

Accounting Standard

AASB 2005-1
May 2005

Amendments to Australian Accounting Standard



Australian Government

**Australian Accounting
Standards Board**

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The Customer Service Officer
Australian Accounting Standards Board
Level 4
530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Postal address:
PO Box 204 Collins St West
Melbourne Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaasb.com.au
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Other enquiries:

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Fax: (03) 9617 7608
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BASIS FOR CONCLUSIONS ON IAS 39
(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 2005-1 <i>Amendments to Australian Accounting Standard</i> is set out in paragraphs 1 – 10. All the paragraphs have equal authority.
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PREFACE

Standard Amended by AASB 2005-1

This Standard makes consequential amendments to the Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*.

These amendments arise from the release of IAS 39 *Amendment (April 2005) Cash Flow Hedge Accounting of Forecast Intragroup Transactions*.

Entities that comply with the requirements of AASB 139 as amended by this Standard, will simultaneously be in compliance with the requirements of the corresponding International Financial Reporting Standard (IFRS), being IAS 39 *Financial Instruments: Recognition and Measurement*.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2006 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Requirements

The amendment permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements. Further, the amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with the hedge accounting rules in AASB 139 must be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

ACCOUNTING STANDARD AASB 2005-1

The Australian Accounting Standards Board makes Accounting Standard AASB 2005-1 *Amendments to Australian Accounting Standard* under section 334 of the *Corporations Act 2001*.

Dated 5 May 2005

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 2005-1

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARD

Objective

1. The objective of this Standard is to make amendments to AASB 139 *Financial Instruments: Recognition and Measurement* as a consequence of a review of the Australian equivalent to the International Financial Reporting Standard.

Application

2. **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial reports of each other reporting entity; and**
 - (c) **financial reports that are, or are held out to be, general purpose financial reports.**
3. **This Standard applies to annual reporting periods beginning on or after 1 January 2006.**
4. **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to annual reporting periods beginning on or after 1 January 2005, when an election has been made in accordance with subsection 334(5) of the**

Corporations Act. When an entity applies this Standard to an annual reporting period beginning before 1 January 2006, it shall disclose that fact.

5. This Standard will be registered on the Federal Register of Legislative Instruments together with its Explanatory Statement, in accordance with the *Legislative Instruments Act 2003*.

Amendments to AASB 139

6. Repeal paragraph 80 in AASB 139, as issued in July 2004, and substitute with:
 - 80 For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities or segments in the same group only in the individual or separate financial statements of those entities or segments and not in the consolidated financial statements of the group. As an exception, the foreign currency risk of an intragroup monetary item (e.g. a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*. In accordance with AASB 121, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is transacted between two group entities that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

7. Repeal the heading which follows paragraph 102, being:

Effective Date of IAS 39 and Transition

and replace with:

Effective Date of AASB 139 and Transition

8. The following paragraphs are added after paragraph 108:

108A. An entity shall apply the last sentence of paragraph 80, and paragraphs AG99A and AG99B, for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity has designated as the hedged item an external forecast transaction that:

- (a) is denominated in the functional currency of the entity entering into the transaction;
- (b) gives rise to an exposure that will have an effect on consolidated profit or loss (i.e. is denominated in a currency other than the group's presentation currency); and
- (c) would have qualified for hedge accounting had it not been denominated in the functional currency of the entity entering into it;

it may apply hedge accounting in the consolidated financial statements in the period(s) before the date of application of the last sentence of paragraph 80, and paragraphs AG99A and AG99B.

108B. An entity need not apply paragraph AG99B to comparative information relating to periods before the date of application of the last sentence of paragraph 80 and paragraph AG99A.

9. In Appendix A, Application Guidance, existing paragraphs AG99A and AG99B are renumbered AG99C and AG99D respectively and the following paragraphs AG99A and AG99B are inserted:

AG99A. Paragraph 80 states that in consolidated financial statements the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in a cash flow hedge, provided the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. For this purpose an entity can be a parent, subsidiary, associate, joint venture or branch. If the foreign currency risk of a forecast intragroup transaction does not affect consolidated profit or loss, the intragroup transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same group unless there is a related external transaction. However, when the foreign currency risk of a forecast intragroup transaction

will affect consolidated profit or loss, the intragroup transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same group if there is an onward sale of the inventory to a party external to the group. Similarly, a forecast intragroup sale of plant and equipment from the group entity that manufactured it to a group entity that will use the plant and equipment in its operations may affect consolidated profit or loss. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognised for the plant and equipment may change if the forecast intragroup transaction is denominated in a currency other than the functional currency of the purchasing entity.

AG99B. If a hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with paragraph 95(a) shall be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

10. In Appendix A, Application Guidance, the following heading and paragraph are inserted after paragraph AG132:

Transition (paragraphs 103 – 108B)

AG133. An entity may have designated a forecast intragroup transaction as a hedged item at the start of an annual period beginning on or after 1 January 2005 (or, for the purpose of restating comparative information the start of an earlier comparative period) in a hedge that would qualify for hedge accounting in accordance with this Standard (as amended by the last sentence of paragraph 80). Such an entity may use that designation to apply hedge accounting in consolidated financial statements from the start of the annual period beginning on or after 1 January 2005 (or the start of the earlier comparative period). Such an entity shall also apply paragraphs AG99A and AG99B from the start of the annual period beginning on or after 1 January 2005. However, in accordance with paragraph 108B, it need not apply paragraph AG99B to comparative information for earlier periods.