AASB Standard **AASB 2009-2**
April 2009

Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments

[AASB 4, AASB 7, AASB 1023 & AASB 1038]

Australian Government
Australian Accounting Standards Board

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Australian Accounting Standard AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* is set out in paragraphs 1 – 14. All the paragraphs have equal authority.

PREFACE

Standards Amended by AASB 2009-2

This Standard makes amendments to the following Australian Accounting Standards:

1. AASB 4 *Insurance Contracts*;
2. AASB 7 *Financial Instruments: Disclosures*;
3. AASB 1023 *General Insurance Contracts*; and
4. AASB 1038 *Life Insurance Contracts*.

These amendments arise from the issuance of *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* by the International Accounting Standards Board in March 2009.

The amendments require enhanced disclosures about fair value measurements and liquidity risk.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009. Early adoption is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009 and for annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009.

Main Requirements

The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.

The amendments to AASB 7 require enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendments:

(a) clarify that the existing fair value disclosure requirements in AASB 7 must be made separately for each class of financial instrument;

(b) require disclosure of any change in a method for determining fair value and the reasons for the change;

(c) introduce a three-level hierarchy for making fair value measurements, as follows:

    (i) level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

    (ii) level 2 – inputs, other than quoted prices included within level 1, that are observable for the asset or liability; and

    (iii) level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs);

(d) require disclosure about the relative reliability of each fair value measurement in the statement of financial position;

(e) clarify that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts; and

(f) require disclosure of a maturity analysis for derivative financial liabilities.

ACCOUNTING STANDARD AASB 2009-2

The Australian Accounting Standards Board makes Accounting Standard AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* under section 334 of the *Corporations Act 2001*.

Bruce Porter
Dated 22 April 2009 Acting Chair – AASB

ACCOUNTING STANDARD AASB 2009-2

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

Objective

1 The objective of this Standard is to make amendments to:

(a) AASB 4 *Insurance Contracts*;

(b) AASB 7 *Financial Instruments: Disclosures*;

(c) AASB 1023 *General Insurance Contracts*; and

(d) AASB 1038 *Life Insurance Contracts*;

as a consequence of the issuance of *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* by the International Accounting Standards Board in March 2009.

Application

2 In respect of AASB 4, AASB 7 and AASB 1023, 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 statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

3 In respect of AASB 1038, this Standard applies to each entity that is:

(a) a *life insurer*; or

(b) the parent in a group that includes a life insurer;

when the entity:

(c) is a reporting entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;

(d) is an other reporting entity and prepares general purpose financial statements; or

(e) prepares financial statements that are, or are held out to be, general purpose financial statements.

4 This Standard applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.

5 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009. If an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

6 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to the Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Amendment to AASB 4

7 Paragraph 39(d) is amended (new text is underlined and deleted text is struck through).

Disclosure

Nature and extent of risks arising from insurance contracts

39 …

(d) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 would require if the insurance contracts were within the scope of AASB 7. However:

(i) an ~~issuer~~ insurer need not provide the maturity ~~analysis~~ analyses required by paragraphs 39(a) and (b) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position; and

(ii) …

Amendments to AASB 7

8 Paragraph 27 is amended (new text is underlined and deleted text is struck through). Paragraphs 27A and 27B are added.

Significance of Financial Instruments for Financial Position and Performance

Other disclosures

Fair value

27 An entity shall disclose for each class of financial instruments~~:~~

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

~~(b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71-AG79 of AASB 139);~~

~~(c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity; and~~

~~(d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.~~

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

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

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.

(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);

(ii) total gains or losses recognised in other comprehensive income;

(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iv) transfers into or out of Level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).

(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

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

9 Paragraph 39 is amended (new text is underlined and deleted text is struck through).

Liquidity risk

39 An entity shall disclose:

(a) a maturity analysis for <u>non-derivative</u> financial liabilities <u>(including issued financial guarantee contracts)</u> that shows the remaining contractual maturities<u>.</u>~~; and~~

<u>(b)</u> <u>a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).</u>

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

10 The heading "Effective Date of IFRS 7" above paragraph 43 is amended to read "Effective Date and Transition". Paragraph 44G is added.

Effective Date and Transition

44G AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*, issued in April 2009, amended paragraphs 27, 39 and B11 and added paragraphs 27A, 27B, B10A and B11A-B11F. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

11 In Appendix A, the following term is amended (new text is underlined).

liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

12 In Appendix B, a heading and paragraph B11 are amended (new text is underlined and deleted text is struck through). Paragraphs B10A and B11A-B11F are added and paragraphs B12-B16 are deleted. Paragraphs B12 and B13 are replaced by paragraphs B11C(a) and (b). Paragraphs B14 and B16 are replaced by paragraph B11D.

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

~~Contractual maturity analysis~~ Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

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

(a) occur significantly earlier than indicated in the data, or

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

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

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

(a) not later than one month;

(b) later than one month and not later than three months;

(c) later than three months and not later than one year; and

(d) later than one year and not later than five years.

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

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

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

(b) all loan commitments.

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

(a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (e.g. demand deposits) are included in the earliest time band. [includes text from deleted paragraph B12]

(b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. [text from deleted paragraph B13]

(c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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

(a) gross finance lease obligations (before deducting finance charges);

(b) prices specified in forward agreements to purchase financial assets for cash;

(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and

(e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period. [includes text from deleted paragraphs B14 and B16]

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

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

(a) has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. stand-by credit facilities) that it can access to meet liquidity needs;

(b) holds deposits at central banks to meet liquidity needs;

(c) has very diverse funding sources;

(d) has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) has internal control processes and contingency plans for managing liquidity risk;

(f) has instruments that include accelerated repayment terms (e.g. on the downgrade of the entity's credit rating);

(g) has instruments that could require the posting of collateral (e.g. margin calls for derivatives);

(h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or

(i) has instruments that are subject to master netting agreements.

B12-B16 [Deleted by the IASB] ~~When a counterparty has a choice of when an amount is paid, the liability is included on the basis of~~

~~the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (e.g. demand deposits) are included in the earliest time band.~~

~~B13 When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.~~

~~B14 The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, for example:~~

~~(a) gross finance lease obligations (before deducting finance charges);~~

~~(b) prices specified in forward agreements to purchase financial assets for cash;~~

~~(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;~~

~~(d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and~~

~~(e) gross loan commitments.~~

~~Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.~~

~~B15 If appropriate, an entity shall disclose the analysis of derivative financial instruments separately from that of non-derivative financial instruments in the contractual maturity analysis for financial liabilities required by paragraph 39(a). For example, it would be appropriate to distinguish cash flows from derivative financial instruments and non-derivative financial instruments if the cash flows arising from the derivative financial instruments are settled gross. This is because the gross cash outflow may be accompanied by a related inflow.~~

~~B16 When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the reporting period.~~

Amendment to AASB 1023

13 Paragraph 17.7.1(c) is amended (new text is underlined and deleted text is struck through).

Disclosures

Nature and Extent of Risks Arising from Insurance Contracts

17.7.1 …

(c) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 *Financial Instruments: Disclosures* would require if the insurance contracts were within the scope of AASB 7. However:

(i) an ~~issuer~~ insurer need not provide the maturity ~~analysis~~ analyses required by paragraphs 39(a) and (b) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position; and

(ii) …

Amendment to AASB 1038

14 Paragraph 15.1.1(c) is amended (new text is underlined and deleted text is struck through).

Nature and Extent of Risks Arising from Life Insurance Contracts

15.1.1 …

(c) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 would require if the life insurance contracts were within the scope of AASB 7. However:

(i) ~~an issuer~~ a life insurer need not provide the maturity ~~analysis~~ analyses required by paragraphs 39(a) and (b) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position; and

(ii) …