

AASB Exposure Draft XX
FRSB Exposure Draft XX

[Month] 2010

Proposed Amendments to

AASB 139/NZ IAS 39 *Financial Instruments: Recognition and Measurement*,
AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 7/NZ IFRS 7 *Financial*
Instruments: Disclosures

Prepared by the
Australian Accounting Standards Board
and by the
Financial Reporting Standards Board of the
New Zealand Institute of Chartered Accountants

Comments by [date]



Australian Government
Australian Accounting Standards Board

Financial Reporting Standards Board
of the New Zealand Institute of Chartered Accountants

Commenting on this Exposure Draft

Comments on this Exposure Draft are requested by [date] 2010. Comments should be addressed to either the Australian Accounting Standards Board or the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants, as follows:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@asb.gov.au

Director – Accounting Standards
New Zealand Institute of Chartered
Accountants
PO Box 11 342
Wellington 6142
NEW ZEALAND
E-mail: ASD@nzica.com

All submissions received will be considered by both Boards.

It would be appreciated if respondents send their submissions in electronic form (preferably in Microsoft Word format) as that allows for the efficient collation and analysis of comments. Submissions will be made available to the public unless otherwise requested.

All non-confidential submissions to the AASB and the FRSB will be made available on the AASB website: www.aasb.gov.au.

Respondents are requested to indicate on their submission on whose behalf (for example, own behalf, a group of people or an entity) the submission is being made.

All submissions on proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB and the Chairman of the FRSB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AASB website (www.aasb.gov.au) and the NZICA website (www.nzica.com).

Alternatively, printed copies of this Exposure Draft are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@asb.gov.au
Postal address:
PO Box 204
Collins Street West Victoria 8007

Other Enquiries

AUSTRALIA
Phone: +61 3 9617 7600
Fax: +61 3 9617 7608
E-mail: standard@asb.gov.au

NEW ZEALAND
Phone +64 4 474 7873
E-mail: ASD@nzica.com

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PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector; and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

Private sector for-profit entities complying with Australian Accounting Standards will simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards will also simultaneously comply with IFRSs.

New Zealand Financial Reporting Standards

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants develops financial reporting standards which it submits to the Accounting Standards Review Board (ASRB) for approval. The ASRB reviews and, if it thinks fit, approves financial reporting standards submitted to it for the purposes of:

- (a) the Financial Reporting Act 1993;
- (b) the Crown Entities Act 2004;
- (c) the Public Finance Act 1989;
- (d) the Local Government Act 2002; or
- (e) any Act that requires a person to comply with the Financial Reporting Act as if that person were a reporting entity.

These and other Acts specify the financial reporting requirements for reporting entities including profit-oriented and public benefit entities.

New Zealand generally accepted accounting practice (NZ GAAP) is defined in the Financial Reporting Act 1993 to mean compliance with:

- applicable financial reporting standards; and
- where there is no applicable financial reporting standard or rule of law, accounting policies that are appropriate to the circumstances of the reporting entity and have authoritative support within the accounting profession in New Zealand.

For entities required to comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs), NZ GAAP comprises NZ IFRSs and particular New Zealand Financial Reporting Standards (FRSs).

NZ IFRSs are based on Standards and Interpretations issued by the IASB and may include requirements that are specific to New Zealand entities. In most instances, these requirements are either restricted to public benefit entities or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public benefit entities, the FRSB also considers the requirements of IPSASs, as issued by the IPSASB of the IFAC.

Profit-oriented entities complying with full NZ IFRSs (that is, profit-oriented entities that do not avail themselves of any differential reporting concessions) and specific FRSs (such as those FRSs covering prospective financial statements and summary financial statements) will simultaneously comply with IFRSs.

Public benefit entities applying NZ IFRSs may not be in compliance with IFRSs in circumstances where public benefit entity considerations have led to requirements that are inconsistent with corresponding IFRS requirements.

Qualifying entities applying differential reporting concessions may not be in compliance with IFRSs. Qualifying entities can elect to comply with the requirements of IFRSs in order to assert compliance with IFRSs.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB and the FRSB both follow before making a new standard or amending an existing standard. Exposure Drafts are designed to seek public comment on proposals for new standards or amendments to existing standards.

Reasons for Issuing this Exposure Draft

Introduction

The AASB and the FRSB have issued this Exposure Draft following consideration of the public sector specific modifications made by the International Public Sector Accounting Standards Board in developing its standards on financial instruments. The AASB and FRSB considered whether any of the public sector modifications made by the IPSASB were appropriate for NFP/PBE.

The AASB and FRSB concluded that the following two public sector modifications in IPSASs were appropriate for NFP/PBE:

- the additional application guidance on accounting for concessionary loans in IPSAS 29 *Financial Instruments: Recognition and Measurement*. This has led to the proposed amendments to AASB 139/NZ IAS 39 and AASB 9/NZ IFRS 9.

Modifications to both these standards are being proposed as some entities may have early adopted AASB 9/NZ IFRS 9; and

- the additional disclosures required in respect of concessionary loans in IPSAS 30 *Financial Instruments: Disclosures*. This has led to the proposed amendments to AASB 7/NZ IAS 39 and AASB 9/NZ IFRS 9. Modifications to both these standards are being proposed as some entities may have early adopted AASB 9/NZ IFRS 9.

NFP/PBE modifications and Reduced Disclosure Regime/Differential Reporting concessions

The Ministry of Economic Development (MED) and the Accounting Standards Review Board (ASRB) are currently undertaking a review of the financial reporting framework in New Zealand. The outcome of this review is likely to change the application of New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) for some reporting entities in New Zealand. The MED and ASRB proposals include potential changes to both (a) the types of entities that would be required to prepare financial statements in accordance with accounting standards and (b) the particular set of accounting standards with which reporting entities would be required to comply. For example, if the proposal that many small companies and small public benefit entities (PBEs) should no longer be required to prepare financial statements in accordance with accounting standards were to be adopted, the proposed interpretation would not be applicable to those entities.

The AASB and FRSB have been mindful of these possible changes in considering the impact of the proposed amendments on the Reduced Disclosure Regime/differential reporting concessions.

The AASB requests comments on the disclosures proposed to be included in this Exposure Draft and whether these proposed disclosures should be required of entities applying the Reduced Disclosure Regime Requirements for general purpose financial statements in Australia.

The FRSB has noted that there are currently no differential concessions in NZ IAS 39 and NZ IFRS 9 and no differential reporting concessions in respect of paragraph 20 in NZ IFRS 7. The FRSB is therefore proposing no differential reporting concessions in respect of the proposed amendments.

Timeframe

The AASB and FRSB propose the following timeframe for completion of this project:

- (a) Exposure Draft issued on [date] 2010
- (b) [Amount] month comment period ends on [date] 2010
- (c) Effective date of proposals – periods beginning on or after [date] 2011.

Structure of the Exposure Draft

This Exposure Draft uses underlining and striking out to identify the amendments made to the paragraphs of the relevant Australian/New Zealand standards, in order to make the amendments understandable. The final paragraphs of the relevant Australian/New Zealand standards will not include that underlining or striking out.

Application Date

The AASB and the FRSB propose that the amendments proposed in this Exposure Draft would be applicable for reporting periods beginning on or after [date] 2011, and that the amendments to a specific standard may be adopted early.

Request for Comments

Comments are invited on any or all of the proposals in this Exposure Draft by [\[date\] 2010](#)~~[date] 2010~~.

The AASB and the FRSB particularly welcome answers to the questions set out below. Comments are most helpful if they:

- (a) answer the question as stated;
- (b) indicate the specific paragraph or paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) describe any alternative the AASB or FRSB should consider.

Questions

The AASB and FRSB welcome comment on the following:

1. Do you agree with the proposals in this Exposure Draft? If not, please provide reasons supporting your response.
2. The FRSB is proposing no differential reporting concessions in respect of the proposed amendments in this Exposure Draft for the reasons discussed above. Do you agree. If not, please provide reasons supporting your response.
3. Should the additional disclosures proposed by this Exposure Draft be required of entities applying the Reduced Disclosure Requirements for general purpose financial statements in Australia?
4. Are there any regulatory issues or other issues arising in the Australian or New Zealand environment that may affect the implementation of the proposed Australian/New Zealand pronouncement arising from this Exposure Draft, particularly any issues relating to:
 - (a) profit-oriented entities;
 - (b) not-for-profit/public benefit entities; or
 - (c) the New Zealand Privacy Act 1993.

Please provide reasons supporting your response.

5. Do you consider the proposals in this Exposure Draft to be in the best interests of the users of general purpose financial reports in Australia and New Zealand? Please provide reasons supporting your response.

Guidelines for Respondents

Respondents do not need to comment on all of the questions in this Exposure Draft. The AASB and FRSB will consider all comments received by [\[date\] 2010](#)~~[date] 2010~~. In considering the comments, the AASB and FRSB will base their conclusions on the merits of the arguments for and against each proposal, not on the number of respondents supporting or opposing each proposal.

It would be appreciated if respondents send their submissions in electronic form (preferably in Microsoft Word format) as this allows for the efficient collation and analysis of comments. All submissions will be made available to the public unless otherwise requested.

Respondents are requested to indicate, on their submission, on whose behalf (for example, own behalf, a group of people or an entity) the submission is being made.

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***PROPOSED AMENDMENTS TO
AASB 139/NZ IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND
MEASUREMENT, AASB 9/NZ IFRS 9 FINANCIAL INSTRUMENTS and
AASB 9/NZ IFRS 9 FINANCIAL INSTRUMENTS: DISCLOSURES***

AASB 139/NZ IAS 39 Financial Instruments: Recognition and Measurement

Amend the Introduction to NZ IAS 39 as shown. New text is underlined. Deleted text is struck through.

In adopting IAS 39 for application as NZ IAS 39 paragraphs NZ AG65.1 to NZ AG65.7 which discuss the treatment of concessionary loans by public benefit entities have been included ~~no changes have been made to the requirements of IAS 39.~~

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 39 will simultaneously be in compliance with IAS 39. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 39. Whether a public benefit entity will be in compliance with IAS 39 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

~~Entities that comply with NZ IAS 39 will simultaneously be in compliance with IAS 39.~~

Effective Date and Transition

Insert paragraph Aus108C.1 in AASB 139.

Aus108C.1 In respect of not-for-profit entities, AASB 2010-xx Proposed Amendments to AASB 139/NZ IAS 39 *Financial Instruments: Recognition And Measurement*, AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 9/NZ IFRS 9 *Financial Instruments: Disclosures*, issued in [insert date], added paragraphs AusAG65.1 to AusAG65.8. An entity shall apply those amendments on or after [date to be determined following approval of amendments – proposed 31 December 2011.] Early application is permitted.

Insert paragraph NZ 108C.1 and the sub-heading above that paragraph in NZ IAS 39.

Public Benefit Entities [sub-heading New Zealand only]

NZ 108C.1 ED Proposed Amendments to AASB 139/NZ IAS 39 *Financial Instruments: Recognition And Measurement*, AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 9/NZ IFRS 9 *Financial Instruments: Disclosures* issued in [insert date] added paragraphs NZ AG65.1 to NZ AG65.8. An entity applying NZ IFRSs shall apply those amendments for annual periods beginning on or after [date to be determined following approval of amendments – proposed 31 December 2011]. Early application is permitted.

Insert paragraphs AusAG65.1 to AusAG65.8/NZ AG65.1 to NZ AG65.8 in AASB 139/NZ IAS 39 as shown. Paragraphs AG64 and AG65 of AASB 139/NZ IAS 39 (excluding any consequential amendments arising from AASB 9/NZ IFRS 9 *Financial Instruments*) are shown to provide context.

For the purposes of the AASB/FRSB meeting, the proposed text is shown as a mark-up of IPSAS 29.

Initial measurement of financial assets and financial liabilities (paragraph 43)

- AG64 The fair value of a financial instrument on initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph AG76). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see paragraphs AG74–AG79). For example, the fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.
- AG65 If an entity originates a loan that bears an off-market interest rate (eg 5 per cent when the market rate for similar loans is 8 per cent), and receives an up-front fee as compensation, the entity recognises the loan at its fair value, ie net of the fee it receives. The entity accretes the discount to profit or loss using the effective interest rate method.

Public Benefit Entities [sub-heading for New Zealand only]

Concessionary loans

AusAG65.1 Paragraphs AusAG65.2 to AusAG65.8 of this Standard apply to each public sector, and public or private not-for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

NZAG65.1 [Not used]

AusAG65.2/NZ AG65.2~~AG84~~ Concessionary loans are granted to or received by an entity at below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education and housing loans granted to low income families. Entities may receive concessionary loans, for example, from development agencies and other government entities.

AusAG65.3/NZ AG65.3~~AG85~~ The granting or receiving of a concessionary loan is distinguished from the waiver of debt owing to or by an entity. This distinction is important because it affects whether the below market conditions are considered in the initial recognition or measurement of the loan rather than as part of the subsequent measurement or derecognition.

AusAG65.4/NZ AG65.4~~AG86~~ The intention of a concessionary loan at the outset is to provide or receive resources at below market terms. A waiver of debt results from loans initially granted or received at market related terms where the intention of either party to the loan has changed subsequent to its initial issue or receipt. For example, an entity government may lend money ~~to a not for profit entity~~ with the intention that the loan be repaid in full on market terms. However, the entity government may subsequently write-off part of the loan. This is not a concessionary loan as the intention of the loan at the outset was to provide credit to an entity at market related rates. An entity would treat the subsequent write-off of the loan as a waiver of debt and apply the derecognition requirements of this Standard~~IPSAS 29~~.

AusAG65.5/NZ AG65.5~~AG87~~ As concessionary loans are granted or received at below market terms, the transaction price on initial recognition of the loan may not be its fair value. At initial recognition, an entity therefore ~~analyzes~~analyses the substance of the loan granted or received into its component parts, and accounts for those components using the principles in paragraphs Aus65.6/NZ 65.6~~AG88~~ and Aus65.7/NZ 65.7~~AG89~~ below.

AusAG65.6/NZ AG65.6~~AG88~~ An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a grant, an increase in equity~~contribution from owners~~ or a combination thereof, by applying the

principles in [AASB 32/NZ IAS 32](#)~~IPSAS 28 and paragraphs 42–58 of IPSAS 23~~. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in [AG69–AG82](#)~~AG101–AG115~~. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see [AG64](#)~~82~~).

[AusAG65.7/NZ AG65.7](#)~~AG89~~ Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

- (a) ~~Where the loan is received by an entity, the difference is recognised in profit or loss accounted for in accordance with IPSAS 23; and~~
- (b) ~~Where the loan is granted by an entity, the difference is recognised treated as an expense in profit or loss in surplus or deficit at initial recognition, except where the loan represents an equity contribution to another entity is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.~~

~~Illustrative Examples are provided in paragraph IG54 of IPSAS 23 as well as paragraphs IE40 to IE41 accompanying this Standard.~~

[AusAG65.8/NZ AG65.8](#)~~AG90~~ After initial recognition, an entity subsequently measures concessionary loans using the categories of financial instruments defined in paragraph [9](#)~~40~~.

Insert an AASB/FRSB Basis for Conclusions on the Proposed Amendments to AASB 139/NZ IAS 39 as shown.
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BASIS FOR CONCLUSIONS ON AASB 139/NZ IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

This Basis for Conclusions accompanies, but is not part of, AASB 139/NZ IAS 39.

Concessionary Loans

Aus/NZ BC1 In 2010 the Australian Accounting Standards Board (AASB) and the Financial Reporting Standards Board (FRSB) (the Boards) considered whether any of the changes to the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* made by the International Public Sector Accounting Standards Board (IPSASB) in developing IPSAS 29 *Financial Instruments: Recognition and Measurement* should be incorporated in AASB 139/NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

Aus/NZ BC2 The Boards noted that IPSAS 29 provides additional guidance on the recognition and measurement of concessionary loans received and granted. The Boards noted that concessionary loans are also granted by not-for-profit (NFP) entities in Australia and public benefit entities (PBE) in New Zealand. The Boards concurred with the IPSASB's rationale for providing this additional guidance and agreed to propose the inclusion of such guidance in AASB 139 and NZ IAS 39. The Boards considered that the additional guidance was consistent with the way in which the underlying requirements of IAS 39 were being applied by NFP/PBE.

Aus/NZ BC3 The Boards noted that the Illustrative Examples of concessionary loans in IPSAS 29 could not be included in AASB 139/NZ IAS 39 as the Illustrative Examples accompanying IAS 39 do not form part of AASB 139/NZ IAS 39.

AASB 9/NZ IFRS 9 Financial Instruments

Insert paragraph Aus8.1.1.1 in AASB 9.

Aus 8.1.1 In respect of public sector, and private or public not-for-profit entities, AASB 2010-xx Proposed Amendments to AASB 139/NZ IAS 39 *Financial Instruments: Recognition And Measurement*, AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 9/NZ IFRS 9 *Financial Instruments: Disclosures*, issued in [insert date], added paragraphs AusB5.2.1 to AusB5.2.8. An entity shall apply those amendments on or after [date to be determined following approval of amendments – proposed 31 December 2011.] Early application is permitted.

Insert paragraph NZ 8.1.1.1 in NZ IFRS 9.

Public Benefit Entities [sub-heading New Zealand only]

NZ 8.1.1 Proposed Amendments to AASB 139/NZ IAS 39 *Financial Instruments: Recognition And Measurement*, AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 9/NZ IFRS 9 *Financial Instruments: Disclosures* issued in [insert date] added paragraphs NZB5.2.1 to NZB5.2.8. An entity applying NZ IFRSs shall apply those amendments for annual periods beginning on or after [date to be determined following approval of amendments – proposed 31 December 2011]. Early application is permitted.

Insert paragraphs AusB5.2.1 to AusB5.2.8/NZ B5.2.1 to NZ B5.2.8 as shown. Paragraphs B5.1 and B5.2 are shown to provide context.

Initial measurement of financial assets

- B5.1 The fair value of a financial asset at initial recognition is normally the transaction price (ie the fair value of the consideration given, see also paragraph AG76 of NZ IAS 39). However, if part of the consideration given is for something other than the financial instrument, the fair value of the financial instrument is estimated using a valuation technique (see paragraphs AG74–AG79 of NZ IAS 39). For example, the fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.
- B5.2 If an entity originates a loan that bears an off-market interest rate (eg 5 per cent when the market rate for similar loans is 8 per cent), and receives an upfront fee as compensation, the entity recognises the loan at its fair value, ie net of the fee it receives.

Public Benefit Entities [sub-heading New Zealand only]

Concessionary loans

AusB5.2.1 Paragraphs AusB5.2.2 to AusB5.2.8 of this Standard apply to each public sector, and public or private not-for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

NZ B5.2.1 [Not used]

AusB5.2.2/NZ B5.2.2 Concessionary loans are granted to an entity at below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education and housing loans granted to low income families.

AusB5.2.3/NZ B5.2.3 The granting of a concessionary loan is distinguished from the waiver of debt owing to an entity. This distinction is important because it affects whether the below market conditions are considered in

the initial recognition or measurement of the loan rather than as part of the subsequent measurement or derecognition.

AusB5.2.4/NZ B5.2.4 The intention of a concessionary loan at the outset is to provide resources at below market terms. A waiver of debt results from loans initially granted at market related terms where the intention of either party to the loan has changed subsequent to its initial issue. For example, an entity may lend money with the intention that the loan be repaid in full on market terms. However, the entity may subsequently write-off part of the loan. This is not a concessionary loan as the intention of the loan at the outset was to provide credit to an entity at market related rates. An entity would treat the subsequent write-off of the loan as a waiver of debt and apply the derecognition requirements of this Standard.

AusB5.2.5/NZ B5.2.5 As concessionary loans are granted at below market terms, the transaction price on initial recognition of the loan may not be its fair value. At initial recognition, an entity therefore analyses the substance of the loan granted or received into its component parts, and accounts for those components using the principles in paragraphs AusB5.2.6/NZ B5.2.6 and AusB5.2.7/NZ B5.2.7 below.

AusB5.2.6/NZ B5.2.6 An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a grant, an equity contribution or a combination thereof, by applying the principles in AASB 132/NZ IAS 32. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan in accordance with paragraph 5.1.1 of this Standard (and by reference to paragraphs 48, 48A and AG69–AG82 of AASB 139/NZ IAS 39). Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see paragraphs AG74–AG79 of AASB 139/NZ IAS 39).

AusB5.2.7/NZ B5.2.7 Any difference between the fair value of the loan granted by the entity and the transaction price (the loan proceeds) is recognised as an expense [in profit or loss](#) at initial recognition, except where the loan represents an equity contribution to another entity.

AusB5.2.8/NZ B5.2.8 After initial recognition, an entity subsequently measures concessionary loans granted in accordance with paragraphs 5.2.1 to 5.2.3 of this Standard.

Insert paragraphs Aus/NZ AG65.1 to Aus/NZAG 65.8 in Appendix C of AASB 9/NZ IFRS 9 as shown. Paragraphs AG64 is shown to provide context.

Appendix C

Amendments to other NZ IFRSs

NZ IAS 39 *Financial Instruments: Recognition and Measurement*

C28 Appendix A of NZ IAS 39 *Financial Instruments: Recognition and Measurement* (Application guidance) is amended as described below.

Initial measurement of financial assets and financial liabilities (paragraph 43)

AG64 The fair value of a financial ~~instrument liability~~ on initial recognition is normally the transaction price (ie the fair value of the consideration ~~given or~~ received, see also paragraph AG76). However, if part of the consideration given or received is for something other than the financial ~~instrument liability~~, the fair value of the financial ~~instrument liability~~ is estimated, using a valuation technique (see paragraphs AG74–AG79). ~~For example, the fair value of a long term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type~~

~~of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.~~

AG65–AG68 [Deleted by IASB]

Public Benefit Entities [sub-heading New Zealand only]

Concessionary loans

AusAG65.1 Paragraphs AusAG65.2 to AusAG65.8 of this Standard apply to each public sector, and public or private not-for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

NZ AG65.1 [Not used]

AusAG65.2/NZ AG65.2 Concessionary loans are received by an entity at below market terms. Entities may receive concessionary loans, for example, from development agencies and other government entities.

AusAG65.3/NZ AG65.3 The receiving of a concessionary loan is distinguished from the waiver of debt owing by an entity. This distinction is important because it affects whether the below market conditions are considered in the initial recognition or measurement of the loan rather than as part of the subsequent measurement or derecognition.

AusAG65.4/NZ AG65.4 The intention of a concessionary loan at the outset is to receive resources at below market terms. A waiver of debt results from loans initially received at market related terms where the intention of either party to the loan has changed subsequent to its initial issue or receipt. For example, an entity may lend money with the intention that the loan be repaid in full on market terms. However, the entity may subsequently write-off part of the loan. This is not a concessionary loan as the intention of the loan at the outset was to provide credit to an entity at market related rates. An entity would treat the subsequent write-off of the loan as a waiver of debt and apply the derecognition requirements of this Standard.

AusAG65.5/NZ AG65.5 As concessionary loans are received at below market terms, the transaction price on initial recognition of the loan may not be its fair value. At initial recognition, an entity therefore analyses the substance of the loan received into its component parts, and accounts for those components using the principles in paragraphs Aus65.5/NZ 65.5 and Aus65.6/NZ 65.6 below.

AusAG65.6/NZ AG65.6 An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a grant, an increase in equity or a combination thereof, by applying the principles in AASB 32/NZ IAS 32. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in AG69–AG82. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see AG64).

AusAG65.7/NZ AG65.7 Any difference between the fair value of the loan and the transaction price (the loan proceeds) is recognised in profit or loss.

AusAG65.8/NZ AG65.8 After initial recognition, an entity subsequently measures concessionary loans received in accordance with paragraph 47 of this Standard.

Insert an AASB/FRSB Basis for Conclusions on the [Proposed] Amendments to AASB 9/NZ IFRS 9 as shown.
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BASIS FOR CONCLUSIONS ON AASB 9/NZ IFRS 9 FINANCIAL INSTRUMENTS

This Basis for Conclusions accompanies, but is not part of, AASB 9/NZ IFRS 9.

Concessionary Loans

Aus/NZ BC1 In 2010 the Australian Accounting Standards Board (AASB) and the Financial Reporting Standards Board (FRSB) (the Boards) considered whether any of the changes to the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* made by the International Public Sector Accounting Standards

Board (IPSASB) in developing IPSAS 29 *Financial Instruments: Recognition and Measurement* should be incorporated in AASB 139/NZ IAS 39 *Financial Instruments: Recognition and Measurement* and AASB 9/NZ IFRS 9 *Financial Instruments*.

Aus/NZ BC2 The Boards noted that IPSAS 29 provides additional guidance on the recognition and measurement of concessionary loans received and granted. The Boards noted that concessionary loans are also granted by not-for-profit (NFP) entities in Australia and public benefit entities (PBE) in New Zealand. The Boards concurred with the IPSASB's rationale for providing this additional guidance and agreed to propose the inclusion of guidance in respect of financial liabilities in AASB 139/NZ IAS 39 and financial assets in AASB 9/NZ IFRS 9. The Boards considered that the additional guidance was consistent with the way in which the underlying requirements of IFRS were being applied by NFP/PBE.

Aus/NZ BC3 IPSAS 29 also includes examples of concessionary loans as Illustrative Examples. The Boards considered including these examples in AASB 139/NZ IAS 39 and AASB 9/NZ IFRS 9 but decided not to as the Illustrative Examples accompanying IAS 39 are subject to separate copyright agreements.

AASB 7/NZ IFRS 7 Financial Instruments: Disclosures

Amend the Introduction to NZ IFRS 7 as shown. New text is underlined. Deleted text is struck through. No changes are proposed to the introductory section of AASB 7.

In adopting IFRS 7 for application as NZ IFRS 7, ~~paragraphs NZ 5.1 and NZ 5.2 have been included.~~ Paragraphs NZ 5.1 and NZ 5.2 which highlight the differential reporting concessions available to qualifying entities have been included. Paragraph NZ 20.1 which requires the disclosure of concessionary loans by public benefit entities has also been included. Appendix E specifies additional disclosure requirements for financial institutions.

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IFRS 7 will simultaneously be in compliance with IFRS 7. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IFRS 7. Whether a public benefit entity will be in compliance with IFRS 7 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

~~Entities that comply with NZ IFRS 7 without taking advantage of any differential reporting concessions in that Standard will simultaneously be in compliance with IFRS 7.~~

Note to Boards:

Two options are presented for consideration.

Option A proposes to require all the disclosures required by IPSAS 30 paragraph 37.

Option B proposes reduced disclosures as an alternative.

Insert paragraphs Aus20.1/NZ 20.1 as shown.

Public Benefit Entities [sub-heading New Zealand only]

Concessionary Loans

OPTION A

Aus20.1 Paragraph Aus20.2 of this Standard applies to each public sector, and public or private not-for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

NZ 20.1 [Not used]

Aus20.2/NZ 20.2 Concessionary loans are granted by entities on below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted an entity shall disclose:

- (a) A reconciliation between the opening and closing carrying amounts of the loans, including:
 - (i) nominal value of new loans granted during the period;
 - (ii) the fair value adjustment on initial recognition;
 - (iii) loans repaid during the period;
 - (iv) impairment losses recognised;
 - (v) any increase during the period in the discounted amount arising from the passage of time; and
 - (vi) other changes.
- (b) nominal value of the loans at the end of the period;
- (c) the purpose and terms of the various types of loans; and
- (d) valuation assumptions.

OPTION B

Aus20.1 Paragraph Aus20.2 of this Standard applies to each public sector, and public or private not-for profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

NZ 20.1 [Not used]

Aus20.2/NZ 20.2 Concessionary loans are granted by entities on below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted an entity shall disclose:

- (a) the fair value adjustment on initial recognition; and
- (b) impairment losses recognised.

Effective Date and Transition

Insert paragraph Aus44L.1 in AASB 7.

Aus44L.1 AASB 2010-xx Proposed Amendments to AASB 139/NZ IAS 39 *Financial Instruments: Recognition And Measurement*, AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 9/NZ IFRS 9 *Financial Instruments: Disclosures*, issued in [insert date], added paragraphs Aus20.1 and Aus20.2. An entity shall apply those amendments on or after [date to be determined following approval of amendments – proposed 31 December 2011.] Early application is permitted.

Insert paragraph NZ 44L.1 in NZ IFRS 7.

NZ 44L.1 ED Proposed Amendments to AASB 139/NZ IAS 39 *Financial Instruments: Recognition And Measurement*, AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 9/NZ IFRS 9 *Financial Instruments: Disclosures*, issued in [insert date] added paragraphs NZ 20.1 and NZ 20.2. An entity applying NZ IFRSs shall apply those amendments for annual periods beginning on or after [date to be determined following approval of amendments – proposed 31 December 2011]. Early application is permitted.

Insert an AASB/FRSB Basis for Conclusions on the Proposed Amendments to AASB 7/NZ IFRS 7 as shown.

BASIS FOR CONCLUSIONS ON AASB 7/NZ IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

This Basis for Conclusions accompanies, but is not part of, AASB 7/NZ IFRS 7.

Concessionary Loans

Aus/NZ BC1 In 2010 the Australian Accounting Standards Board (AASB) and the Financial Reporting Standards Board (FRSB) (the Boards) considered whether any of the changes to the requirements of IFRS 7 *Financial Instruments: Disclosures* made by the International Public Sector Accounting Standards Board (IPSASB) in developing IPSAS 30 *Financial Instruments: Disclosures* should be incorporated in AASB 7/NZ IFRS 7 *Financial Instruments: Disclosures*.

Aus/NZ BC2 The Boards noted that IPSAS 30 requires disclosures in respect of concessionary loans granted. The Boards noted that concessionary loans are also granted by not-for-profit (NFP) entities in Australia and public benefit entities (PBE) in New Zealand. The Boards concurred with the IPSASB's rationale for requiring these disclosures and agreed to propose the inclusion of such disclosures in AASB 7 and NZ IFRS 7. The Boards noted that the effect of the disclosures would be to highlight the expenses associated with concessionary loans, including the fair value adjustment on initial recognition and impairment losses recognised.

If more limited concessionary loan disclosures are proposed, paragraph BC2 could read as follows:

Aus/NZ BC2 The Boards noted that IPSAS 30 requires disclosures in respect of concessionary loans granted. The Boards noted that concessionary loans are also granted by not-for-profit (NFP) entities in Australia and public benefit entities (PBE) in New Zealand. The Boards concurred with the IPSASB's rationale for requiring disclosures about concessionary loans but considered that disclosure of the two key expenses arising from the granting of concessionary loans (being the fair value adjustment on initial recognition and impairment losses recognised) was sufficient.