Tier 2 Disclosures Arising from IFRS 9 *Financial Instruments* *(Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* '(IFRS 9 (2013))'

This paper serves to:

- highlight the differences between the disclosures proposed in AASB ED 208 *Hedge Accounting* (which incorporated IASB ED/2010/13 of the same name) and the disclosures introduced by IFRS 9 (2013);
- document and respond to respondents' comments on the proposals in the Tier 2 Supplement to ED 208; and
- provide staff recommendations on how to proceed.

The disclosures proposed in ED 208 that were proposed to be excluded for Tier 2 entities in the Tier 2 Supplement to ED 208 are shown in the first column as shaded text. The analysis of the disclosures that supported the proposals in the Tier 2 Supplement to ED208 can be located here.

The disclosures added or amended by IFRS 9 (2013) are shown in the second column. An assessment of whether the difference in the disclosures proposed by ED 208 and those in IFRS 9 (2013) are significant is included in the third column. Where respondents to the Tier 2 Supplement to ED 208 made no comment and the disclosures are not considered to be significantly different from ED 208, staff recommend proceeding based on the proposals in the Tier 2 Supplement to ED 208. Where respondents commented and/or the changes are considered to be significantly different from ED 208, staff have provided further analysis and recommendation in the 'staff views' column. Paragraph references in the 'staff views' column have been updated to reflect those of IFRS 9 (2013) where applicable. The staff views column also includes some references to paragraphs in the *IFRS for SMEs* – these are reproduced in Appendix B to this agenda paper.

The particular matters we intend focusing on during the forthcoming AASB meeting are designated with two hash symbols (##) – being those issues that drew constituent comment or for which there was significant change or were not included in AASB ED 208.

Appendix A to this agenda paper includes a draft of the proposed exclusions of disclosures in IFRS 9 (2013) as shaded paragraphs.

	ED 208 Proposals (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	Significant Change?	Respondents Comments	Staff views
##	**IFRS 9** **Presentation** 37 For a hedge of a group of items with offsetting hedged risk positions that affect different line items in the income statement (eg in a net position hedge), any hedging instrument gains or losses recognised in profit or loss shall be presented in a separate line from those affected by the hedged items. 38 For assets and liabilities that are hedged together as a group in a fair value hedge, the gain or loss on the assets and liabilities shall be recognised in the statement of financial position in accordance with paragraph 26(b). The gain or loss shall be presented on a gross basis next to each line item that includes the related asset or liability.	**IFRS 9** **Presentation** 6.6.4 For a hedge of a group of items with offsetting risk positions (ie in a hedge of a net position), whose hedged risk affects different line items in the statement of profit or loss and other comprehensive income any hedging gains or losses in that statement shall be presented in a separate line from those affected by the hedged items. Hence, in that statement the amount in the line item that relates to the hedged item itself (eg revenue or cost of sales) remains unaffected. 6.6.5 For assets and liabilities that are hedged together as a group in a fair value hedge, the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognised as an adjustment of the carrying	Yes	**PricewaterhouseCoopers:** Paragraph 9 of the *Tier 2 Disclosure Principles*[1] acknowledges that sometimes, judgement is required as to whether a particular requirement relates to presentation or disclosure….we do not believe either of these two disclosures should be required There is already sufficient guidance in AASB 101 *Presentation of Financial Statements* as to what should be disclosed on the face of the primary statements based upon materiality and what should be included in the notes. Should the two paragraphs remain in the final standard, they should be excluded from the Tier 2 disclosure requirements on that basis.	[Paragraphs 6.6.4 and 6.6.5 were not explicitly included in Tier 2 Supplement to ED 208.] Although AASB 101 provides requirements on presentation and offsetting, paragraph 6.6.4 and 6.6.5 provide specific requirements in respect of presentation of hedge accounting amounts. Presentation of such amounts is not specifically addressed in AASB 101, therefore staff recommend **retaining** paragraphs 6.6.4 and 6.6.5 in the Tier 2 disclosure requirements.

[1] http://www.aasb.gov.au/admin/file/content102/c3/Tier_2_Disclosure_Principles.pdf

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		amount of the respective individual items comprising the group in accordance with paragraph 6.5.8(b).			
	40 Hedge accounting disclosures shall provide information about: (a) an entity's risk management strategy and how it is applied to manage risk; (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.	21A An entity shall apply the disclosure requirements in paragraph 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about: (a) an entity's risk management strategy and how it is applied to manage risk; (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income	No	**PricewaterhouseCoopers:** Paragraph 40 sets out the general disclosure principles for hedge accounting. While there are arguments either way to include or exclude this paragraph in the Tier 2 requirements, we do note that similar paragraphs have been excluded from the Tier 2 requirements of other standards (eg AASB 3 and AASB 119). On that basis, paragraph 40 should also be excluded. The same applies to paragraph 43, which provides guidance on the application of paragraph 40. Should the Board disagree and decide to retain paragraphs 40 and 43, it should at least exclude paragraph 40(b) from the Tier 2 requirements. This would be consistent with the fact that none of the information in paragraphs 45 to 48 is required for Tier 2 entities. If Tier 2 entities had to comply with paragraph 40(b) this would raise the question of how this	In relation to PwC's comment concerning exclusion of paragraph 40(b) [21A(b)] on the grounds that all paragraphs under the heading 'The amount, timing and uncertainty of cash flows' would be excluded (ie. paragraphs 45-48), staff note that new paragraph 23C is proposed to be retained, therefore not all paragraphs under that heading are now proposed to be excluded. Staff recommend **retaining** paragraph 21A, consistent with the proposals in the Tier 2 Supplement to ED 208. <u>The analysis in the Tier 2 Supplement to ED 208 stated the following:</u> Paragraph 21A is the overall principle for the disclosures

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		and statement of changes in equity.		requirement could be satisfied without applying any of the supporting paragraphs. In our view, none of this information is essential for Tier 2 entities under the Board's *Tier 2 Disclosure Principles.*	relating to hedge accounting. Paragraphs 21A(a) and 21A(c) are regarded broadly as relating to a recognition and measurement difference because the *IFRS for SMEs* hedge accounting model does not reflect in the financial statements the effect of an entity's risk management activities. Some of the requirements in the paragraphs (below) supporting paragraphs 21A(a) and 21A(c) are proposed to be retained in the Tier 2 disclosure requirements. Accordingly, based on paragraphs 5 and 6 of 'Tier 2 Disclosure Principles', paragraphs 21A(a) and 21A(c) should be **retained** in the Tier 2 disclosure requirements. Although the related paragraphs (below) supporting paragraph 21A(b) are proposed to be excluded from the Tier 2 disclosure requirements, paragraph 21A(b) broadly corresponds to some degree to the requirements in

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					paragraph 12.29(a) of the *IFRS for SMEs*. Accordingly, based on paragraph 2 of 'Tier 2 Disclosure Principles', paragraph 21A(b) should be **retained** in the Tier 2 disclosure requirements.
	41 An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.	21B An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.	No	No specific comment	Staff recommend **excluding** paragraph 21B consistent with the proposals in the Tier 2 Supplement to ED 208.

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	42 When paragraphs 44-52 require the entity to separate by risk category the information disclosed, the entity shall determine each category of risk on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.	21C When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.	No	No specific comment	Staff recommend **excluding** paragraph 21C consistent with the proposals in the Tier 2 Supplement to ED 208.
	43 To meet the objectives in paragraph 40, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need any additional information to evaluate the quantitative information disclosed. However, when an entity determines the level of	21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use	No	Refer to comment for paragraph 40 above	Staff recommend **retaining** paragraph 21D consistent with the proposals in the Tier 2 Supplement to ED 208.

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	aggregation or disaggregation, it shall consider the level of aggregation or disaggregation it uses for other disclosure requirements in AASB 7 *Financial Instruments: Disclosures*.	the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this IFRS and IFRS 13 *Fair Value Measurement*.			
	44 An entity shall explain its risk management strategy for each category of risk exposure that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example): (a) how each risk arises; (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item; and (c) the extent of risk exposures that the entity manages.	22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example): (a) how each risk arises. (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why. (c) the extent of risk exposures that the entity	No	No specific comment	Staff recommend **retaining** paragraph 22A consistent with the proposals in the Tier 2 Supplement to ED 208.

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		manages.			
##	[No equivalent paragraph proposed]	22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of: (a) the hedging instruments that are used (and how they are used) to hedge risk exposures; (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.	Yes	N/A	Paragraph 22B has no equivalent in the *IFRS for SMEs*. Paragraph 22B is in the nature of guidance for the application of paragraph 22A, which is proposed to be retained in the Tier 2 disclosure requirements. Accordingly, based on paragraph 7 of the 'Tier 2 Disclosure Principles', paragraph 22B should be **retained** in the Tier 2 disclosure requirements.
##	[No equivalent paragraph proposed]	22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of IFRS 9) it shall provide, in addition to the	Yes	N/A	The disclosures required by paragraph 22C are similar in nature to the disclosures required in the *IFRS for SMEs* in paragraphs 12.27(a) and

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		disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about: (a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and (b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).			12.27(b). The disclosures required by paragraph 22C satisfy user information needs in relation to the entity's risk management, and, applying paragraph 3 of the 'Tier 2 Disclosure Principles', the cost of those disclosures to the entity would not be expected to exceed the benefit to users. Accordingly, paragraph 22C(a) should be **retained** in the Tier 2 disclosure requirements.

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	45 For each category of risk exposure, an entity shall disclose quantitative information to enable users of its financial statements to evaluate the types of risk exposures being managed in each risk category, the extent to which each type of risk exposure is hedged and the effect of the hedging strategy on each type of risk exposure.	23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.	No (reduced disclosure: by hedging instrument, rather than by risk exposure)	No specific comment	Staff recommend **excluding** paragraph 23A consistent with the proposals in the Tier 2 Supplement to ED 208.
	46 An entity shall provide a breakdown that discloses, for each subsequent period that the hedging relationship is expected to affect profit or loss, the following: (a) the monetary amount or other quantity (e.g. tonnes, cubic metres) to which the entity is exposed for each particular risk (for hedges of groups of items, an entity shall explain the risk exposure in the context of a group or net position); (b) the amount or quantity of the risk exposure being	23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses: (a) a profile of the timing of the nominal amount of the hedging instrument; and (b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.	No (reduced disclosure)	No specific comment	Staff recommend **excluding** paragraph 23B consistent with the proposals in the Tier 2 Supplement to ED 208.

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	hedged; and (c) in quantitative terms, how hedging changes the exposure (i.e. the exposure profile after hedging such as the average rate at which the entity has hedged that exposure).				
##	[No equivalent paragraph proposed]	23C In situations in which an entity frequently resets (ie discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph B6.5.24(b) of IFRS 9) the entity: (a) is exempt from providing the disclosures required by paragraphs 23A and 23B.	Yes	N/A	Paragraph 23C has no equivalent in the *IFRS for SMEs.* Based on paragraphs 5 and 6(f) of 'Tier 2 Disclosure Principles', in relation to information that relates to user needs and transactions about the entity's risk management, paragraph 23C should be **retained** in the Tier 2 disclosure requirements.

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		(b) shall disclose: (i) information about what the ultimate risk management strategy is in relation to those hedging relationships; (ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and (iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.			
	47 For each category of risk, an entity shall disclose a	23D An entity shall disclose by risk category a description of	No	No specific comment	Staff recommend **excluding** paragraph 23D consistent with

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	description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.	the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.			the proposals in the Tier 2 Supplement to ED 208.
	48 If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources and explain the resulting hedge ineffectiveness.	23E If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.	No	No specific comment	Staff recommend **excluding** paragraph 23D consistent with the proposals in the Tier 2 Supplement to ED 208.
##	[No equivalent paragraph proposed]	23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.	Yes	N/A	Paragraph 23F is similar to paragraph 12.29(b) in the *IFRS for SMEs*. Applying paragraph 3 of the 'Tier 2 Disclosure Principles', the cost to entities of the disclosures would not be expected to exceed the benefit to users. Accordingly, paragraph 23F should be **retained** in the Tier 2 disclosure requirements.
##	49 An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by	24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk	24A(a) and (d) – No 24A(b) and 24A(c) - yes	24A(a) and 24A(d) – No specific comment 24A(b) and 24A(c) – N/A	Staff recommend **excluding** the wording 'in a tabular format' and paragraph 24A(d), **retaining** paragraph 24A(a) and excluding paragraph 24A(d) consistent with

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	category of risk for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); and (b) the notional amounts or other quantity (e.g. tonnes or cubic metres) related to the hedging instruments.	category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); (b) the line item in the statement of financial position that includes the hedging instrument; (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and (d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.			the proposals in the Tier 2 Supplement to ED 208. Paragraphs 24A(b) and 24A(c) were not proposed in ED 208. Paragraph 24A(b) has no equivalent in the *IFRS for SMEs*. Applying paragraph 3 of the 'Tier 2 Disclosure Principles', the cost to entities of the disclosure of paragraph 24A(b) would be expected to exceed the benefit to users. Accordingly, paragraph 24A(b) should be **excluded** in the Tier 2 disclosure requirements. The disclosures required by paragraph 24A(c) are broadly consistent with those required in paragraphs 12.28(a), 12.29(c) and 12.29(e) of the *IFRS for SMEs* as they relate to hedge ineffectiveness. Applying paragraph 3 of the 'Tier 2 Disclosure Principles', the cost of the disclosures required by paragraph 24A(c) would not be expected to exceed the benefits to users. Accordingly, paragraph

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(Amendments are to IFRS 7 Financial Instruments: Disclosures unless stated otherwise)</th><th>Significant Change?</th><th>Respondents Comments</th><th>Staff views</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>24A(c) should be retained in the Tier 2 disclosure requirements.</td></tr>
<tr><td>##</td><td>50 An entity shall disclose, in a tabular format, the following amounts separately by category of risk for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):
(a) for fair value hedges:
(i) the carrying amount of the accumulated gains or losses on the hedged item presented in a separate line item in the statement of financial position, separating assets from liabilities; and
(ii) the balance remaining in the statement of financial position of any hedges for which hedge accounting has been discontinued.</td><td>24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:
(a) for fair value hedges:
(i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of</td><td>Yes – 24B(a)(ii)-(iv) and 24B(b)(i) are new</td><td>No specific comment</td><td>Paragraph 24B has no equivalent in the IFRS for SMEs.
Paragraphs 24B(a)(i), 24B(a)(v), 24B(b)(ii)-24B(b)(iii) are equivalent to paragraphs 50(a)(i), 50(a)(ii), 50(b)(i) and 50(b)(ii) of ED 208 respectively. The Tier 2 Supplement to ED 208 recommended excluding these paragraphs from the Tier 2 requirements on the basis that the cost to entities would be expected to exceed the benefits to users.
Staff recommend extending the rationale above to the new disclosure requirements (noted in the ‘Significant Change?’ column). Accordingly, based on paragraph 3 of the ‘Tier 2 Disclosure Principles’ paragraph 24B should be excluded from the Tier 2 disclosure requirements.</td></tr>
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	(b) for cash flow hedges and hedges of a net investment in a foreign operation: (i) the balance in the cash flow hedge reserve for continuing hedges that will be reclassified when the hedged item affects profit or loss; and (ii) the balance remaining in the cash flow hedge reserve from any hedges for which hedge accounting has been discontinued.	financial position (presenting assets separately from liabilities); (iii) the line item in the statement of financial position that includes the hedged item; (iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and (v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in			

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		accordance with paragraph 6.5.10 of IFRS 9. (b) for cash flow hedges and hedges of a net investment in a foreign operation: (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9); (ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve			

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		for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and (iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.			
##	51 An entity shall disclose, in a tabular format, the following amounts separately by category of risk for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation): (a) for fair value, cash flow hedges and hedges of a net investment in a foreign	24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows: (a) for fair value hedges: (i) hedge ineffectiveness—ie the difference between the hedging gains or	No	**KPMG** We do not agree with the AASB proposal not to exempt entities applying Tier 2 requirements from paragraph 51(c)(i) [24C(b)(vi)]. We believe that entities applying Tier 2 should be exempt from this requirement based on the 'user need' and 'cost benefit' principles. It should also be noted, that if entities	Staff recommend **retaining** paragraphs 24C(a)(i), 24C(b)(i) and 24C(b)(ii) concerning the amounts recognised in profit or loss and amounts recognised in other comprehensive income consistent with the proposals in the Tier 2 Supplement to ED 208. For consistency with the paragraphs noted immediately

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	operation: (i) changes in the value of the hedging instrument recognised in other comprehensive income; (ii) hedge ineffectiveness recognised in profit or loss; and (iii) a description of the line item(s) in the income statement in which hedge ineffectiveness is included. (b) for fair value hedges, the change in the value of the hedged item; and (c) for cash flow hedges and hedges of a net investment in a foreign operation: (i) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the income statement	losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5); and (ii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness. (b) for cash flow hedges and hedges of a net investment in a foreign		applying Tier 2 are exempted from the abovementioned paragraph then paragraph 52(a) would need to be edited accordingly to remove the reference to paragraph 51(c)(i).	above and in response to the comment from the constituent, staff recommend that paragraph 24C(b)(vi) concerning amounts recognised in the statement of comprehensive income for hedges of net positions is also **retained.** [The equivalent paragraph 51(c)(i) was proposed to be retained in the Tier 2 Supplement to ED208 – based on the above in the staff's view the equivalent paragraph should be retained]. Staff recommend **excluding** the wording 'in a tabular format', **excluding** paragraphs 24C(a)(ii) and 24C(b)(iii) concerning a description by line item of where ineffectiveness is recognised in profit or loss, and **excluding** 24C(b)(iv) and 24C(b)(v) concerning amounts reclassified into profit or loss per paragraph 3 of the 'Tier 2 Disclosure Principles' on the basis that the cost to entities of the disclosures would be expected to exceed the benefits to users.

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	(see paragraph 37); (ii) the amount reclassified from the cash flow hedge reserve into profit or loss as a reclassification adjustment (see AASB 101) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss); and (iii) a description of the line item in the income statement affected by the reclassification adjustment (see	operation: (i) hedging gains or losses of the reporting period that were recognised in other comprehensive income; (ii) hedge ineffectiveness recognised in profit or loss; (iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness; (iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification			

	ED 208 Proposals (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	Significant Change?	Respondents Comments	Staff views
	AASB 101).	adjustment (see IAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss); (v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see IAS 1); and (vi) for hedges of net positions, the hedging gains or losses recognised			

	ED 208 Proposals **(Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)**	**IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)*** **(Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)**	**Significant Change?**	**Respondents Comments**	**Staff views**
		in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of IFRS 9).			
##	[No equivalent paragraph proposed]	24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (ie the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.	Yes	N/A	Paragraph 24D has no equivalent in the *IFRS for SMEs*. Applying paragraph 3 of the 'Tier 2 Disclosure Principles', the cost to entities of the disclosures in paragraph 24D would be expected to exceed the benefit to users. Accordingly, paragraph 24D should be **excluded** from the Tier 2 disclosure requirements.
##	52 An entity shall provide a reconciliation of accumulated other comprehensive income in accordance with AASB 101, either in the statement of changes in equity or in the notes to the financial statements, that: (a) allows users of its financial statements to identify the amounts that	24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with IAS 1 that, taken together: (a) differentiates, at a minimum, between the amounts that relate to	No	**KPMG** We do not agree with the AASB proposal not to exempt entities applying Tier 2 requirements from paragraph 52(b) [24E(b)]. We believe that entities applying Tier 2 should be exempt from this requirement based on the 'user need' and 'cost benefit' principles.	<u>The analysis in the Tier 2 Supplement to ED 208 stated:</u> Paragraph 24E(a) requires information that is dealt with at a more general level in paragraph 106(d)(ii) of AASB 101 *Presentation of Financial Statements* (equivalent to paragraph 6.3(c)(ii) of the *IFRS for SMEs*), which was retained in

	ED 208 Proposals **(Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)**	**IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)*** **(Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)**	**Significant Change?**	**Respondents Comments**	**Staff views**
	relate to the disclosures in paragraphs 51(a)(i), (c)(i) and (c)(ii); and (b) differentiates between amounts associated with the time value of options that hedge transaction related hedged items and amounts associated with the time value of options that hedge time period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 33 (see paragraphs B67-B69).	the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 6.5.11(d)(i) and (d)(iii) of IFRS 9; (b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time–period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 6.5.15 of IFRS 9; and (c) differentiates between the amounts associated with the forward elements of forward contracts and the foreign currency basis spreads of financial		**PwC** We question whether the information required by paragraph 52 is necessary for Tier 2 companies on cost-benefit grounds. AASB 101 paragraph 106 already requires a great deal of detailed information for the reconciliation of accumulated other comprehensive income and this, together with the disclosure requirements of paragraph 51 of the ED should be sufficient.	the Tier 2 disclosure requirements. Based on paragraph 7 of 'Tier 2 Disclosure Principles', paragraph 24E(a) should be **retained** in the Tier 2 disclosure requirements. Paragraph 24E(b) has no equivalent in the *IFRS for SMEs* and is regarded as relating to a recognition and measurement difference because the *IFRS for SMEs* does not recognise time value of options as eligible hedging instruments. Based on paragraphs 5 and 6(f) of the 'Tier 2 Disclosure Principles' in relation to 'user needs' and 'cost-benefit' paragraphs 24E(b) and 24E(c) should be **retained** in the Tier 2 disclosure requirements. <ins>Revised staff recommendation</ins> In response to constituent feedback and on reflection staff recommend **excluding** paragraph 24E in its entirety on the basis that the cost to entities of the disclosures required would be expected to exceed the benefits to users

	ED 208 Proposals (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	Significant Change?	Respondents Comments	Staff views
		instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 6.5.16 of IFRS 9.			
##	[No equivalent paragraph proposed]	24F An entity shall disclose the information required in paragraph 24E separately by risk category. The disaggregation by risk may be provided in the notes to the financial statements.	Yes	N/A	Paragraph 24F is in the nature of guidance in the application of paragraph 24E, which is recommended to be excluded from the Tier 2 disclosure requirements. Accordingly, paragraph 24F should also be **excluded** from the Tier 2 disclosure requirements.
##	[No equivalent paragraph proposed]	24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or	Yes	N/A	Paragraph 24G has no equivalent in the *IFRS for SMEs.* Applying paragraph 3 of the 'Tier 2 Disclosure Principles',

	ED 208 Proposals (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	Significant Change?	Respondents Comments	Staff views
		loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose: (a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period; (b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9; and			the cost to entities of the disclosures in paragraph 24G would be expected to exceed the benefit to users. Accordingly, paragraph 24G should be **excluded** from the Tier 2 disclosure requirements.

	ED 208 Proposals (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (Amendments are to IFRS 7 *Financial Instruments: Disclosures* unless stated otherwise)	Significant Change?	Respondents Comments	Staff views
		(c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4(b) of IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with IAS 1, an entity does not need to continue this disclosure in subsequent periods).			

Appendix A – Shaded draft Tier 2 proposals

This appendix shows the Tier 2 requirements proposed above with shading applied for information purposes only.

Hedge accounting

21A An entity shall apply the disclosure requirements in paragraph 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) an entity's risk management strategy and how it is applied to manage risk;

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

21B An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

21C When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this IFRS and IFRS 13 *Fair Value Measurement*.

The risk management strategy

22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) how each risk arises.

(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.

(c) the extent of risk exposures that the entity manages.

22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:

(a) the hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of IFRS 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:

(a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

(b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

The amount, timing and uncertainty of future cash flows

23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:

(a) a profile of the timing of the nominal amount of the hedging instrument; and

(b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.

23C In situations in which an entity frequently resets (ie discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph B6.5.24(b) of IFRS 9) the entity:

(a) is exempt from providing the disclosures required by paragraphs 23A and 23B.

(b) shall disclose:

(i) information about what the ultimate risk management strategy is in relation to those hedging relationships;

(ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and

(iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.

23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.

23E If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.

23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The effects of hedge accounting on financial position and performance

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

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

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

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

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

24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

(i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

(iii) the line item in the statement of financial position that includes the hedged item;

(iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

(v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of IFRS 9.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

(i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9);

(ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and

(iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

(i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5); and

(ii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

(i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;

(ii) hedge ineffectiveness recognised in profit or loss;

(iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;

(iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see IAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

(v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see IAS 1); and

(vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of IFRS 9).

24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (ie the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.

24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with IAS 1 that, taken together:

(a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 6.5.11(d)(i) and (d)(iii) of IFRS 9;

(b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time–period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 6.5.15 of IFRS 9; and

(c) differentiates between the amounts associated with the forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 6.5.16 of IFRS 9.

24F An entity shall disclose the information required in paragraph 24E separately by risk category. The disaggregation by risk may be provided in the notes to the financial statements.

Option to designate a credit exposure as measured at fair value through profit or loss

24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

(a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;

(b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9; and

(c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4(b) of IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with IAS 1, an entity does not need to continue this disclosure in subsequent periods).

Appendix B – Relevant extracts from the *IFRS for SMEs*

IASB ED/2013/9 *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* proposes changes to the *IFRS for SMEs*. The IASB ED does not propose making any amendments to the disclosure requirements of Section 12 *Other Financial Instruments Issues* (other than minor editorial corrections).

12.27 An entity shall disclose the following separately for hedges of each of the four risks described in paragraph 12.17:

(a) a description of the hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and

(c) the nature of the risks being hedged, included a description of the hedged item.

12.28 If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19-12.22) it shall disclose the following:

(a) the amount of change in fair value of the hedging instrument recognised in profit or loss.

(b) the amount of the change in fair value of the hedged item recognised in profit or loss.

12.29 If an entity uses hedge accounting for a hedge of variable rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 12.23-12.25) it shall disclose the following:

(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 of change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23);

(d) the amount that was reclassified from other comprehensive income to profit or loss for the period (paragraphs 12.23 and 12.25).

(e) the amount of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognised in profit or loss.