

This Agenda paper discusses:

- (a) the principles and requirements in AASB 7 *Financial Instruments: Disclosures* and their relevance to a plan or ADF;**
- (b) the guidance, if any, that the replacement Standard might need to include to facilitate the reliable and consistent application of the disclosure principles and requirements in AASB 7; and**
- (c) the relevance of the principles and requirements in AASB 7 applicable to financial liabilities for disclosing information in relation to non-financial liabilities**

Background

1. ED 179 *Superannuation Plans and Approved Deposit Funds* proposes that a superannuation plan or approved deposit fund (ADF) disclose information that provides users with a basis for understanding the nature, extent and management of financial risks to which the entity is exposed. To facilitate the disclosure of this information by superannuation entities, ED 179 includes the relevant disclosure principles, requirements and application guidance from AASB 7 *Financial Instruments: Disclosures*.
2. ED 179, in common with the existing AAS 25 *Financial Reporting by Superannuation Plans*, relies to a large extent on plans and ADFs applying other Australian Accounting Standards in preparing their financial statements. In respect of AASB 7, ED 179 proposes that the qualitative and quantitative disclosure principles and requirements (paragraphs 31-42) in AASB 7 apply to all types of assets and liabilities (including non-financial assets and non-financial liabilities) held by a plan or ADF. At the time of deliberating these disclosure proposals in ED 179, the Board decided that the qualitative and quantitative disclosure principles and requirements in AASB 7 should apply all assets and liabilities of a plan or ADF because:
 - (a) plans and ADFs invest predominantly in financial instruments; and
 - (b) as most plans and ADFs pay members' benefits in the form of cash, non-financial assets and non-financial liabilities potentially expose plans and ADFs to the same types of risks as financial assets and financial liabilities.
3. In their responses to the proposals in ED 179, a number of constituents recommended that, where applicable, the replacement Standard for AAS 25 should place greater emphasis on referring to the disclosure principles and requirements in other Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements. The respondents suggested that such an approach is preferable to the approach in ED 179 because:
 - (a) preparers and auditors will generally still need to consider the relevant requirements in other Standards; and
 - (b) over time, the principles and requirements in other Standards will change, which would otherwise necessitate amendments to the replacement Standard for AAS 25.
4. At its February 2010 meeting, the Board tentatively decided that the replacement Standard for AAS 25 should, where necessary and applicable, refer to the disclosure principles and requirements in other relevant Standards rather than replicate or paraphrase those disclosure principles and requirements. In addition, the Board decided that staff should prepare an issues paper for consideration at a future meeting that considers:
 - (a) the principles and requirements in AASB 7 and their relevance to a plan or ADF;
 - (b) the guidance, if any, that the replacement Standard might need to include to facilitate the reliable and consistent application of the disclosure principles and requirements in AASB 7; and

- (c) the relevance of the principles and requirements in AASB 7 applicable to financial liabilities for disclosing information in relation to non-financial liabilities.
5. Accordingly, the purpose of this Agenda paper is to:
- (a) consider the potential relevance of the principles and requirements in AASB 7 to a plan or ADF (paragraphs 7-9 and Table A);
 - (b) consider whether the replacement Standard for AAS 25 should include superannuation-specific guidance to facilitate the reliable and consistent application of the disclosure principles and requirements in AASB 7 (paragraphs 10-27); and
 - (c) consider whether the principles and requirements in AASB 7 applicable to financial liabilities are relevant for disclosing information in relation to the types of non-financial liabilities held by a plan or ADF (paragraphs 28-35, including Table B).
6. In addition, in considering whether the replacement Standard for AAS 25 should include superannuation-specific guidance, **this Agenda paper asks the Board to confirm that the approach proposed in ED 179 for applying the principles and requirements in AASB 7 is still its preferred approach.** To assist the Board, paragraphs 15-23 of this Agenda paper discuss two alternative approaches for applying the principles and requirements in AASB 7 in the context of a replacement Standard for AAS 25.

The relevance of the disclosure principles and requirements in AASB 7 to a plan or ADF

7. Appendix A to this Agenda paper provides the main proposals in ED 179 dealing with the disclosure of information in relation to the nature, extent and management of risks to which a plan or ADF is exposed. In addition, Appendix A provides selected paragraphs from the Basis for Conclusions to ED 179 which explain the Board's conclusions in relation to these proposals.
8. The proposed risk disclosure principles and requirements in ED 179 are based upon the equivalent principles and requirements in AASB 7 applicable as at May 2009. Since May 2009, a number of the principles and requirements in AASB 7 have been amended. Accordingly, this Agenda paper focuses on the disclosure principles and requirements in AASB 7 applicable to reporting periods beginning on or after 1 July 2009 (including the amendments to AASB 7 arising from *AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9*, which are applicable to reporting periods beginning on or after 1 January 2013). In addition, it is relevant to note that the IASB's ED/2009/5 *Fair Value Measurement* proposes amendments to paragraphs 27-27B and 28 of IFRS 7 *Financial Instruments: Disclosures*. Appendix B to this Agenda paper provides the main disclosure principles and requirements in AASB 7 (the amendments to AASB 7 arising from AASB 2009-11 and the amendments proposed in ED/2009/5 are shown in marked-up text).

9. Table A below provides a summary of staff views on the relevance of the various principles and requirements in AASB 7 to a plan or ADF. Appendix C to this Agenda paper provides explanations of staff views presented in Table A. It is relevant to note that the contents of Table A and Appendix C to this Agenda paper are based on material from Agenda paper 7.3 to the Board's May 2008 meeting and Agenda paper 3.4 to the Board's June 2008 meeting.

Table A – Staff views on the relevance of the principles and requirements in AASB 7 to a plan or ADF

Paragraph number	Disclosure requirement	Staff view	Staff comments
6	Classes of financial instruments and level of disclosure	Relevant	One of the purposes of paragraph 6 is to facilitate the disclosure of information that is appropriate in light of the entity's circumstances without overburdening the financial statements with excessive detail. Most plans and ADFs would have a number of different classes of financial instruments. In addition, each plan's and ADF's circumstances are likely to differ. Accordingly, the requirements in paragraph 6 of AASB 7 would arguably be relevant to a plan or ADF.
7	Significance of financial instruments for financial position and performance	Relevant	Plans and ADFs invest predominantly in financial assets, particularly listed equity instruments. Accordingly, financial instruments would be significant for the financial position and performance of most, if not all, plans and ADFs.
8	Categories (by measurement model) of financial assets and financial liabilities	Not relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
9-11	Financial assets or financial liabilities designated at fair value through profit or loss	Not relevant in a superannuation context or under the replacement Standard for AAS 25	The requirements address the manner in which some entities exercise the choice to designate financial instruments at fair value. However, under the replacement Standard for AAS 25, all financial instruments of a plan or ADF would be measured (mandatorily) at fair value.
11A-11B	Financial assets measured at fair value through other comprehensive income	Not relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value through profit or loss under the replacement Standard for AAS 25.
12-12D	Reclassification	Not relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
13	Derecognition	Relevant	The recognition criteria and derecognition rules in AASB 9 and AASB 139 would apply to a plan or ADF under the replacement Standard for AAS 25.

Table A - Staff views on the relevance of the principles and requirements in AASB 7 to a plan or ADF (continued)

Paragraph number	Disclosure requirement	Staff view	Comments
14-15	Collateral	Relevant	Although plans are prohibited from borrowing, some plans have subsidiaries with borrowings. In addition, a plan or ADF (or a subsidiary thereof) could provide loans and hold collateral against these loans.
16	Allowance account for credit losses	Not relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
17	Compound financial instruments with multiple embedded derivatives issued by the entity	Not relevant in a superannuation context	Regulated plans and ADFs are not permitted to issue such instruments because they are required to be operated for the sole benefit of members and beneficiaries and are prohibited from borrowing or otherwise leveraging their assets.
18-19	Defaults and breaches	Relevant	Although plans are prohibited from borrowing, some plans have subsidiaries with borrowings. In addition, a plan or ADF (or a subsidiary thereof) could provide loans and hold collateral against these loans.
20-20A	Statement of comprehensive income - Items of income, expense, gains or losses	Only paragraphs 20(a)(i), 20(a)(v) and 20(c)(ii) would be relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25. Fee income and expenses from trust/fiduciary activities would constitute the majority, if not all, of the fee income and expenses recognised by a plan or ADF.
21	Other disclosures - Accounting policies	Relevant	Note that similar disclosure requirements would apply to a plan or ADF under paragraphs 117-124 of AASB 101.
22-24	Other disclosures - Hedge accounting	Relevant apart from the requirements in paragraphs 23(d) and 23(e)	All hedging instruments and hedged items of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25. Nevertheless, many of the disclosures required under paragraphs 22-24 of AASB 7 would provide useful information for users in a superannuation context.
25-30	Other disclosures - Fair value disclosures	Only paragraphs 28 and 28A would be relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
31-42	Nature and extent of risks arising from financial instruments	Relevant	Plans and ADFs hold financial instruments which potentially expose them to all of the types of financial risks identified in AASB 7, including liquidity risk, market risk and credit risk.
44I-44J	Transitional disclosures	Not relevant under the replacement Standard for AAS 25	All financial instruments of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.

Should the replacement Standard for AAS 25 include guidance to facilitate the application of the disclosure principles and requirements in AASB 7

10. Paragraph 34 of ED 179 proposes that:
- “A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:
 - (a) the nature and extent of the financial risks to which the entity is exposed during the reporting period and at the end of the reporting period; and
 - (b) how the entity manages those risks.”
11. To facilitate a plan or ADF applying these disclosure principles, Appendix B to ED 179 includes a number of application guidance paragraphs (see Appendix A to this Agenda paper). These paragraphs explain:
- (a) how particular terms used in AASB 7 should be interpreted for the purpose of preparing financial statements in accordance with the proposals in ED 179 (for instance, paragraph AG62 of ED 179);
 - (b) the potential sources of the information to be disclosed under the proposals in paragraph 34 of ED 179 (for instance, paragraphs AG63-AG64, AG66 and AG74-AG76); and/or
 - (c) the types of information a plan or ADF might be expected to disclose under the proposals in paragraph 34 of ED 179 (for instance, paragraphs AG67-AG68 and AG71-AG73).
12. At the time of deliberating the proposals in paragraph 34 of ED 179, the Board decided it was appropriate to include some superannuation-specific application guidance in the ED, primarily because the ED proposes that:
- (a) a plan or ADF apply only selected disclosure principles and requirements in AASB 7; and
 - (b) the disclosure principles in paragraph 34 be applied in respect of all assets and liabilities held by a plan or ADF. Accordingly, the scope of the risk disclosure proposals in ED 179 would be wider than the scope of the corresponding principles and requirements in AASB 7.
- However, in light of the Board’s February 2010 decision that the replacement Standard for AAS 25 should refer to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements, staff consider that this approach may no longer be appropriate, subject to the Board’s conclusions in relation to the staff views in Table A of this Agenda paper.
13. ED 179 proposes that a plan or ADF provide disclosures that are **consistent with** the types of information disclosed under AASB 7 in relation to the financial risks to which the entity is exposed arising from all of its assets and liabilities (not just the financial risks arising from financial assets and financial liabilities to which it is exposed, as would be required under AASB 7). However, as noted in Table A of this Agenda paper, staff consider that some of the disclosure principles

and requirements in AASB 7 that were not included in ED 179 would be relevant to a plan or ADF.

14. In addition, staff note that, during the Board's recent redeliberations on the proposals of ED 179, a number of Board members have expressed a strong preference for an approach based on the Board's policy of transaction-neutrality, notwithstanding that the relevant approach under IFRS may not be their preferred approach. **Accordingly, before considering whether the replacement Standard for AAS 25 should include application guidance in relation to the disclosure principles and requirements in AASB 7, staff would like the Board to confirm that the approach proposed in ED 179 for applying the principles and requirements in AASB 7 is still its preferred approach.** To assist the Board in its deliberations, staff have identified two possible alternative approaches. All three approaches are explained below, along with the possible implications of each approach for the inclusion of application guidance in the replacement Standard for AAS 25.

Approach A - Apply all of the principles and requirements in AASB 7, as appropriate

15. Under Approach A, a plan or ADF would provide disclosures in their financial statements that enable users to evaluate:
- (a) the significance of financial instruments for the entity's financial position and performance; and
 - (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
16. Under Approach A, staff consider that the only application guidance that should be provided is guidance considered necessary to facilitate the application of the disclosure principles and requirements in AASB 7 in the context of the reporting requirements in the replacement Standard for AAS 25. Such guidance might, for instance, clarify that:
- (a) the measurement approach mandated for financial instruments under the replacement Standard is equivalent to the fair value or fair value through profit or loss approaches under AASB 9 *Financial Instruments* or AASB 139 *Financial Instruments: Recognition and Measurement*;
 - (b) references in AASB 7 to 'statement of comprehensive income' should be read by a plan or ADF to mean 'income statement'; and
 - (c) references in AASB 7 to 'profit or loss' should be read by a plan or ADF to mean 'net profit or loss attributable to members'.
17. Consistent with the discussion in Agenda paper 6.2 to the Board's February 2010 meeting, staff consider that the inclusion of any other types of application guidance in the replacement Standard for AAS 25 would run the risk of introducing interpretations into Australian Accounting Standards that may not be consistent with the ways in which equivalent IFRS principles and requirements are interpreted in other contexts.

Advantages and drawbacks of Approach A

18. Approach A has a number of advantages, including:
- (a) it is consistent with the Board's policy of transaction-neutrality;
 - (b) it would facilitate a plan or ADF providing similar disclosures to other investment-type entities, such as managed investment schemes and pooled superannuation trusts; and
 - (c) it would ensure that the principles and requirements in the replacement Standard for AAS 25 would remain up-to-date with changes in AASB 7.
19. Approach A also has a number of drawbacks, including:
- (a) it might impose significant preparation and auditing costs on some plans and ADFs that are not justified on cost-benefit grounds;
 - (b) some of the requirements in AASB 7 deal with circumstances that are not relevant in a superannuation context. Accordingly, requiring plans and ADFs to apply these requirements could lead to divergent interpretations and diminish the comparability of plan and ADF financial statements; and
 - (c) the Board would need to 'maintain' the relevant parts of the replacement Standard for AAS 25 in the sense that each time AASB 7 is amended the Board would need to consider whether any superannuation-specific guidance is necessary.

Approach B – Apply only selected principles and requirements in AASB 7 as specified in the replacement Standard for AAS 25

20. Under Approach B, the replacement Standard for AAS 25 would identify the specific disclosure principles and requirements in AASB 7 that a plan or ADF would apply, as appropriate. For instance, the paragraphs identified by staff in Table A of this Agenda paper as relevant to a plan or ADF. In addition, consistent with Approach A, Approach B would only apply in respect of financial instruments. Accordingly, a plan or ADF would not, for instance, be required to disclose information that enables users to evaluate the nature and extent of risks arising from non-financial assets and non-financial liabilities to which the entity is exposed.
21. Under Approach B, the replacement Standard would identify the specific principles and requirements in AASB 7 that a plan or ADF would apply, when appropriate. In addition, consistent with Approach A, staff consider that the replacement Standard should provide guidance necessary to facilitate the application of the disclosure principles and requirements in AASB 7 in the context of the reporting requirements in the replacement Standard for AAS 25 (refer to the examples in paragraph 15 of this Agenda paper).

Advantages and drawbacks of Approach B

22. Approach B has a number of advantages, including:
- (a) it is likely to involve lower preparation and audit costs for a plan or ADF than Approach A; and

- (b) it would enable the principles and requirements in ED 179 to be tailored to facilitate the disclosure of information relevant to users in a superannuation context.

23. Approach B also has a number of drawbacks, including:

- (a) it is less consistent than Approach A with the Board's policy of transaction-neutrality;
- (b) it would be less likely than Approach A to facilitate plans and ADFs providing similar disclosures to other investment-type entities; and
- (c) it would potentially require the replacement Standard for AAS 25 to be amended each time AASB 7 is amended.

Approach C – The proposed approach in ED 179

24. Under the proposals in ED 179, a plan or ADF would:

- (a) not apply the disclosure requirements in paragraphs 6-30 of AASB 7; and
- (b) provide disclosures regarding the nature, extent and management of financial risks to which the entity is exposed that are consistent with, but not limited to, the types of information required by paragraphs 31-42 of AASB 7 for financial derivatives.

25. As discussed in paragraph 10 of this Agenda paper, Appendix B to ED 179 includes a number of application guidance paragraphs to facilitate a plan or ADF applying these disclosure principles (see Appendix A to this Agenda paper). Staff consider that the guidance in ED 179 dealing with how particular terms used in AASB 7 should be interpreted and the types of information a plan or ADF might be expected to disclose to be appropriate for the proposed approach. However, staff consider that the application guidance in ED 179 explaining the potential sources of the information disclosed under the proposals in paragraph 34 of ED 179 (for instance, paragraphs AG63-AG64, AG66 and AG74-AG76) may not be necessary because:

- (a) the principles in paragraph 34 of ED 179 are consistent with the corresponding principles in AASB 7; and
- (b) plans and ADFs have been applying AASB 7 since it was issued and should now have sufficient processes and procedures in place to capture and arrange data to facilitate the disclosure of information in accordance with the principles and requirements in AASB 7.

Advantages and drawbacks of Approach C

26. Approach C has a number of advantages, including:

- (a) it is likely to involve lower preparation and audit costs for a plan or ADF than Approach A or Approach B; and
- (b) it enables the principles and requirements in ED 179 to be tailored to facilitate the disclosure of information relevant to users in a superannuation context.

27. Approach C also has a number of drawbacks, including:

- (a) it is less consistent than Approaches A or B with the Board's policy of transaction-neutrality;
- (b) it is less likely than Approaches A or B to facilitate plans and ADFs providing similar disclosures to other investment-type entities; and
- (c) it would potentially require the replacement Standard for AAS 25 to be amended each time AASB 7 is amended.

Questions for Board Members:

Do you consider Approach C – the proposed approach in ED 179 to be the most appropriate approach for a plan or ADF to apply in respect to the principles and requirements in AASB 7?

If not, which of Approaches A or B do you consider to be more appropriate for a plan or ADF to apply in respect to the principles and requirements in AASB 7?

The relevance of the principles and requirements in AASB 7 applicable to financial liabilities for disclosing information in relation to the types of non-financial liabilities held by a plan or ADF

28. While the term 'non-financial liability' is not currently defined in Australian Accounting Standards, paragraph 10 of the IASB's Exposure Draft of proposed *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits* proposes that a non-financial liability be defined as:
- “...a liability other than a financial liability as defined in IAS 32 *Financial Instruments: Presentation and Disclosure*”.
29. Paragraph 11 of IAS 132 *Financial Instruments: Presentation* defines a financial liability, in part, as:
- “(a) a contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
 - (b) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments...”
30. In the context of a plan or ADF, a non-financial liability might be considered an obligation that will result in an outflow from the entity in the future of resources embodying economic benefits as a consequence of the entity:
- (a) providing a service to another entity; and/or

- (b) delivering a non-financial asset to another entity; and/or
- (c) exchanging non-financial assets or non-financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

It is relevant to note that a plan or ADF would arguably not be permitted under the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and accompanying Regulations to issue equity instruments. Accordingly, part (b) of the IAS 32 definition of a financial liability is arguably not relevant to defining a non-financial liability in a superannuation context.

31. In response to an email from AASB staff, members of the Project Advisory Group have confirmed that:
- (a) they are not aware of any plans or ADFs that have a material exposure to a non-financial liability;
 - (b) some plans and ADFs have exposures to contracts to buy or sell a non-financial item. However, these contracts are generally settled net in cash as if the contracts were financial instruments. Accordingly, these types of contracts fall within the scope of AASB 7 (see paragraph 5 of AASB 7 in Appendix B to this Agenda paper); and
 - (c) if a plan or ADF were to have an exposure to a non-financial liability, it would probably be through a subsidiary (or an indirect controlling interest in another entity) that is involved in operating a business, such as property construction and/or management. For instance, an obligation to provide maintenance in relation to leased office space. However, in such cases, the non-financial liability is unlikely to be material. Accordingly, under AAS 25 the net market value of the property would generally be adjusted for any non-financial liability attached to the property.
32. Staff consider that the general absence of exposures to non-financial liabilities among plans and ADFs is arguably a consequence of the restrictions placed on trustees of regulated superannuation entities by the SIS Act, in particular:
- (a) the requirement that all regulated superannuation entities be established and maintained for the primary purpose of providing benefits to members upon their retirement, death, disablement or other qualifying event ('sole purpose test'); and
 - (b) the prohibition against borrowing or otherwise leveraging the assets of the entity.
33. Table B below provides a summary of staff views on the relevance of the principles and requirements in AASB 7 for disclosing information in relation to a non-financial liability in the context of the proposals in ED 179.

Table B – Staff views on the relevance of the principles and requirements in AASB 7 applicable to financial liabilities for disclosing information in relation to the types of non-financial liabilities held by a plan or ADF

Paragraph number	Disclosure requirement	Staff view	Staff comments
6	Classes of financial instruments and level of disclosure	Relevant but unlikely to be applicable	Non-financial liabilities are relatively uncommon in a superannuation context and unlikely to be material for a plan or ADF.
7	Significance of financial instruments for financial position and performance	Relevant but unlikely to be applicable	Non-financial liabilities are relatively uncommon in a superannuation context and unlikely to be significant to the financial position or performance of a plan or ADF.
8	Categories (by measurement model) of financial assets and financial liabilities	Not relevant under the replacement Standard for AAS 25	All non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
9-11	Financial assets or financial liabilities designated at fair value through profit or loss	Not relevant	The requirements are tailored to address the manner in which some entities exercise the choice to designate financial instruments at fair value and the consequences of accounting mismatches between assets and related liabilities. Accordingly, these requirements are arguably not relevant for disclosing information about non-financial liabilities. In addition, all non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
11A-11B	Financial assets measured at fair value through other comprehensive income	Not relevant	Only applicable to financial assets. In addition, all non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value through profit or loss under the replacement Standard for AAS 25.
12-12D	Reclassification	Not relevant	Only applicable to financial assets. In addition, all non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
13	Derecognition	Not relevant	Only applicable to financial assets. In addition, as a non-financial liability in a superannuation context is likely to be in the nature of a provision, under the replacement Standard for AAS 25 the recognition (and derecognition) criteria in AASB 137 in respect of provisions would be more likely to be relevant.
14-15	Collateral	Relevant but unlikely to be applicable	It is conceivable that a subsidiary of a plan or ADF might incur a non-financial liability and that the counterparty will hold collateral in respect of the liability. However, non-financial liabilities are relatively uncommon in a superannuation context and are unlikely to be material for a plan or ADF.

Table B - Staff views on the relevance of the principles and requirements in AASB 7 applicable to financial liabilities for disclosing information in relation to the types of non-financial liabilities held by a plan or ADF (continued)

Paragraph number	Disclosure requirement	Staff view	Comments
16	Allowance account for credit losses	Not relevant	Only applicable to financial assets. In addition, all non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
17	Compound financial instruments with multiple embedded derivatives issued by the entity	Not relevant	A non-financial liability in a superannuation context is likely to be in the nature of a provision and is unlikely to have multiple embedded derivatives.
18-19	Defaults and breaches	Relevant but unlikely to be applicable	It is conceivable that a subsidiary of a plan or ADF might incur a non-financial liability and that the counterparty will hold collateral in respect of the liability. However, non-financial liabilities are relatively uncommon in a superannuation context and are unlikely to be material for a plan or ADF.
20-20A	Statement of comprehensive income - Items of income, expense, gains or losses	Only paragraph 20(a)(v) would be relevant	All non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
21	Other disclosures - Accounting policies	Relevant	Note that similar disclosure requirements would apply to a plan or ADF under paragraphs 117-124 of AASB 101.
22-24	Other disclosures - Hedge accounting	Relevant but unlikely to be applicable	Non-financial liabilities are relatively uncommon in a superannuation context and are unlikely to be subject to a hedging arrangement.
25-30	Other disclosures - Fair value disclosures	Only paragraphs 28 and 28A would be relevant under the replacement Standard for AAS 25	All non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.
31-42	Nature and extent of risks arising from financial instruments	Relevant but unlikely to be applicable	A non-financial liability could potentially expose a plan or ADF to all of the types of financial risks identified in AASB 7, including liquidity risk, market risk and credit risk. However, non-financial liabilities are relatively uncommon in a superannuation context and are unlikely to be material for a plan or ADF.
44I-44J	Transitional disclosures	Not relevant under the replacement Standard for AAS 25	All non-financial liabilities of a plan or ADF would be measured (mandatorily) at fair value under the replacement Standard for AAS 25.

34. As noted in paragraph 31 of this Agenda paper, if a plan or ADF were to have a material exposure to a non-financial liability, it would probably be in the nature of a provision. Under the proposals in paragraphs 23 and AG1 of ED 179, a plan or ADF that has a material exposure to provisions would disclose information in accordance with the relevant requirements in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, including paragraphs 84 and 85 of the Standard. Paragraphs 84 and 85 of AASB 137 state that:

“For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;
- (b) additional provisions made in the period, including increases to existing provisions;
- (c) amounts used (that is, incurred and charged against the provision) during the period;
- (d) unused amounts reversed during the period; and
- (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

An entity shall disclose the following for each class of provision:

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and
- (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.”

35. It is relevant to note that paragraph 68 of the IASB’s ED of amendments to IAS 37 and IAS 19 proposes that an entity make disclosures in respect of non-financial liabilities that are similar to the disclosures currently required in respect of provisions under paragraphs 84 and 85 of AASB 137.

Staff view

Staff consider that few of the disclosure principles and requirements in AASB 7 applicable to financial liabilities would be relevant for disclosing information in relation to the types of non-financial liabilities held by a plan or ADF. In addition, non-financial liabilities are relatively uncommon in a superannuation context and those that do exist tend to be in the nature of provisions and immaterial. Accordingly, staff consider that:

- (a) the replacement Standard for AAS 25 should not require a plan or ADF to apply the principles and requirements in AASB 7 applicable to financial liabilities to non-financial liabilities; and
- (b) in the unlikely event that a plan or ADF has a material exposure to a non-financial liability, the liability is likely to be in the nature of a provision and therefore should be subject to the relevant disclosure requirements in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

APPENDIX A - Selected paragraphs from ED 179 *Superannuation Plans and Approved Deposit Funds*

Disclosures

Nature of the Entity, Nature of Member Benefits, Expense Items and Fair Value Measurement

32 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:

- (a) the nature of the entity and the nature of the benefits it provides to its members;**
- (b) the nature and amount of expenses incurred by the entity; and**
- (c) how the fair values of assets and liabilities of the entity are determined.**

33 To meet the objectives in paragraph 32, an entity discloses, as a minimum, the information specified in paragraphs AG52, AG53-AG56 and AG57-AG60 of Appendix B to this Standard.

...

Fair Value

AG57 To comply with paragraph 32(c) of this Standard, a superannuation plan or approved deposit fund discloses, for each class of asset and liability measured at fair value, the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of asset and liability measured at fair value. For example, if applicable, a plan or fund discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the plan or fund would disclose that change and the reasons for making it.

AG58 To make the disclosures required by paragraph AG59, a superannuation plan or approved deposit fund would classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy would have the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

AG59 For fair value measurements recognised in the statement of financial position, a superannuation plan or approved deposit fund discloses for each class of asset or liability measured at fair value:

- (a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels identified in paragraph AG58;
- (b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance would be judged with respect to profit or loss, and total assets or total liabilities;
- (c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

- (i) total gains or losses for the period recognised in the income statement, and a description of where they are presented in the income statement (if presented);
 - (ii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
 - (iii) transfers into or out of Level 3 (for example, transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 would be disclosed and discussed separately from transfers out of Level 3;
- (d) the amount of total gains or losses for the period in (c)(i) above recognised in the income statement that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the income statement (if presented); and
- (e) for fair value measurements in Level 3, if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, the plan or fund would state that fact and disclose the effect of those changes. The plan or fund would disclose how the effect of the change to a reasonably possible alternative assumption was calculated. For this purpose, significance would be judged with respect to profit or loss, and total assets or total liabilities.

A plan or fund would present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

AG60 Consistent with paragraph 125 of AASB 101, a superannuation plan or approved deposit fund would disclose information in relation to any major sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the fair values of its assets or liabilities measured at fair value adjusted for transaction costs.

Nature, Extent and Management of Risks

AG61 To comply with paragraph 34 of this Standard, a superannuation plan or approved deposit fund discloses qualitative and quantitative information in relation to the financial risks to which the entity is exposed. These risks typically include, but are not limited to, liquidity risk, market risk and credit risk. Appendix A to AASB 7 *Financial Instruments: Disclosures* identifies a number of different types of financial risks to which a plan or fund might be exposed.

AG62 For the purpose of this Standard:

- (a) liquidity risk includes the risk that a superannuation plan or approved deposit fund will encounter difficulty in meeting its obligations for member benefits; and
- (b) credit risk includes the risk that an employer sponsor will encounter difficulty in making contributions to the superannuation plan at a level that would be expected to permit the plan to meet its obligations for defined benefit members' accrued benefits.

AG63 A superannuation plan or approved deposit fund may be exposed to financial risks directly as a consequence of, for example, holding financial instruments. A plan or fund may also be exposed to financial risks indirectly as a consequence of holding a controlling interest in an investment-type vehicle, such as a pooled superannuation trust.

AG64 When a parent superannuation plan or parent approved deposit fund is exposed indirectly to a financial risk through a controlling interest in another entity, the parent plan or parent fund applies the disclosure principles in paragraph 34 of this Standard to all of the items recognised in its consolidated financial statements.

Qualitative Disclosures

AG65 For each type of financial risk to which a superannuation plan or approved deposit fund is exposed, the plan or fund discloses:

- (a) the source of the risk;
- (b) its objectives, policies and processes for managing the risk;
- (c) the methods used to measure the risk; and

(d) any changes in (a), (b) or (c) from the previous reporting period.

AG66 All superannuation entities regulated by APRA are required to have a Risk Management Plan (RMP) that formally documents, among other things, the plan's or fund's policies and procedures for managing various risks, including market and liquidity risks. While a plan's or fund's RMP may not address all of the different types of risks to which the entity may be exposed, it should provide a basis for the entity's qualitative disclosures with respect to:

- (a) the main financial risks to which the entity is exposed;
- (b) the entity's objectives, policies and processes for managing the main financial risks to which it is exposed; and
- (c) the methods the entity uses to measure the main financial risks to which it is exposed.

AG67 Qualitative disclosures that a superannuation plan or approved deposit fund might need to make in relation to the financial risks to which the plan or fund is exposed would include:

- (a) information in relation to the entity's arrangements with its investment managers, including:
 - (i) whether the entity has formal agreements in place with its investment managers; and
 - (ii) whether the entity receives regular reports from its investment managers;
- (b) whether any assets held by the plan or fund are subject to lending arrangements, including:
 - (i) the nature of the assets;
 - (ii) the nature of the lending arrangements; and
 - (iii) the terms and conditions of the lending arrangements;
- (c) information in relation to how the plan or fund intends to manage anticipated benefit payments to its members in the next reporting period if it has insufficient liquid assets at the end of the reporting period to meet such benefit payments; and
- (d) specific information regarding the plan's or fund's controlling interests in other entities, including:
 - (i) whether a lender to a subsidiary has legal recourse to the assets of the plan or fund in the event that the subsidiary defaults on the loan;
 - (ii) whether the interest paid and payable on a subsidiary's loans is fixed or variable in nature; and
 - (iii) whether the plan or fund will purchase further ownership interests in the subsidiary in the future.

AG68 For a superannuation plan or approved deposit fund that has an exposure to derivative financial instruments, the qualitative disclosures would confirm that the plan or fund has a Derivative Risk Statement (DRS). A DRS documents the plan's, fund's or investment manager's risk management practices with respect to derivatives.

Quantitative Disclosures

AG69 For each type of financial risk, a superannuation plan or approved deposit fund discloses:

- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure is based on the information provided internally to key management personnel (KMP) of the entity (as defined in AASB 124 *Related Party Disclosures*);
- (b) information equivalent to that required by paragraphs 36-42 of AASB 7 for financial instruments, to the extent not provided in (a); and
- (c) concentrations of risk if not apparent from (a) and (b).

AG70 If the quantitative data disclosed at the end of the reporting period are unrepresentative of a superannuation plan's or approved deposit fund's exposure to a financial risk during the period, the plan or fund provides further information that is representative.

- AG71 The assets and liabilities of a superannuation plan or approved deposit fund can potentially expose the plan or fund to some or all of the financial risks identified in AASB 7. Accordingly, a plan or fund should provide disclosures that are consistent with, but not limited to, the types of information required by paragraphs 36-42 of AASB 7 for financial derivatives, to the extent that the requirements are appropriate in a superannuation context. For example, a plan or fund would disclose:
- (a) a maturity analysis for non-derivative liabilities (including member benefits, any obligations to employer sponsors and financial guarantee contracts) that shows the remaining contractual maturities;
 - (b) a maturity analysis for derivative liabilities. The maturity analysis would include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and
 - (c) a description of how the entity manages the liquidity risk inherent in (a) and (b).
- AG72 While some member benefits, particularly defined benefit entitlements, are subject to vesting conditions, most member benefits are due and payable immediately. Most defined contribution members are permitted to choose the superannuation plan or plans that will manage their retirement benefits. Accordingly, the vested benefits of most defined contribution members would be considered due and payable within three months of the end of the reporting period. With respect to defined benefit arrangements, because resignation is sufficient to generate the release of a defined benefit member's vested benefits, this amount would also be considered due and payable within three months of the end of the reporting period. To assist users in understanding the maturity profile of any unvested amounts, a superannuation plan or approved deposit fund would disclose a description of the vesting conditions that are applicable to members of the plan or fund.
- AG73 Other disclosures that a superannuation plan or approved deposit fund would make, when relevant, would include the following:
- (a) for interest-bearing assets that expose the plan or fund to material interest rate risks, the entity would disclose, as a minimum:
 - (i) the proportion of the assets subject to fixed or variable interest rates;
 - (ii) if different interest rates apply, the fair value amount that is subject to each of the different interest rates; and
 - (iii) a sensitivity analysis, showing how the entity's profit or loss¹ and, if applicable, equity would have been affected by changes in the interest rate risks to which the entity was exposed to at the end of the reporting period;
 - (b) for assets that expose the plan or fund to material currency risks, the entity would disclose, as a minimum:
 - (i) the fair value amount that is not subject to effective foreign currency hedges; and
 - (ii) a sensitivity analysis showing how profit or loss and, if applicable, equity would have been affected by changes in the currency risks to which the entity was exposed at the end of the reporting period;
 - (c) for assets that expose the plan or fund to material credit risk, the entity would disclose, as a minimum:
 - (i) the fair value amount that best represents the entity's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements; and
 - (ii) a sensitivity analysis showing how profit or loss and, if applicable, equity would have been affected by changes in the credit risks to which the entity was exposed at the end of the reporting period; and
 - (d) for assets that are considered to be illiquid, the plan or fund would disclose, as a minimum:
 - (i) the minimum period of time necessary for redemption; and

¹ For the purpose of applying this paragraph and paragraphs AG73(b)(ii) and (c)(ii), the term 'profit or loss' refers to a superannuation plan's or approved deposit fund's net profit or loss that is attributable to members.

- (ii) any upper limits on redemption amounts.

Risk Disclosures and Risk Management Arrangements

- AG74 The risk management arrangements adopted by superannuation plans and approved deposit funds vary. For example, the key management personnel (KMP) of some superannuation plans generate their own quantitative information about the risks and risk management arrangements associated with the plan's assets, particularly for directly held assets.
- AG75 However, the KMP of most superannuation plans and approved deposit funds rely to some extent on reports provided by investment managers, particularly in relation to investments in collective investment vehicles. While investments in collective investment vehicles can potentially expose a plan or fund to some or all of the different types of risks identified in AASB 7, the plan or fund may not be able to reliably quantify the entity's direct exposure to each risk due to the collective nature of such investments.
- AG76 Irrespective of whether the KMP of a superannuation plan or approved deposit fund generate their own information or utilise information provided by service providers, the plan or fund would apply a 'through the eyes of management' approach with respect to its qualitative and quantitative risk disclosures. Accordingly, where an investment manager monitors the financial risks to which some or all of the assets of a plan or fund are exposed, and the investment manager reports on the relevant risks to the KMP using quantitative measures or data, this information is relevant to formulating the plan's or fund's disclosures in respect of the relevant risks.

Basis for Conclusions

...

- BC117 The AASB considered the merits of a superannuation plan or approved deposit fund applying AASB 7 *Financial Instruments: Disclosures* and concluded that some of the specific disclosure requirements of this Standard are either not relevant in a superannuation context or would not apply under the proposals in ED 179. For example:
- (a) a superannuation plan or approved deposit fund would not be permitted to issue a compound financial instrument with multiple embedded derivatives; and
 - (b) under ED 179, a superannuation plan or approved deposit fund is required to measure most of its assets and liabilities at fair value adjusted for transaction costs² and recognise remeasurement changes in assets and liabilities measured at fair value in the income statement. In addition, ED 179 proposes that, when appropriate, a plan or fund disclose information in relation to those items not measured at fair value, such as member benefits and obligations and assets arising from insurance contracts.
- BC118 The AASB also concluded that some of the requirements of AASB 7 would be costly for a superannuation plan or approved deposit fund to apply and would not yield information that users would regard as necessary in a superannuation context. Furthermore, some of these requirements have been drafted to address particular issues that are not pertinent in a superannuation context.
- BC119 The Bases for Conclusions to IAS 32, IAS 39 and IFRS 7 *Financial Instruments: Disclosures* suggest that paragraphs 9-11 of AASB 7 were adopted to address concerns among some constituents about the manner in which some entities would exercise their choice to designate financial instruments at fair value through the profit or loss. However, the issues that these paragraphs address are less relevant in a superannuation context because:
- (a) ED 179 proposes that a superannuation plan or approved deposit fund measure most of its assets and liabilities at fair value; and
 - (b) superannuation plans and approved deposit funds do not generally make loans and are prohibited from holding a borrowing directly. Accordingly, accounting mismatches in

2 At its December 2009 meeting, the Board tentatively decided not to permit the carrying amounts of assets and liabilities measured at fair value to be adjusted for transaction (anticipated selling) costs.

relation to related loans and liabilities are less relevant to a superannuation plan or approved deposit fund than they would be to, for example, a bank.

BC120 Having considered the types of risks to which a superannuation plan or approved deposit fund could be exposed, the AASB concluded that:

- (a) the disclosure requirements in paragraphs 6-30 of AASB 7 should not apply to a plan or fund; and
- (b) disclosure principles based on paragraphs 31-42 of AASB 7 and tailored for a superannuation context would facilitate the disclosure of necessary information in relation to the significant risks to which a plan or fund is exposed.

APPENDIX B - Selected paragraphs from AASB 7 *Financial Instruments: Disclosures*

Please note: the amendments to AASB 7 arising from AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and the amendments proposed by the IASB's ED/2009/5 *Fair Value Measurement* to paragraphs 27-27B and 28 of AASB 7 are shown in marked-up text.

ACCOUNTING STANDARD AASB 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

Objective

- 1 The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:
 - (a) the significance of financial instruments for the entity's financial position and performance; and
 - (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- 2 The principles in this Standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in AASB 132 *Financial Instruments: Presentation*, ~~and~~ AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 9 *Financial Instruments*.
- ...
- 4 This Standard applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of AASB 139. Unrecognised financial instruments include some financial instruments that, although outside the scope of AASB 139 and AASB 9, are within the scope of this Standard (such as some loan commitments).
- 5 This Standard applies to contracts to buy or sell a non-financial item that are within the scope of AASB 139 and AASB 9 (see paragraphs 5-7 of AASB 139).

Classes of Financial Instruments and Level of Disclosure

- 6 When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of Financial Instruments for Financial Position and Performance

- 7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Statement of financial position

Categories of financial assets and financial liabilities

- 8 The carrying amounts of each of the following categories, as ~~specified~~defined in AASB 9 or AASB 139, 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 classified as measured at fair value~~held for trading~~ in accordance with AASB 9~~AASB 139~~;
 - (b)-(d)[deleted by the IASB]
 - ~~(b) — held to maturity investments;~~
 - ~~(c) — loans and receivables;~~
 - ~~(d) — available for sale financial assets;~~
 - (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of~~classified as~~ held for trading in ~~accordance with~~ AASB 139; and
 - (f) financial ~~assets~~liabilities measured at amortised cost.
 - (g) financial liabilities measured at amortised cost.
 - (h) financial assets measured at fair value through other comprehensive income.

Financial assets or financial liabilities at fair value through profit or loss

- 9 If the entity has designated ~~a loan or receivable (or group of loans or receivables)~~ as measured at fair value ~~through profit or loss~~ a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:
- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the ~~loan or receivable~~ financial asset (or group of ~~loans or receivables~~ 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 ~~loan or receivable~~ financial asset (or group of ~~loans or receivables~~ 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 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 ~~loan or receivable~~ financial asset was designated.
- 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of AASB 139, it shall disclose:
- (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability 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 (see Appendix B, paragraph B4); 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 liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund; and

- (b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

11 The entity shall disclose:

- (a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a); and
- (b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Financial assets measured at fair value through other comprehensive income

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.4.4 of AASB 9, it shall disclose:

- (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
- (b) the reasons for using this presentation alternative.
- (c) the fair value of each such investment at the end of the reporting period.
- (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
- (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

- (a) the reasons for disposing of the investments.
- (b) the fair value of the investments at the date of derecognition.
- (c) the cumulative gain or loss on disposal.

Reclassification

12-12A [deleted by the IASB]

~~12 If the entity has reclassified a financial asset (in accordance with paragraphs 51-54 of AASB 139) as one measured:~~

- ~~(a) at cost or amortised cost, rather than at fair value; or~~
- ~~(b) at fair value, rather than at cost or amortised cost;~~

~~it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.~~

~~12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of AASB 139 or out of the available-for-sale category in accordance with paragraph 50E of AASB 139, it shall disclose:~~

- ~~(a) the amount reclassified into and out of each category;~~

- ~~(b) — for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;~~
- ~~(c) — if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;~~
- ~~(d) — for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;~~
- ~~(e) — for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and~~
- ~~(f) — the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.~~

12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.9 of AASB 9. For each such event, an entity shall disclose:

- (a) the date of reclassification.
- (b) a detailed explanation of the change in business model and qualitative description of its effect on the entity's financial statements.
- (c) the cumulative amount reclassified into and out of each category.

12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.9 of AASB 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 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.

Derecognition

13 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15-37 of AASB 139). The entity shall disclose for each class of such financial assets:

- (a) the nature of the assets;
- (b) the nature of the risks and rewards of ownership to which the entity remains exposed;]
- (c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and
- (d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Collateral

14 An entity shall disclose:

- (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of AASB 139; and
 - (b) the terms and conditions relating to its pledge.
- 15 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:
- (a) the fair value of the collateral held;
 - (b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
 - (c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

- 16 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

- 17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of AASB 132) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and breaches

- 18 For *loans payable* recognised at the end of the reporting period, an entity shall disclose:
- (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
 - (b) the carrying amount of the loans payable in default at the end of the reporting period; and
 - (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.
- 19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

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 assets or financial liabilities~~ that are mandatorily measured at fair value ~~classified as held for trading~~ in accordance with AASB 9 ~~AASB 139~~;
 - (ii)-(iv) [deleted by the IASB]

- ~~(ii) available for sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;~~
- ~~(iii) held to maturity investments;~~
- ~~(iv) loans and receivables; and~~
- (v) financial liabilities ~~measured at amortised cost~~ at fair value through profit or loss, showing separately those on financial liabilities designated as such upon initial recognition, and those on financial liabilities that meet the definition of held for trading in AASB 139;
- (vi) financial assets measured at amortised cost;
- (vii) financial liabilities measured at amortised cost; and
- (viii) financial assets measured at fair value through other comprehensive income.
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets ~~or financial liabilities~~ that are measured at amortised cost or financial liabilities not at fair value through profit or loss;
- (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
 - (i) financial assets ~~or financial liabilities~~ measured at amortised cost or financial liabilities that are not at fair value through profit or loss; and
 - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
- (d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of AASB 139; and
- (e) the amount of any impairment loss for each class of financial asset.

20A An entity shall disclose an analysis of the gain and loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

Other disclosures

Accounting policies

- 21 In accordance with paragraph 117 of AASB 101 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge accounting

- 22 An entity shall disclose the following separately for each type of hedge described in AASB 139 (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):
- (a) a description of each type of hedge;
 - (b) a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
 - (c) the nature of the risks being hedged.
- 23 For cash flow hedges, an entity shall disclose:
- (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

- (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
- (c) the amount that was recognised in other comprehensive income during the period;
- (d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and
- (e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a nonfinancial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

24 An entity shall disclose separately:

- (a) in fair value hedges, gains or losses:
 - (i) on the hedging instrument; and
 - (ii) on the hedged item attributable to the hedged risk;
- (b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and
- (c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

Fair value

25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

27-27B [deleted by the IASB]

~~27—An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.~~

~~27A—To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:~~

- ~~(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);~~
- ~~(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and~~
- ~~(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).~~

~~The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.~~

~~27B—For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:~~

- ~~(a) — the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.~~
- ~~(b) — any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.~~
- ~~(c) — for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
 - ~~(i) — total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);~~
 - ~~(ii) — total gains or losses recognised in other comprehensive income;~~
 - ~~(iii) — purchases, sales, issues and settlements (each type of movement disclosed separately); and~~
 - ~~(iv) — transfers into or out of Level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.~~~~
- ~~(d) — the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).~~
- ~~(e) — for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.~~

~~An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.~~

- 28 ~~If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74-AG79 of AASB 139). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless conditions described in paragraph AG76 of AASB 139 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by observable current market transactions in the same instrument (ie without modification or repackaging) nor based on a valuation technique whose variables include only data from observable markets (see paragraph AG76 of AASB 139). In such cases, the entity shall disclose by class of financial asset or financial liability:~~

- ~~(a) its accounting policy for recognising the at difference between the fair value at initial recognition and the transaction price in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of AASB 139);
~~and~~~~
- ~~(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference. This disclosure should be made by level in the fair value hierarchy in which the fair value measurement is categorised.~~
- ~~(c) the reason(s) why the entity determined that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.~~

28A When an entity recognises a gain or loss on initial recognition of a financial asset or financial liability at fair value that differs from the transaction price (see paragraph AG76 of AASB 139), the entity shall disclose the gain or loss separately for each class of financial asset or financial liability by the level in the fair value hierarchy in which the fair value measurement is categorised.

- 29 Disclosures of fair value are not required:
- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
 - (b) for ~~an investment in equity instruments that do not have a quoted market price in an active market, or~~ derivatives linked to investments in equity instruments that do not have a quoted market price in an active market that are such equity instruments, that is measured at cost in accordance with AASB 139 because ~~its~~their fair value cannot be measured reliably; or
 - (c) for a contract containing a discretionary participation feature (as described in AASB 4) if the fair value of that feature cannot be measured reliably.
- 30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those ~~financial assets or financial liabilities~~contracts and their fair value, including:
- (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
 - (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
 - (c) information about the market for the instruments;
 - (d) information about whether and how the entity intends to dispose of the financial instruments; and
 - (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Nature and Extent of Risks Arising from Financial Instruments

- 31 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.
- 32 The disclosures required by paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, *liquidity risk* and market risk.

Qualitative disclosures

- 33 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) the exposures to risk and how they arise;
 - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
 - (c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

- 34 For each type of risk arising from financial instruments, an entity shall disclose:

- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer;
- (b) the disclosures required by paragraphs 36-42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29-31 of AASB 101 for a discussion of materiality); and
- (c) concentrations of risk if not apparent from (a) and (b).

35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

36 An entity shall disclose by class of financial instrument:

- (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with AASB 132);
- (b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
- (c) information about the credit quality of financial assets that are neither *past due* nor impaired; and
- (d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial assets that are either past due or impaired

37 An entity shall disclose by class of financial asset:

- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
- (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
- (c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and other credit enhancements obtained

38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Australian Accounting Standards, an entity shall disclose:

- (a) the nature and carrying amount of the assets obtained; and
- (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

39 An entity shall disclose:

- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).

- (c) a description of how it manages the liquidity risk inherent in (a) and (b).

Market risk

Sensitivity analysis

- 40 Unless an entity complies with paragraph 41, it shall disclose:
- (a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
 - (b) the methods and assumptions used in preparing the sensitivity analysis; and
 - (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.
- 41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:
- (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
 - (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other market risk disclosures

- 42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (e.g. because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

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Effective Date and Transition

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44I When an entity first applies AASB 9, it shall disclose for each class of financial assets at the date of initial application:

- (a) the original measurement category and carrying amount determined in accordance with AASB 139;
- (b) the new measurement category and carrying amount determined in accordance with AASB 9;
- (c) the amount of any financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that AASB 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies AASB 9, it shall disclose qualitative information to enable users to understand:

- (a) how it applied the classification requirements in AASB 9 to those financial assets whose classification has changed as a result of applying AASB 9.

- [\(b\) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.](#)

APPLICATION GUIDANCE

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Classes of Financial Instruments and Level of Disclosure (paragraph 6)

- B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in AASB 139 [and AASB 9](#) (which determine how financial instruments are measured and where changes in fair value are recognised).
- B2 In determining classes of financial instrument, an entity shall, at a minimum:
- (a) distinguish instruments measured at amortised cost from those measured at fair value; and
 - (b) treat as a separate class or classes those financial instruments outside the scope of this Standard.
- B3 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

Significance of Financial Instruments for Financial Position and Performance

Financial liabilities at fair value through profit or loss (paragraphs 10 and 11)

- B4 If an entity designates a financial liability as at fair value through profit or loss, paragraph 10(a) requires it to disclose the amount of change the fair value of the financial liability that is attributable to changes in the liability's credit risk. Paragraph 10(a)(i) permits an entity to determine this amount as the amount of change in the liability's fair value that is not attributable to changes in market conditions that give rise to market risk. If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:
- (a) first, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return;
 - (b) next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a); and
 - (c) the difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

This example assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in interest rates are not significant. If the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed in accordance with paragraph 10(a).

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for ~~financial assets or~~ financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the ~~financial assets or~~ financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such ~~financial assets or~~ financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of AASB 139 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a ~~financial asset or~~ financial liability at fair value through profit or loss in AASB 139, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through profit or loss in AASB 139, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy;
- (aa) for financial assets designated as measured at fair value through profit or loss:
 - (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss;
 - (ii) how the entity has satisfied the criteria in paragraph 4.5 of AASB 9 for such designation.
- (b) ~~[deleted by the IASB] the criteria for designating financial assets as available for sale;~~
- (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of AASB 139);
- (d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:
 - (i) the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
 - (ii) the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 16);
- (e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income;
- (f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 20(e)); and
- (g) when the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 36(d)).

Paragraph 122 of AASB 101 (as revised in 2007) also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 31-42)

B6 [Deleted by the AASB]

Quantitative disclosures (paragraph 34)

- B7 Paragraph 34(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and reliability.
- B8 Paragraph 34(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:
- (a) a description of how management determines concentrations;
 - (b) a description of the shared characteristic that identifies each concentration (e.g. counterparty, geographical area, currency or market); and
 - (c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

Maximum credit risk exposure (paragraph 36(a))

- B9 Paragraph 36(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:
- (a) any amounts offset in accordance with AASB 132; and
 - (b) any impairment losses recognised in accordance with AASB 139.
- B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:
- (a) granting loans ~~and receivables~~ to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
 - (b) entering into derivative contracts, for example, foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount;
 - (c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability; and
 - (d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

- B10A In accordance with paragraph 34(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

- (a) occur significantly earlier than indicated in the data, or
- (b) be for significantly different amounts from those indicated in the data (e.g. for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 39(a) or (b).

B11 In preparing the maturity analyses required by paragraphs 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

- (a) not later than one month;
- (b) later than one month and not later than three months;
- (c) later than three months and not later than one year; and
- (d) later than one year and not later than five years.

B11A In complying with paragraphs 39(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) financial instrument. For such an instrument, an entity shall apply paragraph 39(a).

B11B Paragraph 39(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

- (a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.
- (b) all loan commitments.

B11C Paragraphs 39(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

- (a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (e.g. demand deposits) are included in the earliest time band.
- (b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.
- (c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

B11D The contractual amounts disclosed in the maturity analyses as required by paragraphs 39(a) and (b) are the contractual undiscounted cash flows, for example:

- (a) gross finance lease obligations (before deducting finance charges);
- (b) prices specified in forward agreements to purchase financial assets for cash;
- (c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;
- (d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and
- (e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the

reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraphs 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

- (a) has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. stand-by credit facilities) that it can access to meet liquidity needs;
- (b) holds deposits at central banks to meet liquidity needs;
- (c) has very diverse funding sources;
- (d) has significant concentrations of liquidity risk in either its assets or its funding sources;
- (e) has internal control processes and contingency plans for managing liquidity risk;
- (f) has instruments that include accelerated repayment terms (e.g. on the downgrade of the entity's credit rating);
- (g) has instruments that could require the posting of collateral (e.g. margin calls for derivatives);
- (h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or
- (i) has instruments that are subject to master netting agreements.

B12-B16 [Deleted by the IASB]

Market risk – sensitivity analysis (paragraphs 40 and 41)

B17 Paragraph 40(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph B3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:

- (a) an entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading; and
- (b) an entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.

If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.

B18 Paragraph 40(a) requires the sensitivity analysis to show the effect on profit or loss and equity of reasonably possible changes in the relevant risk variable (e.g. prevailing market interest rates, currency rates, equity prices or commodity prices). For this purpose:

- (a) entities are not required to determine what the profit or loss for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on profit or loss and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on profit or loss (i.e. interest expense) for the current year if interest rates had varied by reasonably possible amounts; and

- (b) entities are not required to disclose the effect on profit or loss and equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.

B19 In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:

- (a) the economic environments in which it operates. A reasonably possible change should not include remote or 'worst case' scenarios or 'stress tests'. Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5 per cent and an entity determines that a fluctuation in interest rates of ± 50 basis points is reasonably possible. It would disclose the effect on profit or loss and equity if interest rates were to change to 4.5 per cent or 5.5 per cent. In the next period, interest rates have increased to 5.5 per cent. The entity continues to believe that interest rates may fluctuate by ± 50 basis points (i.e. that the rate of change in interest rates is stable). The entity would disclose the effect on profit or loss and equity if interest rates were to change to 5 per cent or 6 per cent. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by ± 50 basis points, unless there is evidence that interest rates have become significantly more volatile; and
- (b) the time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.

B20 Paragraph 41 permits an entity to use a sensitivity analysis that reflects interdependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 41(a) by disclosing the type of value-at-risk model used (e.g. whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (e.g. the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.

B21 An entity shall provide sensitivity analyses for the whole of its business, but may provide different types of sensitivity analysis for different classes of financial instruments.

Interest rate risk

B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (e.g. ~~loans and receivables and~~ debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (e.g. some loan commitments).

Currency risk

B23 *Currency risk* (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, that is in a currency other than the functional currency in which they are measured. For the purpose of this Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

B24 A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Other price risk

B25 *Other price risk* arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 40, an entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.

- B26 Two examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.
- B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, ~~e.g. for example,~~ from instruments ~~measured~~~~classified as~~ at fair value through profit or loss ~~and impairments of available for sale financial assets~~) is disclosed separately from the sensitivity of ~~other comprehensive income~~~~equity~~ (that arises, ~~e.g. for example,~~ from ~~investments in equity~~ instruments ~~whose changes in fair value are presented in other comprehensive income~~~~classified as available for sale~~).
- B28 Financial instruments that an entity classifies as equity instruments are not remeasured. Neither profit or loss nor equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Appendix C – Explanations of the Staff views presented in Table A in this Agenda paper

Classes of financial instruments and level of disclosure (paragraph 6)

1. Paragraph 6 of AASB 7 *Financial Instruments: Disclosures* requires an entity to disclose information by class of financial instrument that is sufficient to permit a user to reconcile the information to the line items presented in the statement of financial position. Paragraph B1 of Appendix B to AASB 7 states, in part, that:

“...The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in AASB 139 (which determine how financial instruments are measured and where changes in fair value are recognised)...”
2. A plan or ADF would not be required to classify its financial assets or financial liabilities in accordance with the different measurement categories in AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement* under the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*. However, the requirements in paragraph 6 of AASB 7 would arguably facilitate the disclosure of useful information to users of a plan or ADF’s financial statements.
3. As alluded to in paragraph B3 of the Application Guidance to AASB 7, one of the purposes of paragraph 6 of AASB 7 is to facilitate the disclosure of information that is appropriate in light of the entity’s circumstances without overburdening the financial statements with excessive detail. Most plans and ADFs would have a number of different classes of financial instruments (for instance, cash, fixed interest securities, listed equities, receivables, benefits payable and payables to service providers). In addition, each plan’s and ADF’s circumstances are likely to differ. Accordingly, the requirements in paragraph 6 of AASB 7 would arguably be relevant to a plan or ADF.

Significance of financial instruments for financial position and performance (paragraph 7)

4. As a consequence of the limitations imposed on regulated superannuation entities by the *Superannuation Industry (Supervision) Act 1993* (SIS Act) in respect of:
 - (a) the purposes for which the entity can be established and maintained; and
 - (b) the types of issues a trustee is required to consider in formulating and giving effect to a plan’s or ADF’s investment strategy;plans and ADFs invest predominantly in financial assets that are readily marketable, particularly listed equity instruments. Accordingly, financial instruments would be significant for the financial position and performance of most, if not all, plans and ADFs.

Statement of financial position (paragraphs 8-19)

Categories of financial assets and financial liabilities (paragraph 8)

5. Paragraph 8 of AASB 7 requires entities to disclose financial assets and financial liabilities by the measurement categories in AASB 9 and AASB 139. However, under the replacement Standard for AAS 25, a plan or ADF would be (mandatorily) required to measure:
- (a) all financial assets at fair value in a manner consistent with the approach under AASB 9; and
 - (b) all financial liabilities at fair value through profit or loss in a manner consistent with the approach under AASB 139.

Accordingly, all of the measurement categories in paragraph 8 apart from the categories measured at fair value and at fair value through profit or loss would be irrelevant to a plan or ADF under the replacement Standard for AAS 25.

Financial assets or financial liabilities at fair value through profit or loss (paragraphs 9-11)

6. Consistent with paragraph BC119 of ED 179 (see Appendix A to this Agenda paper), staff do not consider that paragraphs 9-11 of AASB 7 should apply to a plan or ADF.
7. Based on our reading of the relevant sections of the Bases for Conclusions to IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, staff understand that the disclosure requirements in paragraphs 9-11 of AASB 7 were adopted by the IASB to address concerns among constituents about the manner in which some entities, particularly banks and other lending institutions, would exercise their choice to designate financial instruments as at fair value through profit or loss. However, the issues that gave rise to the IASB's concerns regarding the potential selective application of the fair value through profit or loss designation are arguably irrelevant in a superannuation context because:
- (a) under a replacement Standard for AAS 25, a plan or ADF would not be permitted to measure a financial asset or financial liability at an amount other than its fair value; and
 - (b) regulated plans and ADFs do not generally make loans and are prohibited by the SIS Act from borrowing or leveraging their assets. Accordingly, accounting mismatches in relation to related loans and liabilities are generally not relevant in a superannuation context.
8. Staff also note that a literal reading of paragraphs 9-11 of AASB 7 could lead a plan or ADF to conclude that the requirements would not apply to the entity under the proposals in ED 179. Paragraphs 9-11 apply to entities that *designate* a financial asset at fair value or financial liability at fair value through profit or loss. However, if a plan or ADF held a financial asset or financial liability it would be (mandatorily) *required* under the proposals in ED 179 to classify and measure the asset and liability in a manner consistent with the fair value or fair value through profit or loss approaches under AASB 9 and AASB 139.

Financial assets measured at fair value through other comprehensive income
(paragraphs 11A and 11B)

9. Refer to staff comments in paragraph 8 of this Appendix. In addition, staff note that, under the replacement Standard for AAS 25, a plan or ADF would present an income statement rather than:
- (a) a single statement of comprehensive income; or
 - (b) a separate income statement and a statement of comprehensive income.

Accordingly, a plan or ADF would not be permitted to designate investments in equity instruments to be measured at fair value through other comprehensive income under the replacement Standard for AAS 25.

Reclassification (paragraphs 12B-12D)

10. Under the proposals in ED 179, a plan or ADF would not be permitted to reclassify a financial asset, primarily because all financial assets held by a plan or ADF that are recognised in accordance with AASB 9 and AASB 139 would be required to be classified and measured in a manner consistent with the fair value approach under AASB 9. Accordingly, the disclosure requirements in paragraphs 12B-12D would not be relevant to a plan or ADF under the replacement Standard for AAS 25.

Derecognition (paragraph 13)

11. Under the proposals in paragraph 10 of ED 179, a plan or ADF would recognise a financial asset in accordance with the recognition principles and requirements in AASB 9 and AASB 139. As the derecognition disclosure requirements in paragraph 13 of AASB 7 are linked to the relevant derecognition principles and requirements in AASB 9 and AASB 139, the requirements in paragraph 13 of AASB 7 would be relevant to a plan or ADF.

Collateral (paragraphs 14 and 15)

12. As noted above, the SIS Act generally prohibits regulated plans and ADFs from borrowing or leveraging their assets. However, a plan may hold a controlling interest in another entity that holds borrowings. In doing so, the controlled entity may provide collateral to the lender in relation to such borrowings. In addition, a plan or ADF (or a subsidiary of a plan or ADF) could potentially hold collateral in relation to a loan provided by the entity.

Allowance account for credit losses (paragraph 16)

13. Under the proposals in ED 179, a plan or ADF would classify and measure its financial assets in a manner consistent with the fair value approach under AASB 9. Accordingly, a plan or ADF would directly reduce the carrying amount of an asset for any credit losses rather than record the impairment in a separate account.

Compound financial instruments with multiple embedded derivatives (paragraph 17)

14. As noted in paragraph BC117(a) of ED 179 (see Appendix A to this Agenda paper), a plan or ADF would not be permitted to issue a compound financial instrument with multiple embedded derivatives.
15. Under the SIS Act, regulated superannuation entities are required to be established and maintained for the primary purpose of providing benefits to members upon their retirement, death or disablement. In addition, the SIS Act generally prohibits a plan or ADF from borrowing or leveraging its assets. Accordingly, a regulated plan or ADF would not be permitted to issue a financial instrument that:
 - (a) includes an equity component; or
 - (b) potentially leveraged the assets of the plan.

Defaults and breaches (paragraphs 18-19)

16. As noted in paragraph 12 of this Appendix, some superannuation entities hold controlling interests in other entities that hold borrowings. Accordingly, some plans recognise loans payable in their consolidated statements of financial position.

Statement of comprehensive income – items of income, expense, gains or losses (paragraph 20)

17. Consistent with the discussion in paragraph 5 of this Appendix, all of the disclosure requirements in paragraph 20(a) in relation to measurement categories other than the mandatorily measured at fair value category would be irrelevant under the replacement Standard for AAS 25. In addition, under the replacement Standard, a plan or ADF would present an income statement only. Accordingly:
 - (a) where applicable, a plan or ADF would only disclose either in the income statement or in the notes the net gains or net losses on:
 - (i) financial assets; and
 - (ii) financial liabilities;under paragraph 20(a) of AASB 7; and
 - (b) the disclosure requirements in sub-paragraphs 20(b), 20(c)(i), 20(d) and 20(e) would not be relevant to a plan or ADF under the replacement Standard for AAS 25 because all of these disclosure requirements are linked to items measured on a basis other than at fair value through profit or loss.
18. The disclosure requirements in paragraph 20(c)(ii) of AASB 7 are potentially aimed at entities that recognise fee income and expenses in relation to a number of activities, including trust and other fiduciary activities. As noted in paragraph 15 of this Appendix, the SIS Act requires regulated superannuation entities to be established and maintained for the primary purpose of providing benefits to members upon their retirement, death or disablement. Accordingly, regulated superannuation entities should only ever recognise fee income and expenses that are directly attributable to their fiduciary duties in relation to investing and administering members' benefits.

Other disclosures (paragraphs 21-24)

Accounting policies (paragraph 21)

19. ED 179 contains no specific proposals in respect of the disclosure of information in relation to the measurement basis (or bases) used in preparing the financial instruments. Accordingly, under the replacement Standard for AAS 25, the requirements in paragraph 21 of AASB 7 would be relevant to a plan or ADF.
20. It is relevant to note that, under the proposals in ED 179, a plan or ADF would be required to disclose information in accordance with paragraphs 117-124 of AASB 101 *Presentation of Financial Statements*, which requires an entity to disclose, among other things, the measurement basis (or bases) used in preparing its financial statements.

Hedge accounting (paragraphs 22-24)

21. Superannuation entities often engage in hedging arrangements, particularly in relation to assets such as listed equities and investments in debt instruments. In addition, although investments in foreign subsidiaries, associates or joint ventures are relatively uncommon among superannuation entities, a plan or ADF (or a subsidiary of a plan or ADF) could conceivably hold an interest in a foreign operation (including a monetary item that is receivable from or payable to the foreign operation) as defined in AASB 121 *The Effects of Changes in Foreign Exchange Rates*.
22. Under the proposals in ED 179, a plan or ADF would only apply a classification used in Australian Accounting Standards that is linked to a particular measurement approach if the classification is necessary to adequately convey the nature of the item and the item warrants separate presentation or disclosure. Accordingly, if, for instance, a plan were involved in a cash flow hedging arrangement that met the relevant recognition criteria in AASB 139, the plan may consider it appropriate to use the phrase 'cash flow hedge' in its financial statements to convey the nature of the hedge, notwithstanding that:
 - (a) the hedging instrument and the hedged item (if recognised) would be measured at fair value; and
 - (b) any remeasurement changes in the hedging instrument and the hedged item (if recognised) would be recognised as gains or losses in the plan's income statement in the period in which the change arises.
23. Under the proposals in ED 179, the requirements in paragraph 22 of AASB 7 (see Appendix B to this Agenda paper) would be relevant to a plan or ADF. In addition, the majority of the disclosure requirements in paragraph 23 and all of the disclosure requirements in paragraph 24 of AASB 7 would arguably be relevant to a plan or ADF. These requirements would facilitate the disclosure of information that is relevant to an understanding of a plan's or ADF's hedging arrangements, irrespective of how the arrangements are measured for reporting purposes. For instance:
 - (a) the periods when the cash flows attributable to cash flow hedges are expected to occur and when they are expected to affect profit or loss [paragraph 23(a)];

- (b) a description of any forecast transactions in respect to cash flow hedges for which hedge accounting had previously been used, but which is no longer expected to occur [paragraph 23(b)];
- (c) the amount that was recognised in other comprehensive income (income statement for a plan or ADF) in respect of cash flow hedges during the period [paragraph 23(c)].

While a plan or ADF is not required to prepare a statement of comprehensive income under the proposals in ED 179, staff consider that the presentation of a statement of comprehensive income is not necessary in order to comply with paragraph 23(c) of AASB 7 in a superannuation context. Paragraph 95 of AASB 139 requires an entity to recognise the portion of the gain or loss on a cash flow hedging instrument that is determined to be effective in other comprehensive income. Accordingly, a plan or ADF would arguably read paragraph 23(c) of AASB 7 as requiring the entity to disclose the portion of the gains and losses on all cash flow hedging instruments that are determined to be effective;

- (d) in respect of fair value hedges, the gains or losses on the hedging instruments and the gains or losses on the hedged items attributable to the hedged risk [paragraph 24(a)];
- (e) the ineffectiveness recognised in profit or loss that arises from cash flow hedges [paragraph 24(b)].

Consistent with the discussion in (c) directly above, a plan or ADF would arguably interpret paragraph 24(b) as requiring the entity to disclose the portion of the gains and losses on all cash flow hedging instruments that are determined to be ineffective; and

- (f) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations [paragraph 24(c)].

Refer to the discussion in (c) and (e) directly above.

24. However, as a plan or ADF would be required to account for all hedging arrangements under the proposals in ED 179 as if they were fair value hedges, several of the disclosure requirements in paragraph 23 of AASB 7 would arguably not be relevant to a plan or ADF. In particular:

- (a) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income [paragraph 23(d)].

The reclassification of an amount from equity to profit or loss might occur under the effective interest rate method, whereby a premium or discount is recognised on inception. However, if a difference exists between the fair values of a hedging instrument and the fair value of the hedged item at initial recognition, the difference would arguably be treated in accordance with paragraph AG76A of AASB 139 and paragraph 28 of AASB 7; and

- (b) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence has a hedged highly probable forecast transaction [paragraph 23(e)].

Refer to the discussion in (a) directly above.

Fair value (paragraphs 25-29)

25. In respect of the requirements in paragraphs 25 and 26 of AASB 7, paragraph BC36 of the Basis for Conclusions to IFRS 7 states, in part, that:

“...The Board decided that when an entity does not measure a financial asset or financial liability in its balance sheet at fair value, it should provide fair value information through supplementary disclosures to assist users to compare entities on a consistent basis.”

However, as a plan or ADF would be required to measure all of its financial assets and financial liabilities at fair value under the replacement Standard for AAS 25, the disclosures required under paragraphs 25 and 26 of AASB 7 would arguably not provide any additional useful information.

26. The IASB’s Exposure Draft ED/2009/5 *Fair Value Measurement* proposes that the material in paragraphs 27-27B of AASB 7 should be incorporated into the resultant *Fair Value Measurement* Standard. Accordingly, the relevance of the material in paragraphs 27-27B to a plan or ADF is considered in Agenda paper 14.5 to this meeting.
27. Paragraphs 28 and 28A of AASB 7 deal with the disclosure of any gain or loss on initial recognition of a financial asset or financial liability because fair value is neither evidenced by observable current market transactions in the same instrument nor based on a valuation technique whose variables include only data from observable markets. As a plan or ADF would be required to measure any financial assets or financial liabilities at fair value, the disclosure requirements in paragraphs 28 and 28A of AASB 7 would be relevant under a replacement Standard for AAS 25.
28. Paragraphs 29 and 30 deal with the disclosure of information in relation to financial assets or financial liabilities that are not measured at fair value. As a plan or ADF would not be permitted to measure a financial asset or financial liability at an amount other than fair value under the replacement Standard for AAS 25, the requirements in paragraphs 29 and 30 of AASB 7 would not be relevant to such entities.

Nature and extent of risks arising from financial instruments (paragraphs 31-42)

29. By virtue of the types of assets and liabilities they hold, a plan or ADF would be exposed to most, if not all, of the types of risks anticipated by paragraphs 31-42 of AASB 7, including credit risk, liquidity risk and market risk. Accordingly, a significant amount of the material in paragraphs 31-42 of AASB 7 (May 2009) was incorporated in paragraph 34 of ED 179 and paragraphs AG61-AG73 of Appendix B to ED 179 (see Appendix A to this Agenda paper).
30. During its June 2008 meeting, the Board decided that, in respect of a plan or ADF, the scope of the disclosure requirements in paragraphs 31-42 of AASB 7 should not be limited to financial assets. Minute item 3 second (a) of the Board’s June 2008 meeting states that:

“...the requirements in AASB 7 *Financial Instruments: Disclosures* should be used as a basis for developing principles that would facilitate the disclosure of information in relation to the risks associated with both the financial and non-financial assets of a superannuation plan or ADF...”

31. At the time, staff recommended this approach on the basis that:
- (a) the majority of most plans’ and ADFs’ assets comprise financial assets; and
 - (b) most plans and ADFs hold assets, including non-financial assets, for the purpose of meeting members’ benefits. As most plans and ADFs pay members’ benefits in the form of cash, non-financial assets potentially expose plans and ADFs to the same types of risks as financial assets.

Transitional disclosures (paragraphs 44I-44J)

32. The transitional disclosure requirements in paragraphs 44I-44J of AASB 7 anticipate that an entity might be required to or choose to reclassify a financial asset when it first applies AASB 9. However, as noted in paragraph 10 of this Appendix, all financial assets held by a plan or ADF that are recognised in accordance with AASB 9 and AASB 139 would be (mandatorily) required to be classified and measured in a manner consistent with the fair value approach under AASB 9. Accordingly, the disclosure requirements in paragraphs 44I-44J would not be relevant to a plan or ADF under the replacement Standard for AAS 25.