Analysis AASB ED 230 *Classification and Measurement: Limited Amendments to AASB 9* with a View to Determining Corresponding Tier 2 Disclosure Requirements

Only disclosure paragraphs in AASB ED 230, which includes IASB ED/2012/4, have been considered in this Analysis. The AASB requests comments on the disclosure proposals for Tier 2 Disclosure Requirements, in particular in paragraphs 8(a), 8(h), 9, 12C, 12D, 16A, 20(a)(vii), 20(a)(viii) and 20(b) of AASB 7 *Financial Instruments: Disclosures* (which incorporates IFRS 7 *Financial Instruments: Disclosures*). Your view is requested only in respect of proposed changes in disclosure requirements arising from ED 230, which are shown as underlined for new text and struck through for deleted text

Paragraphs and parts of paragraph shown as shaded in the first column of the analysis have previously been amended (and thereby excluded) from the Tier 2 Disclosure Requirements by AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (issued in June 2010) and therefore further comment is not being sought. The shading is included in this analysis for context only.

Analysis of Proposed Disclosures

Disclosures proposed for IFRS 7 in AASB ED 230 *Classification and Measurement: Limited Amendments to IFRS 9*	**Disclosure Requirements in *IFRS for SMEs*, Sections 11 and 12**	**Comments**
Statement of financial position **Categories of financial assets and financial liabilities** **8 The carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:** **(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value through profit or loss in accordance with IFRS 9;** **…** **(h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are mandatorily measured at fair value through other comprehensive income in accordance with IFRS 9; and (ii) equity investments designated to be measured as such upon initial recognition.**	**Statement of financial position – categories of financial assets and financial liabilities** **11.41 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:** **(a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i) and paragraphs 12.8 and 12.9).** **(b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a)).** **(c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 12.8 and 12.9).** **(d) financial liabilities measured at fair value through profit or loss (paragraphs 12.8 and 12.9).** **(e) financial liabilities measured at amortised cost (paragraph 11.14(a)).** **(f) loan commitments measured at cost less impairment (paragraph 11.14(b)).**	**Paragraph 8(a)** Paragraph 8(a), except for the shaded (and prior to the proposed new text) corresponds to paragraph 11.41(a) of *IFRS for SMEs*. The AASB previously decided to retain paragraph 8(a), except for the shaded text based on paragraph 2 of the Tier 2 Disclosure Principles, applying the ‘identical or similar disclosures’ principle. The shaded text would require separate presentation of financial assets designated at fair value through profit or loss (FVPL) upon initial recognition and those mandatorily at FVPL. However this separate presentation is not required by *IFRS for SMEs*. Accordingly, the AASB excluded the shaded text based on paragraph 3 of the Tier 2 Disclosure Principles (ie. where there are dissimilar disclosures from of *IFRS for SMEs*, apply the ‘user need’ and ‘cost-benefit’ principles of the *IFRS for SMEs*) on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. Applying the ‘user need’ and ‘cost-benefit’ principles of the *IFRS for SMEs* in paragraph 3(a) of the Tier 2 Disclosure Principles, the proposed new text in paragraph 8(a) should also be **excluded** from Tier 2 disclosure requirements on the grounds that the cost to entities preparing the disclosures is expected to exceed

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		the benefits to users. **Paragraph 8(h)** Paragraph 8(h) has no equivalent in the *IFRS for SMEs* since the *IFRS for SMEs* does not have a measurement category of financial assets at fair value through other comprehensive income (FVOCI). The AASB previously retained paragraph 8(h) in the Tier 2 disclosure requirements (prior to the proposed new text) based on paragraphs 5 and 6(e) of the Tier 2 Disclosure Principles, ie. applying the 'user need' and 'cost-benefit' principles of the *IFRS for SMEs*. Paragraph 8(h) was considered to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements without significantly increasing the costs to the reporting entity. The proposed new text in paragraph 8(h) has no equivalent in the *IFRS for SMEs*. Based on the rationale in paragraph 5 of the 'Tier 2 Disclosure Principles' (ie. apply 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement accounting policies are not the same as those under *IFRS for SMEs*) and paragraph 9 of the Tier 2 Disclosure Principles (concerning information about subclassifications on the face of financial statements), the proposed new text should be **excluded** from the Tier 2 disclosure requirements on the grounds that the cost to entities preparing the

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		disclosures is expected to exceed the benefits to users.
Financial assets or financial liabilities at fair value through profit or loss **9 If the entity has designated as measured at fair value <u>through profit or loss</u> a financial asset (or group of financial assets) that would otherwise be measured at <u>fair value through other comprehensive income or</u> amortised cost, it shall disclose:** **(a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the financial asset (or group of financial assets) at the end of the reporting period;** **(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;** **(c) the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:** **(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or** **(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.** **Changes in market conditions that give rise**		**Paragraph 9** Paragraph 9 has no equivalent in the *IFRS for SMEs* as the *IFRS for SMEs* does not provide an election for designation of financial assets and financial liabilities at FVTPL. The AASB previously excluded paragraph 9 from the Tier 2 disclosure requirements based on paragraph 5 of the Tier 2 Disclosure Principles, on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. Based on the rationale immediately above, the proposed new text in paragraph 9 should also be **excluded** from Tier 2 disclosure requirements.

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to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates; and **(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.**		
Reclassification **12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified <u>out of the fair value through profit or loss category</u> ~~so that they are measured at amortised cost~~ in accordance with paragraph 4.4.1 of IFRS 9:** **(a) the effective interest rate determined on the date of reclassification; and** **(b) the interest income or expense recognised.** **12D If an entity has reclassified financial assets <u>out of the fair value through profit or loss category</u> ~~so that they are measured at amortised cost~~ since its last annual reporting date, it shall disclose:** **(a) the fair value of the financial assets at the end of the reporting period; and** **(b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.**		**Paragraph 12C** Paragraph 12C has no equivalent in the *IFRS for SMEs*. The AASB previously excluded paragraph 12C for Tier 2 Disclosure Requirements based on paragraph 5 of the Tier 2 Disclosure Principles, on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. Based on the rationale immediately above, the proposed new text in paragraph 12C should also be **excluded** from Tier 2 disclosure requirements. **Paragraph 12D** Paragraph 12D has no equivalent in the *IFRS for SMEs*. The AASB previously retained paragraph 12D in the Tier 2 disclosure requirements based on paragraphs 5 and 6(d) of the Tier 2 Disclosure Principles (information about the entity's accounting policy choices). Paragraph 12D was considered to satisfy the

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		information needs of users in regard to information about the entity's accounting policy choices without significantly increasing costs to the reporting entity. Based on the same rationale, paragraph 12D including the proposed new text (appearing as underlined), should be **retained**.
Allowance account for credit losses **<u>16A</u> <u>The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9 is not directly reduced by an accumulated impairment amount and an entity is prohibited from presenting the accumulated impairment amount in the statement of financial position. However, an entity shall disclose the accumulated impairment amount in the notes to the financial statements.</u>**		Paragraph 16A has no equivalent in the *IFRS for SMEs*. Based on paragraphs 5 (user need/cost-benefit) and 6(e) (disaggregation of amounts presented in the financial statements) of the Tier 2 Disclosure Principles, paragraph 16A should be **retained** in the Tier 2 disclosure requirements on the grounds that it is expected to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements without significantly increasing the costs to the reporting entity.
Statement of comprehensive income **Items of income, expense, gains or losses** **20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:** **(a) net gains or net losses on:** **(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial**	**Items of income, expense, gains or losses** **11.48 An entity shall disclose the following items of income, expense, gains or losses:** **(a) income, expense, gains or losses, including changes in fair value, recognised on:** **(i) financial assets measured at fair value through profit or loss.** **(ii) financial liabilities measured at fair value through profit or**	**Paragraph 20(a)(i) [shown for context]** Paragraph 20(a)(i), except for the shaded text, corresponds to paragraphs 11.48(a)(i) and 11.48(a)(ii) of *IFRS for SMEs*. The AASB previously retained the first sentence of paragraph 20(a)(i) in the Tier 2 disclosure requirements (except for the shaded text) based on paragraph 2 of the Tier 2 Disclosure Principles, applying the 'identical or similar disclosures' principle.

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assets or financial liabilities that are mandatorily measured at fair value in accordance with IFRS 9 (e.g. financial liabilities that meet the definition of held for trading in IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss; **…** **(vii) financial assets <u>designated</u> ~~measured~~ at fair value through other comprehensive income.** **<u>(viii) financial assets mandatorily measured at fair value through other comprehensive income, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.</u>** **(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost <u>or that are mandatorily measured at fair value through other comprehensive income</u> or financial liabilities <u>that are</u> not <u>measured</u> at fair value through profit or loss;** **…**	**loss.** **(iii) financial assets measured at amortised cost.** **(iv) financial liabilities measured at amortised cost.** **(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss.** **…**	The shaded text was previously excluded based on paragraph 3 of the Tier 2 Disclosure Principles (ie. where there are dissimilar disclosures – apply the 'user need' and 'cost-benefit' principles of the *IFRS for SMEs*) on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. **Paragraph 20(a)(vii)** Paragraph 20(a)(vii) has no equivalent in the *IFRS for SMEs* since the *IFRS for SMEs* does not have a measurement category of financial assets measured at FVOCI. The AASB previously retained paragraph 20(a)(vii) in the Tier 2 disclosure requirements based on paragraph 5 of the Tier 2 Disclosure Principles (ie apply 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement accounting policies are not the same as those under *IFRS for SMEs)* and paragraph 6(e) of the Tier 2 Disclosure Principles (concerning information about disaggregations of amounts presented in the financial statements). Paragraph 20(a)(vii) was considered to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements). Based on the same rationale, the proposed change in text in paragraph 20(a)(vii) should also be **retained**.

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		Paragraph 20(a)(viii) Paragraph 20(a)(viii) has no equivalent in the *IFRS for SMEs* as the *IFRS for SMEs* does not have a measurement category of financial assets measured at FVOCI. Based on paragraphs 5 (user need/cost-benefit) and 6(e) (disaggregation of amounts presented in the financial statements) of the Tier 2 Disclosure Principles, paragraph 20(a)(viii) should be **retained** in the Tier 2 disclosure requirements as it would be expected to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements without significantly increasing the costs to the reporting entity. **Paragraph 20(b)** Paragraph 20(b) corresponds to paragraph 11.48(b) of the *IFRS for SMEs*. The AASB previously retained paragraph 20(b) based on paragraph 2 of the Tier 2 Disclosure Principles, applying the ‘identical or similar disclosures’ principle Based on the same rationale, paragraph 20(b) including the proposed new text should be **retained**.