AASB 7 *Financial Instruments: Disclosures* (consistent with AASB 139 *Financial Instruments: Recognition and Measurement*) *vs. IFRS for SMEs* Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*

---

1. Executive summary

Scope of Sections 11 and 12 under *IFRS for SMEs*

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* together deal with recognising, derecognising, measuring and disclosures about financial instruments (financial assets and financial liabilities). Section 11 applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, entities need to consider the scope of Section 12 to ensure they are exempt.

Main differences in recognition, measurement or presentation requirements

Principal among the differences in Section 11 of the *IFRS for SMEs* are the following:

(a) *Classification of financial instruments*

Financial instruments that meet specified criteria are measured at cost or amortised cost, and all others are measured at fair value through profit or loss. The available-for-sale and held-to-maturity classifications in AASB 139 are not available. Given that the change in classification can have direct consequences for measurement, staff are of the view that they should be considered, for the purposes of Reduced Disclosure Regime (RDR) analysis, as if they are recognition and measurement differences between AASB 139 and the *IFRS for SMEs*.

(b) *Derecognition*

The *IFRS for SMEs* establishes a principle for derecognition that does not rely on the 'pass-through' and 'continuing involvement' provisions that apply to derecognition under AASB 139.

(c) *Derivative financial instruments*

The *IFRS for SMEs* does not require separate accounting for 'embedded derivatives', while AASB 139 requires fair value accounting for derivatives. Non-financial contracts that include an embedded derivative with economic characteristics not closely related to the host contract are accounted for in their entirety at fair value under the *IFRS for SMEs*.

Section 12 of the *IFRS for SMEs* also differs from AASB 139 with respect to hedge accounting in the following ways:

(a) Hedge accounting cannot be achieved by using debt instruments ('cash instruments') as hedging instruments (whereas AASB 139 permits using debt instruments for a hedge of a foreign currency risk). This was deemed appropriate for SMEs since hedge accounting would not have a significant effect on the financial statements because of the offsetting effects of the accounting for a foreign currency debt instrument under Section 11 and the recognition of exchange differences on most monetary items in profit or loss under Section 30 *Foreign Currency Translation*. Given that the restriction in the use of debt instruments as hedging instruments can have direct consequences for measurement, they are considered, for the purposes of the RDR analysis, as recognition and measurement differences between IFRSs and *IFRS for SMEs*.

(b) Hedge accounting is permitted under the *IFRS for SMEs* only for the following risks (AASB 139 is not as restrictive):

- Interest rate risk for a debt instrument measured at amortised cost
- Foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction
- Price risk of a commodity held or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity
- Foreign exchange risk in a net investment in a foreign operation.

The restriction in the types of hedge accounting under the *IFRS for SMEs* can lead to recognition and measurement differences from IFRSs.

(c) Designated hedging instruments under the *IFRS for SMEs* are limited to interest rate swaps, foreign currency swaps, foreign currency forward exchange contracts and commodity forward exchange contracts. (AASB 139 is not as restrictive). Again, this restriction under the *IFRS for SMEs* will lead to recognition and measurement differences from IFRSs.

Many respondents to the IASB's exposure draft on the IFRS for SMEs argued that many of the AASB 7 disclosures are designed for financial institutions (which are ineligible to use the *IFRS for SMEs*) or for entities whose securities are traded in public capital markets. In their view, financial instruments disclosures in the *IFRS for SMEs* are appropriate for all SMEs including those that choose to look to AASB 139 for recognition and measurement. The IASB found this argument persuasive and permits an entity that chooses to comply with AASB 139 recognition and measurement requirements to follow financial instrument disclosure requirements of Sections 11 and 12 under *IFRS for SMEs* the *IFRS for SMEs* instead of AASB 7 disclosures.

Disclosure proposals

It is proposed to exclude paragraphs 6, 8(a)(i) in part, 8(e)(i), 9, 10, 11, 12A(b), 12A(e), 15, 19, 20(a)((i) in part, 20(c), 20(d), 25, 26, 27A, 27B, 28 in part, 30(b) to 30(e) and 31 to 42 from the RDR

2. Analysis of disclosure requirements

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
	Disclosure 11.39 The disclosures below make reference to disclosures for financial liabilities measured at fair value through profit or loss. Entities that have only basic financial instruments (and therefore do not apply Section 12) will not have any financial liabilities measured at fair value through profit or loss and hence will not need to provide such disclosures.	Paragraph 11.39 has no equivalent in AASB 7 and, based on the reasoning in paragraph IN4 of this Appendix, should not be added to the RDR.
Classes of Financial Instruments and Level of Disclosure 6 When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.		Paragraph 6 has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.
Significance of Financial Instruments for Financial Position and Performance 7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.	11.42 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).	Paragraph 7 and paragraph 11.42 of the *IFRS for SMEs* correspond. Paragraph 7 should be retained in the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
Statement of financial position **Categories of financial assets and financial liabilities** 8 The carrying amounts of each of the following categories, as defined in AASB 139, shall be disclosed either in the statement of financial position or in the notes: (a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with AASB 139; (b) held-to-maturity investments; (c) loans and receivables; (d) available-for-sale financial assets; (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with AASB 139; and (f) financial liabilities measured at amortised cost.	**Statement of financial position – categories of financial assets and financial liabilities** 11.41 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes: (a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i) and paragraphs 12.8 and 12.9). (b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a)). (c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 12.8 and 12.9). (d) financial liabilities measured at fair value through profit or loss (paragraphs 12.8 and 12.9). (e) financial liabilities measured at amortised cost (paragraph 11.14(a)). (f) loan commitments measured at cost less impairment (paragraph 11.14(b)).	Paragraph 8(a)(i), first phrase, corresponds to paragraph 11.41(a)(i) of the *IFRS for SMEs*. The words in paragraph 8(a)(i) beginning 'showing separately…' have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR. Paragraph 8(e)(i), first phrase, corresponds to paragraph 11.41(d) of the *IFRS for SMEs*. The words in paragraph 8(e)(i) beginning 'showing separately…' have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR. Paragraphs 8(c), 8(e) and 8(f) correspond to paragraphs 11.41(b), 11.41(d) and 11.41(e) of the *IFRS for SMEs*. Paragraphs 8(c), 8(e) and 8(f) should be retained in the RDR. Paragraphs 8(b) and 8(d) have no equivalent in the *IFRS for SMEs* based on recognition and measurement differences. Based on the reasoning in paragraph IN6(e) of this Appendix, paragraphs 8(b) and 8(d) should be retained in the RDR. Paragraphs 11.41(c) and 11.41(f) of the *IFRS for SMEs* have no direct equivalent in AASB 7 and, based on the reasoning in paragraph IN4 of this Appendix, should not be added to the RDR.
Financial assets or financial liabilities at		Paragraphs 9, 10 and 11 have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
fair value through profit or loss 9 If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose: (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) at the reporting date; (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk; (c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either: (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset. Changes in market conditions that give rise to market risk include changes in an		Appendix, should be excluded from the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates; and (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated. 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of AASB 139, it shall disclose: (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either: (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability. Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund; and (b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation. 11 The entity shall disclose: (a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a); and (b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.		
Reclassification 12 If the entity has reclassified a financial asset (in accordance with paragraphs 51-54 of AASB 139) as one measured:		Paragraphs 12 and 12A require disclosures that relate to measurement categories in AASB 139 that are not included in the *IFRS for SMEs*.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
(a) at cost or amortised cost, rather than at fair value; or (b) at fair value, rather than at cost or amortised cost, it shall disclose the amount reclassified into and out of each category and the reason for that reclassification. 12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of AASB 139 or out of the available-for-sale category in accordance with paragraph 50E of AASB 139, it shall disclose: (a) the amount reclassified into and out of each category; (b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods; (c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare; (d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting		Based on the reasoning in paragraph IN6(d) of this Appendix, paragraphs 12, 12A(a), (c), (d) and (f) should be retained in the RDR. Based on cost-benefit reasons, paragraphs 12A(b) and (e) should be excluded from the RDR because they require specific and continuous annual disclosures about reclassified financial assets until they are derecognised.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
period and in the previous reporting period; (e) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and (f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.		
Derecognition 13 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15-37 of AASB 139). The entity shall disclose for each class of such financial assets: (a) the nature of the assets; (b) the nature of the risks and rewards of ownership to which the entity remains exposed; (c) when the entity continues to recognise all of the assets, the carrying amounts of	**Derecognition** 11.45 If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the entity shall disclose the following for each class of such financial assets: (a) the nature of the assets. (b) the nature of the risks and rewards of ownership to which the entity remains exposed. (c) the carrying amounts of the assets and of any associated liabilities that the entity continues	Paragraphs 13(a), 13(b) and 13(c) correspond to paragraphs 11.45(a) , 11.45(b) and 11.45(c) of the *IFRS for SMEs*. Paragraphs 13(a), 13(b) and 13(c) should be retained in the RDR. Paragraph 13(d) has no equivalent in the *IFRS for SMEs* due to recognition and measurement differences. Based on the reasoning in paragraph IN6(e) of this Appendix, paragraph 13(d) should be retained in the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
the assets and of the associated liabilities; and (d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.	to recognise.	
Collateral 14 An entity shall disclose: (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of AASB 139; and (b) the terms and conditions relating to its pledge.	**Collateral** 11.46 When an entity has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following: (a) the carrying amount of the financial assets pledged as collateral. (b) the terms and conditions relating to its pledge.	Paragraph 14 and paragraph 11.46 of the *IFRS for SMEs* correspond. Paragraph 14 should be retained in the RDR.
15 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose: (a) the fair value of the collateral held; (b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and (c) the terms and conditions associated with		Paragraph 15 has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
its use of the collateral.		
Allowance account for credit losses 16 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 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.		Paragraph 16 has no equivalent in the *IFRS for SMEs*, however it offers an accounting policy choice of presentation that would obviate the need to disclose a reconciliation of changes. Accordingly, based on reasoning in paragraph IN6(d) of this Appendix, paragraph 16 should be retained in the RDR.
Compound financial instruments with multiple embedded derivatives 17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of AASB 132) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.		Paragraph 17 has no equivalent in the *IFRS for SMEs* and could be regarded as relating to a recognition and measurement difference since the *IFRS for SMEs* does not address compound instruments. Based on the reasoning in paragraph IN6(f) of this Appendix, paragraph 17 should be retained in the RDR.
Defaults and breaches 18 For *loans payable* recognised at the reporting date, an entity shall disclose: (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable; (b) the carrying amount of the loans payable	**Defaults and breaches on loans payable** 11.47 For loans payable recognised at the reporting date for which there is a breach of terms or default of principal, interest, sinking fund, or redemption terms that has not been remedied by the reporting date, an entity shall disclose the following: (a) details of that breach or default. (b) the carrying amount of the related loans	Paragraph 18 and paragraph 11.47 of the *IFRS for SMEs* correspond. Paragraph 18 should be retained in the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
in default at the reporting date; and (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.	payable at the reporting date. (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.	
19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the reporting date).		Paragraph 19 has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.
Statement of comprehensive income **Items of income, expense, gains or losses** 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) net gains or net losses on: (i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in	**Items of income, expense, gains or losses** 11.48 An entity shall disclose the following items of income, expense, gains or losses: (a) income, expense, gains or losses, including changes in fair value, recognised on: (i) financial assets measured at fair value through profit or loss. (ii) financial liabilities measured at fair value through profit or loss. (iii) financial assets measured at amortised cost. (iv) financial liabilities measured at amortised cost. (b) total interest income and total interest expense	Paragraph 20(a)(i), first phrase, corresponds to paragraph 11.48(a)(i) and 11.48(a)(ii) of the *IFRS for SMEs*. Paragraph 20(a)(i), first phrase should be retained in the RDR. The words in paragraph 20(a)(i) beginning 'showing separately…' have no equivalent in the IFRS for SMEs and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR. Paragraphs 20(a)(iv), 20(a)(v), 20(b) and 20(e) correspond to paragraphs 11.48(a)(iii) and 11.48(iv), 11,48(b) and 11.48(c) of the *IFRS for SMEs*. Paragraphs 20(a)(iv), 20(a)(v), 20(b) and 20(e) should be retained in the RDR. Paragraphs 20(a)(ii) and 20(a)(iii) have no equivalent in the *IFRS for SMEs* however, based on the reasoning in paragraph IN6(e) of this Appendix, should be retained in the RDR. Paragraphs 20(c) and 20(d) have no equivalent in the *IFRS for SMEs* and based on the reasoning in paragraph IN3 of this

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
accordance with AASB 139; (ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period; (iii) held-to-maturity investments; (iv) loans and receivables; and (v) financial liabilities measured at amortised cost; (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss; (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from: (i) financial assets or 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;	(calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss. (c) the amount of any impairment loss for each class of financial asset.	Appendix, should be excluded from the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
(d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of AASB 139; and (e) the amount of any impairment loss for each class of financial asset.		
Other disclosures **Accounting policies** 21 In accordance with paragraph 117 of AASB 101 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.	**Disclosure of accounting policies for financial instruments** 11.40 In accordance with paragraph 8.5, an entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.	Paragraph 21 and paragraph 11.40 of the *IFRS for SMEs* correspond. Paragraph 21 should be retained in the RDR.
	Disclosures 12.26 An entity applying this section shall make all of the disclosures required in Section 11 incorporating in those disclosures financial instruments that are within the scope of this section as well as those within the scope of Section 12. In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 12.27–12.29.	Paragraph 12.26 of the *IFRS for SMEs* has no equivalent in AASB 7 and, based on the reasoning in paragraph IN4 of this Appendix, should not be added to the RDR.
Hedge accounting 22 An entity shall disclose the following separately for each type of hedge described in AASB 139 (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign	12.27 An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 12.17: (a) a description of the hedge. (b) a description of the financial instruments	Except for the restriction in hedge accounting to the four types of risks identified in the *IFRS for SMEs*, paragraph 22 corresponds to paragraph 12.27 of the *IFRS for SMEs*. Paragraph 22 should be retained in the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
operations): (a) a description of each type of hedge; (b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and (c) the nature of the risks being hedged.	designated as hedging instruments and their fair values at the reporting date. (c) the nature of the risks being hedged, including a description of the hedged item.	
23 For cash flow hedges, an entity shall disclose: (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss; (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur; (c) the amount that was recognised in other comprehensive income during the period; (d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and (e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast	12.29 If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation (paragraphs 12.23–12.25) it shall disclose the following: (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss. (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur. (c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23). (d) the amount that was reclassified from other comprehensive income to profit or loss for the period (paragraphs 12.23 and 12.25). (e) the amount of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was	Except for the restriction in hedge accounting to the four types of risks identified in the *IFRS for SMEs*, paragraph 23 corresponds to paragraph 12.27 of the *IFRS for SMEs*. Paragraph 23 should be retained in the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
transaction.	recognised in profit or loss (paragraph 12.24).	
24 An entity shall disclose separately: (a) in fair value hedges, gains or losses: (i) on the hedging instrument; and (ii) on the hedged item attributable to the hedged risk; (b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and (c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.	12.28 If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19–12.22) it shall disclose the following: (a) the amount of the change in fair value of the hedging instrument recognised in profit or loss. (b) the amount of the change in fair value of the hedged item recognised in profit or loss.	Except for the restriction in hedge accounting to the four types of risks identified in the *IFRS for SMEs*, paragraph 24 corresponds to paragraph 12.28 of the *IFRS for SMEs*. Paragraph 24 should be retained in the RDR.
Fair value 25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount. 26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.		Paragraphs 25 and 26 have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.
27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions	11.43 For all financial assets and financial liabilities measured at fair value, the entity shall disclose the basis for determining fair value, eg quoted market	Paragraph 27 and paragraph 11.43 of the *IFRS for SMEs* correspond. Paragraph 27 should be retained in the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
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.	price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for 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.	
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		Paragraphs 27A and 27B have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
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,		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
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		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
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.		
28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74-AG79 of AASB 139). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless conditions described in paragraph AG76 of AASB 139 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be		The first three sentences of paragraph 28 are in the nature of guidance and should be retained in the RDR based on the reasoning in paragraph IN7 of this Appendix. The fourth sentence in paragraph 28 beginning ‘If such a difference exists…’ has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: (a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of AASB 139); and (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.		
29 Disclosures of fair value are not required: (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables; (b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with AASB 139 because its fair value cannot be measured reliably; or (c) for a contract containing a discretionary participation feature (as described in AASB 4) if the fair value of that feature		Paragraph 29 is in the nature of guidance and should be retained in the RDR based on the reasoning in paragraph IN7 of this Appendix.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
cannot be measured reliably.		
30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including: (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably; (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably; (c) information about the market for the instruments; (d) information about whether and how the entity intends to dispose of the financial instruments; and (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.	11.44 If a reliable measure of fair value is no longer available for an equity instrument measured at fair value through profit or loss, the entity shall disclose that fact.	Paragraph 30(a) and paragraph 11.44 of the *IFRS for SMEs* correspond. Paragraph 30(a) should be retained in the RDR. Paragraphs 30(b), 30(c), 30(d) and 30(e) have no equivalent in the *IFRS for SMEs*, and based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.
Nature and Extent of Risks Arising from Financial Instruments		Paragraphs 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41 and 42 have no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
31 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date. 32 The disclosures required by paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, *liquidity risk* and market risk. **Qualitative disclosures** 33 For each type of risk arising from financial instruments, an entity shall disclose: (a) the exposures to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (c) any changes in (a) or (b) from the previous period. **Quantitative disclosures** 34 For each type of risk arising from financial instruments, an entity shall disclose: (a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in AASB 124 *Related Party*		excluded from the RDR.

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
Disclosures), for example the entity's board of directors or chief executive officer; (b) the disclosures required by paragraphs 36-42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29-31 of AASB 101 for a discussion of materiality); and (c) concentrations of risk if not apparent from (a) and (b). 35 If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative. **Credit risk** 36 An entity shall disclose by class of financial instrument: (a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with AASB 132); (b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements; (c) information about the credit quality of		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
financial assets that are neither *past due* nor impaired; and (d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. ***Financial assets that are either past due or impaired*** 37 An entity shall disclose by class of financial asset: (a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired; (b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and (c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value. ***Collateral and other credit enhancements obtained*** 38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g.		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
guarantees), and such assets meet the recognition criteria in other Australian Accounting Standards, an entity shall disclose: (a) the nature and carrying amount of the assets obtained; and (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations. **Liquidity risk** 39 An entity shall disclose: (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities. (b) 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). (c) a description of how it manages the liquidity risk inherent in (a) and (b). **Market risk** ***Sensitivity analysis*** 40 Unless an entity complies with paragraph 41, it		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
shall disclose: (a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; (b) the methods and assumptions used in preparing the sensitivity analysis; and (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes. 41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose: (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.		

Text in AASB 7	Text in *IFRS for SMEs* Sections 11 and 12	Preliminary Staff Comment
Other market risk disclosures 42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (e.g. because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.		

3. AASB 7 *Financial Instruments Disclosures*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 7 *Financial Instruments* (June 2009), showing requirements from which it is proposed entities applying the RDR should be exempt with the shaded paragraphs.

Classes of Financial Instruments and Level of Disclosure

6 When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of Financial Instruments for Financial Position and Performance

7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Statement of financial position

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as defined in AASB 139, shall be disclosed either in the statement of financial position or in the notes:

(a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with AASB 139;

(b) held-to-maturity investments;

(c) loans and receivables;

(d) available-for-sale financial assets;

(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with AASB 139; and

(f) financial liabilities measured at amortised cost.

Financial assets or financial liabilities at fair value through profit or loss

9 If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:

(a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) 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;

(c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:

(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or

(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates; and

(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of AASB 139, it shall disclose:

(a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:

(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or

(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund; and

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

11 The entity shall disclose:

(a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a); and

(b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Reclassification

12 If the entity has reclassified a financial asset (in accordance with paragraphs 51-54 of AASB 139) as one measured:

(a) at cost or amortised cost, rather than at fair value; or

(b) at fair value, rather than at cost or amortised cost, it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of AASB 139 or out of the available-for-sale category in accordance with paragraph 50E of AASB 139, it shall disclose:

(a) the amount reclassified into and out of each category;

(b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;

(c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;

(d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;

(e) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and

(f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

Derecognition

13 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15-37 of AASB 139). The entity shall disclose for each class of such financial assets:

(a) the nature of the assets;

(b) the nature of the risks and rewards of ownership to which the entity remains exposed;

(c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and

(d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Collateral

14 An entity shall disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of AASB 139; and

(b) the terms and conditions relating to its pledge.

15 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

(a) the fair value of the collateral held;

(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

16 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 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.

Compound financial instruments with multiple embedded derivatives

17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of AASB 132) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall

disclose the existence of those features.

Defaults and breaches

18 For *loans payable* recognised at the end of the reporting period, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Statement of comprehensive income

Items of income, expense, gains or losses

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) net gains or net losses on:

(i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with AASB 139;

(ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;

(iii) held-to-maturity investments;

(iv) loans and receivables; and

(v) financial liabilities measured at amortised cost;

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets or 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 of AASB 139; and

(e) the amount of any impairment loss for each class of financial asset.

Other disclosures

Accounting policies

21 In accordance with paragraph 117 of AASB 101 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge accounting

22 An entity shall disclose the following separately for each type of hedge described in AASB 139 (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):

(a) a description of each type of hedge;

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

(c) the nature of the risks being hedged.

23 For cash flow hedges, an entity shall disclose:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

(c) the amount that was recognised in other comprehensive income during the period;

(d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and

(e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a nonfinancial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

24 An entity shall disclose separately:

(a) in fair value hedges, gains or losses:

(i) on the hedging instrument; and

(ii) on the hedged item attributable to the hedged risk;

(b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and

(c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

Fair value

25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

27 An entity shall disclose for each class of financial instruments 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.

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.

28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74-AG79 of AASB 139). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless conditions described in paragraph AG76 of AASB 139 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

(a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of AASB 139); and

(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

29 Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with AASB 139 because its fair value cannot be measured reliably; or

(c) for a contract containing a discretionary participation feature (as described in AASB 4) if the fair value of that feature cannot be measured reliably.

30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

(a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;

(b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;

(c) information about the market for the instruments;

(d) information about whether and how the entity intends to dispose of the financial instruments; and

(e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Nature and Extent of Risks Arising from Financial Instruments

31 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

32 The disclosures required by paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, *liquidity risk* and market risk.

Qualitative disclosures

33 For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

34 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer;

(b) the disclosures required by paragraphs 36-42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29-31 of AASB 101 for a discussion of materiality); and

(c) concentrations of risk if not apparent from (a) and (b).

35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

36 An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with AASB 132);

(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;

(c) information about the credit quality of financial assets that are neither *past due* nor impaired; and

(d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial assets that are either past due or impaired

37 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;

(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and

(c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and other credit enhancements obtained

38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Australian Accounting Standards, an entity shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

39 An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) 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).

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

Market risk

Sensitivity analysis

40 Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in

paragraph 40. The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other market risk disclosures

42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (e.g. because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.