that relate to the disclosures in paragraphs 51(a)(i), (c)(i) and (c)(ii); and</b></p> <p><b>(b) differentiates between amounts associated with the time value of options that hedge transaction related hedged items and amounts associated with the time value of options that hedge time period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 33 (see paragraphs B67-B69).</b></p>		<p>Paragraph 52(a) requires information that is dealt with at a more general level in paragraph 106(d)(ii) of AASB 101 <i>Presentation of Financial Statements</i> (equivalent to paragraph 6.3(c)(ii) of the <i>IFRS for SMEs</i>), which was retained in the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph 52(a) should be retained in the Tier 2 disclosure requirements.</p> <p>Paragraph 52(b) has no equivalent in the <i>IFRS for SMEs</i> and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not recognise time value of options as eligible hedging instruments. Based on paragraphs 5 and 6(f) of ‘Tier 2 Disclosure Principles’, in relation to information that relates to user needs and transactions and other events and conditions encountered by such entities, paragraph 52(b) should be retained in the Tier 2 disclosure requirements.</p>