Financial Instruments (December 2014): Amendments to AASB 7 – Classification and Measurement *RDR for Tier 2 entities* Staff Analysis

New or amended disclosures in AASB 7 – Classification and Measurement* *AASB 7 is shown in mark-up as amended by AASB 2014-7. Shading shown is existing RDR relief. Corresponding ED paragraphs are provided at the end of each section for comparison where the proposal differed from AASB 2014-7.	Previous ED 230 Tier 2 analysis	AASB Staff Analysis and Recommendations
Statement of financial position **Categories of financial assets and financial liabilities** 8 The carrying amounts of each of the following categories, as specified in AASB 9, shall be disclosed either in the statement of financial position or in the notes: (a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of AASB 9 and (ii) those mandatorily measured at fair value through profit or loss in accordance with AASB 9; (b)-(d) [deleted by the IASB] (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of AASB 9 and (ii) those that meet the definition of held for trading in AASB 9;	**Paragraph 8(a)** Paragraph 8(a), except for the shaded (and prior to the proposed new text) corresponds to paragraph 11.41(a) of *IFRS for SMEs*. The AASB previously decided to retain paragraph 8(a), except for the shaded text based on paragraph 2 of the Tier 2 Disclosure Principles, applying the 'identical or similar disclosures' principle. The shaded text would require separate presentation of financial assets designated at fair value through profit or loss (FVPL) upon initial recognition and those mandatorily at FVPL. However this separate presentation is not required by *IFRS for SMEs*. Accordingly, the AASB excluded the shaded text based on paragraph 3 of the Tier 2 Disclosure Principles (ie. where there are dissimilar disclosures from of *IFRS for SMEs*, apply the 'user need' and 'cost-benefit' principles of the *IFRS for SMEs*) on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. Applying the 'user need' and 'cost-benefit' principles of the *IFRS for SMEs* in paragraph 3(a) of the Tier 2 Disclosure Principles, the proposed new text in	**Paragraph 8(a)** Staff note that insertion of the words 'through profit or loss' is consistent with the proposal in ED 230. Staff note that the insertion of the words 'through profit or loss' is in the nature of an editorial correction (since all of paragraph 8(a) refers to financial assets at FVPL). Staff recommend, consistent with the existing shading in paragraph 8(a)(i), the new text is **excluded** from Tier 2 disclosure requirements. **Paragraph 8(h)** Staff note that the amendments to AASB 7 paragraph 8(h) convey the same meaning as the amendments proposed in ED 230. The most significant change to the final amendments is the inclusion of references to paragraphs in AASB 9 indicating where the applicable requirements for classification and measurement are located in that standard. Staff therefore consider the Tier 2 analysis to ED 230 remains relevant. A comment was received from one constituent (PwC) agreeing with the proposal in ED230 to exclude the

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(f) financial assets measured at amortised cost; (g) financial liabilities measured at amortised cost; and (h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of AASB 9; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of AASB 9. **Paragraph 8(h) in ED 230 for comparison**: (h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are mandatorily measured at fair value through other comprehensive income in accordance with IFRS 9; and (ii) equity investments designated to be measured as such upon initial recognition.	paragraph 8(a) should also be **excluded** from Tier 2 disclosure requirements on the grounds that the cost to entities preparing the disclosures is expected to exceed the benefits to users. **Paragraph 8(h)** Paragraph 8(h) has no equivalent in the *IFRS for SMEs* since the *IFRS for SMEs* does not have a measurement category of financial assets at fair value through other comprehensive income (FVOCI). The AASB previously retained paragraph 8(h) in the Tier 2 disclosure requirements (prior to the proposed new text) based on paragraphs 5 and 6(e) of the Tier 2 Disclosure Principles, ie. applying the 'user need' and 'cost-benefit' principles of the *IFRS for SMEs*. Paragraph 8(h) was considered to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements without significantly increasing the costs to the reporting entity. The proposed new text in paragraph 8(h) has no equivalent in the *IFRS for SMEs*. Based on the rationale in paragraph 5 of the 'Tier 2 Disclosure Principles' (ie. apply 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement accounting policies are not the same as those under *IFRS for SMEs*) and paragraph 9 of the	additional requirement to show a split of financial assets measured at fair value through other comprehensive income (FVOCI). Staff recommend that, consistent with the proposal in ED 230, the new text added to AASB 7 paragraph 8(h) is **excluded** from Tier 2 disclosure requirements. **Clarification** Staff note that the current wording in AASB 7 paragraph Aus2.9 identified the text excluded from paragraph 8(a) as the text "showing separately…AASB 9". The same "showing separately…AASB 9".wording is also used in Aus2.9 in respect of paragraph 8(e). However, since AASB 9 appears twice in paragraphs 8(a) and 8(e) it is potentially unclear as to which 'AASB 9' is being referred to. Staff therefore recommend that Aus2.9 is amended to specifically identify the 'AASB 9.' at the end of paragraphs 8(a) and 8(e).

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	Tier 2 Disclosure Principles (concerning information about subclassifications on the face of financial statements), the proposed new text should be **excluded** from the Tier 2 disclosure requirements on the grounds that the cost to entities preparing the disclosures is expected to exceed the benefits to users.	
Statement of financial position **Financial assets or financial liabilities at fair value through profit or loss** 9 If the entity has designated as measured at fair value through profit or loss a financial asset (or group of financial assets) that would otherwise be measured at fair value through other comprehensive income or amortised cost, it shall disclose: (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the financial asset (or group of financial assets) at the end of the reporting period; (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk~~;~~ (see paragraph 36(b)); (c) … **Paragraph 9 in ED 230** The amendments proposed in ED 230 are the same as above, except that ED 230 did not propose the inclusion of the reference to paragraph 36(b) in paragraph 9(b).	**Paragraph 9** Paragraph 9 has no equivalent in the *IFRS for SMEs* as the *IFRS for SMEs* does not provide an election for designation of financial assets and financial liabilities at FVTPL. The AASB previously excluded paragraph 9 from the Tier 2 disclosure requirements based on paragraph 5 of the Tier 2 Disclosure Principles, on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. Based on the rationale immediately above, the proposed new text in paragraph 9 should also be **excluded** from Tier 2 disclosure requirements.	**Paragraph 9** Staff note that except for the reference to paragraph 36(b) added to paragraph 9(b), the amendments to AASB 7 are the same as those proposed in ED 230. No specific comments were received from constituents concerning paragraph 9. Staff recommend that, consistent with the proposal in ED 230, the words added to AASB 7 paragraph 9 are **excluded** from Tier 2 disclosure requirements.

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Statement of financial position **Reclassification** 12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through profit or loss category so that they are measured at amortised cost or fair value through other comprehensive income in accordance with paragraph 4.4.1 of AASB 9: (a) the effective interest rate determined on the date of reclassification; and (b) the interest ~~income or expense~~ revenue recognised. **Paragraph 12C(b) in ED 230 for comparison** 12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through profit or loss category ~~so that they are measured at amortised cost~~ in accordance with paragraph 4.4.1 of IFRS 9: (a) the effective interest rate determined on the date of reclassification; and (b) the interest income or expense recognised.	**Paragraph 12C** Paragraph 12C has no equivalent in the IFRS for SMEs. The AASB previously excluded paragraph 12C for Tier 2 Disclosure Requirements based on paragraph 5 of the Tier 2 Disclosure Principles, on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. Based on the rationale immediately above, the proposed new text in paragraph 12C should also be **excluded** from Tier 2 disclosure requirements.	**Background** Staff note that prior to the classification and measurement amendments in AASB 9 (December 2014) (ie AASB 9 (December 2010)): • Non-equity financial assets were required to be measured at FVPL or amortised cost according to paragraph 4.1.1 of AASB 9 (ie. based on business model and contractual cash flow characteristics); • Equity instruments were required to be measured at FVPL unless designated as FVOCI in accordance with paragraph 5.7.5 (an irrevocable election); and • Reclassification of financial liabilities was prohibited by AASB 9 paragraph 4.4.2. Reclassification was therefore only between FVPL and amortised cost for non-equity financial assets. AASB 9 (December 2014) introduced a FVOCI category for non-equity financial assets. This third category was also based on business model and contractual cash flow characteristics, according to the revised paragraph 4.1.1. Classification of equity instruments and financial liabilities was unchanged by the December 2014 version of AASB 9. **Paragraph 12C** The staff note that the amendments to AASB 7 are expanded compared to the proposals ED 230. The main

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		difference is that the amendments to AASB 7 explicitly refer to reclassification out of FVPL to amortised cost or FVOCI, whereas ED 230 merely referred to reclassification out of FVPL (without specifying to where). However, in accordance with AASB 9 (December 2014) the only possible reclassifications from FVPL are for non-equity financial assets being reclassified to FVOCI or amortised cost. Therefore staff do not think that the meaning conveyed in the first sentence of paragraph 12C has changed from the proposals in ED 230. Staff also note that the amendment to paragraph 12C(b) replacing 'income or expense' with 'revenue' is in the nature of an editorial correction. No specific comments were received from constituents concerning paragraph 12C. Staff recommend that, consistent with the proposal in ED 230, the text added to AASB 7 paragraph 12C is **excluded** from Tier 2 disclosure requirements.
12D If, since its last annual reporting period, an entity has reclassified financial assets out of the fair value through other comprehensive income category so that they are measured at amortised cost ~~since its last annual reporting date,~~ or out of the fair value through profit or loss category so that they are measured at amortised cost or fair value	Paragraph 12D has no equivalent in the *IFRS for SMEs*. The AASB previously retained paragraph 12D in the Tier 2 disclosure requirements based on paragraphs 5 and 6(d) of the Tier 2 Disclosure Principles (information about the entity's accounting policy choices). Paragraph	As noted above, AASB 9 (December 2014) introduced a FVOCI category for non-equity financial asset. Similarly to 12C above, the amendments to paragraph 12D of AASB 7 have been expanded, in this case to refer to reclassification from FVOCI to

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through other comprehensive income 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 or other comprehensive income during the reporting period if the financial assets had not been reclassified. **Paragraph 12D in ED 230 for comparison** 12D If an entity has reclassified financial assets out of the fair value through profit or loss category ~~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.	12D was considered to satisfy the information needs of users in regard to information about the entity's accounting policy choices without significantly increasing costs to the reporting entity. Based on the same rationale, paragraph 12D including the proposed new text (appearing as underlined), should be **retained**.	amortised cost, or from FVPL to amortised cost or FVOCI. Staff also note that the wording in respect of 'since its last annual reporting date' has been relocated and the word 'date' replaced by 'period'. **Paragraph 12D** No specific comments were received from constituents concerning paragraph 12D. Staff recommend that, consistent with the proposal in ED 230, the text added to AASB 7 paragraph 12D is **retained** in Tier 2 disclosure requirements.
Statement of financial position **Allowance account for credit losses** 16 Deleted by the IASB~~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~~	Paragraph 16A has no equivalent in the *IFRS for SMEs*. Based on paragraphs 5 (user need/cost-benefit) and 6(e) (disaggregation of amounts presented in the financial statements) of the Tier 2 Disclosure Principles, paragraph 16A should be **retained** in the Tier 2 disclosure requirements on the grounds that it is	**Background** The amendments to AASB 7 deleted paragraph 16 and added 16A. The AASB had previously retained paragraph 16 of AASB 7 for Tier 2 entities. Paragraph 16 required a reconciliation to be disclosed when an entity used a loss allowance to record

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~~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.~~ 16A The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of AASB 9 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the statement of financial position as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements. **Paragraph 12D in ED 230 for comparison** 16A The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9 is not directly reduced by an accumulated impairment amount and an entity is prohibited from presenting the accumulated impairment amount in the statement of financial position. However, an entity shall disclose the accumulated impairment amount in the notes to the financial statements.	expected to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements without significantly increasing the costs to the reporting entity.	impairment. Paragraph 5.5.2 of AASB 9 (December 2014) prohibits the use of an allowance account for non-equity financial assets at FVOCI. **Paragraph 16A** Staff note that the amendments to AASB 7 paragraph 16A convey the same meaning as the amendments proposed in ED 230. The most significant changes to the final amendments are: • the use of the term ‘loss allowance’ instead of ‘accumulated impairment amount’; and • use of the words ‘an entity shall not’ instead of ‘an entity is prohibited from’. No specific comments were received from constituents concerning paragraph 16A. Staff recommend that, consistent with the proposal in ED 230, paragraph 16A is **retained** in the Tier 2 disclosure requirements.
Statement of comprehensive income **Item of income, expense, gains or losses** 20 An entity shall disclose the following items of income, expense, gains or losses either in the	**Paragraph 20(a)(i)** Paragraph 20(a)(i), except for the shaded text, corresponds to paragraphs 11.48(a)(i) and 11.48(a)(ii) of	**Paragraph 20(a)(i)** ED 230 did not propose to amend paragraph 20(a)(i), however it was included in the Tier 2 analysis to

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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 or subsequently in accordance with paragraph 6.7.1 of AASB 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value through profit or loss in accordance with AASB 9 (e.g. financial liabilities that meet the definition of held for trading in AASB 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss; (ii)-(iv) [deleted by the IASB] (v) financial liabilities measured at amortised cost; (vi) financial assets measured at amortised cost; ~~and~~ (vii) investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of AASB 9; and	*IFRS for SMEs*. The AASB previously retained the first sentence of paragraph 20(a)(i) in the Tier 2 disclosure requirements (except for the shaded text) based on paragraph 2 of the Tier 2 Disclosure Principles, applying the 'identical or similar disclosures' principle. The shaded text was previously excluded based on paragraph 3 of the Tier 2 Disclosure Principles (ie. where there are dissimilar disclosures – apply the 'user need' and 'cost-benefit' principles of the *IFRS for SMEs*) on the grounds that the cost to entities preparing the disclosures was expected to exceed the benefits to users. **Paragraph 20(a)(vii)** Paragraph 20(a)(vii) has no equivalent in the *IFRS for SMEs* since the *IFRS for SMEs* does not have a measurement category of financial assets measured at FVOCI. The AASB previously retained paragraph 20(a)(vii) in the Tier 2 disclosure requirements based on paragraph 5 of the Tier 2 Disclosure Principles (ie apply 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement accounting policies are not the same as those under *IFRS for SMEs)* and paragraph 6(e) of the Tier 2 Disclosure Principles (concerning information about disaggregations of amounts presented in the	ED 230 for context. The view of the staff is that the insertion of the text 'through profit or loss' is in the nature of an editorial correction (since all of paragraph 20(a)(i) refers to financial assets at FVPL). Staff recommend that, consistent with the existing text from ',showing separately…' to 'held for trading in AASB 9)', the new text 'through profit or loss' is **excluded** from Tier 2 disclosure requirements. **Paragraph 20(a)(vii) and (viii)** Paragraphs 20(a)(vii) has been reworded to explicitly refer to equity instruments at FVOCI and includes reference to the applicable paragraph in AASB 9. Reference to the applicable paragraph in AASB 9 has also been inserted into paragraph 20(a)(viii) in relation to non-equity financial assets at FVOCI. In the staff's view the meaning conveyed has not changed from the proposals in ED 230. No specific comments were received from constituents concerning paragraphs 20(a)(vii) and (viii). Staff recommend that, consistent with the proposal in ED 230, paragraphs 20(a)(vii) and (viii) are **retained** in Tier 2 disclosure requirements.

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<tr><th>New or amended disclosures in AASB 7 – Classification and Measurement*

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<tr><td>(viii) financial assets measured at fair value through other comprehensive income~~;~~ in accordance with paragraph 4.1.2A of AASB 9, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

Paragraph 20(a) in ED 230 for comparison

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) …

(vii) financial assets designated ~~measured~~ at fair value through other comprehensive income.

(viii) financial assets mandatorily measured at fair value through other comprehensive income, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.</td><td>financial statements).

Paragraph 20(a)(vii) was considered to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements).

Based on the same rationale, the proposed change in text in paragraph 20(a)(vii) should also be retained.

Paragraph 20(a)(viii)

Paragraph 20(a)(viii) has no equivalent in the IFRS for SMEs as the IFRS for SMEs does not have a measurement category of financial assets measured at FVOCI.

Based on paragraphs 5 (user need/cost-benefit) and 6(e) (disaggregation of amounts presented in the financial statements) of the Tier 2 Disclosure Principles, paragraph 20(a)(viii) should be retained in the Tier 2 disclosure requirements as it would be expected to satisfy the information needs of users in regard to information about disaggregations of amounts presented in the financial statements without significantly increasing the costs to the reporting entity.</td><td></td></tr>
<tr><td>20 An entity shall disclose the following items of</td><td>Paragraph 20(b)</td><td>Paragraph 20(b)</td></tr>
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income, expense, gains or losses either in the statement of comprehensive income or in the notes: (a) [SEE ABOVE] (b) total interest ~~income~~ revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of AASB 9 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss; and (c) [SEE BELOW] **Paragraph 20(b) ED 230 for comparison** (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are mandatorily measured at fair value through other comprehensive income or financial liabilities that are not measured at fair value through profit or loss; …	Paragraph 20(b) corresponds to paragraph 11.48(b) of the *IFRS for SMEs*. The AASB previously retained paragraph 20(b) based on paragraph 2 of the Tier 2 Disclosure Principles, applying the 'identical or similar disclosures' principle Based on the same rationale, paragraph 20(b) including the proposed new text should be **retained**.	Paragraph 20(b) as amended by AASB 9 (December 2014) differs from its proposed ED counterpart as follows: The term 'total interest income' is amended to 'total interest revenue'. Consistent with the rationale applied to paragraph 12C(b) staff consider this amendment to be in the nature of an editorial correction. Second, financial assets 'mandatorily measured at FVOCI' is replaced by 'financial assets…measured at FVOCI in accordance with paragraph 4.1.2A of AASB 9'. Staff note that the revised wording conveys the same meaning as the text in ED 230 therefore the analysis to ED 230 remains relevant. However, the amendments to AASB 7 20(b) specify that the total interest revenue and total interest expense calculated using the effective interest rate method is to be shown separately for the various categories. ED 230 did not explicitly require the amounts to be shown separately. In light of the 'user need' and 'cost-benefit' principles applied when Tier 2 recognition and measurement accounting policies are not the same or substantively the same, staff believe this additional requirement imposes cost on Tier 2 entities that is not justified by user need. That is, the potential user benefit staff expect from the disclosure of disaggregated amounts presented in the financial statements (Paragraph 6(e) of the Tier 2 Disclosure Principles) is not considered to outweigh the cost to the reporting

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		entity. No specific comments were received from constituents concerning this paragraph. For the reasons outlined above, staff recommend **excluding** the addition of the words, "(showing these amounts separately)" in paragraph 20(b) from Tier 2 disclosure requirements..
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) [SEE ABOVE] (b) [SEE ABOVE] (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from: (i) financial assets ~~measured at amortised cost or~~ and 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~~		**Paragraph 20(c)** No specific comments were received from constituents concerning this paragraph, however ED 230 did not propose to amend paragraph 20(c). The view of the staff is that the deletion of the text 'measured at amortised cost or' and insertion of the text 'and' are intended to correctly reflect the revised classification of financial assets in AASB 9 (December 2014). Deletion of the text 'measured at amortised cost or' broadens paragraph 20(c) to include non-equity financial assets measured at FVOCI, compared to the narrow inclusion of only financial assets measured at amortised cost in the proposed ED paragraph. Staff consider that this might have been an oversight by the IASB when ED 230 was drafted.

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~~of AASB 139 Financial Instruments: Recognition and Measurement; and~~ ~~(e) the amount of any impairment loss for each class of financial asset.~~ (d) [deleted by the IASB] (e) [deleted by the IASB]		Consistent with the previous Board decision to exclude paragraph 20(c)(i), staff recommend **excluding** the addition of the word ‘and’ in paragraph 20(c)(i). [Note – paragraphs 20(d) and (e) relating to impairment have been deleted from AASB 7. The disclosures in relation to impaired financial assets and impairment losses have been analysed in Agenda Paper 9.3].