Compiled AASB Standard **AASB 2010-7**

Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)

[AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2015. Early application is permitted. It incorporates relevant amendments made up to and including 10 September 2012.

Prepared on 31 October 2012 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (as amended) is set out in paragraphs 1 – 74. All the paragraphs have equal authority.

COMPILATION DETAILS

Accounting Standard AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2015. It takes into account amendments up to and including 10 September 2012 and was prepared on 31 October 2012 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 2010-7 (December 2010) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	**Date made**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
AASB 2010-7	6 Dec 2010	*(beginning)* 1 Jan 2015	see (a) below
AASB 2010-10	31 Dec 2010	*(beginning)* 1 Jan 2013	see (b) below
AASB 2012-6	10 Sep 2012	*(beginning)* 1 Jan 2013	see (c) below

(a) AASB 2010-7 applies to annual reporting periods beginning on or after 1 January 2015 (instead of 1 January 2013) as a result of amendments made by AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*.

(b) Entities may elect to apply this Standard from any date between 6 and 31 December 2010, for entities initially applying this Standard before 1 January 2011, or to annual reporting periods beginning on or after 1 January 2011.

(c) Entities may elect to apply the amendments to AASB 2010-7 in this Standard as set out in note (b).

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
5-7	amended	AASB 2012-6 [16]
10	amended amended	AASB 2010-10 [8] AASB 2012-6 [18]

Paragraph affected	**How affected**	**By … [paragraph]**
11	amended amended	AASB 2010-10 [9] AASB 2012-6 [19, 20]
18	amended	AASB 2012-6 [21]
22	amended	AASB 2012-6 [22]
30-33	deleted	AASB 2012-6 [17]
34	amended	AASB 2012-6 [23]
38	amended	AASB 2012-6 [24]
48	amended	AASB 2012-6 [25]
50	amended	AASB 2012-6 [26]
62	amended	AASB 2012-6 [27]
71	amended	AASB 2012-6 [28]

ACCOUNTING STANDARD AASB 2010-7

The Australian Accounting Standards Board made Accounting Standard AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* under section 334 of the *Corporations Act 2001* on 6 December 2010.

This compiled version of AASB 2010-7 applies to annual reporting periods beginning on or after 1 January 2015. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 10 September 2012 (see Compilation Details).

ACCOUNTING STANDARD AASB 2010-7

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 9 (DECEMBER 2010)

Objective

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

(a) AASB 1 *First-time Adoption of Australian Accounting Standards*;

(b) AASB 3 *Business Combinations*;

(c) AASB 4 *Insurance Contracts*;

(d) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;

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

(f) AASB 101 *Presentation of Financial Statements*;

(g) AASB 102 *Inventories*;

(h) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(i) AASB 112 *Income Taxes*;

(j) AASB 118 *Revenue*;

(k) AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*;

(l) AASB 121 *The Effects of Changes in Foreign Exchange Rates*;

(m) AASB 127 *Consolidated and Separate Financial Statements*;

(n) AASB 128 *Investments in Associates*;

(o) AASB 131 *Interests in Joint Ventures*;

(p) AASB 132 *Financial Instruments: Presentation*;

(q) AASB 136 *Impairment of Assets*;

(r) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;

(s) AASB 139 *Financial Instruments: Recognition and Measurement*;

(t) AASB 1023 *General Insurance Contracts*;

(u) AASB 1038 *Life Insurance Contracts*;

(v) Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*;

(w) Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;

(x) Interpretation 10 *Interim Financial Reporting and Impairment*;

(y) Interpretation 12 *Service Concession Arrangements*;

(z) Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*; and

(aa) Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*;

as a consequence of the issuance of AASB 9 *Financial Instruments* in December 2010.

Application

2 Subject to paragraphs 3 and 4, 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 101 and AASB 108, this Standard applies to:

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

(b) general purpose financial statements of each reporting entity; and

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

4 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.

5 This Standard applies to annual reporting periods beginning on or after 1 January 2015.

6 Earlier application is permitted from:

(a) any date between the issue of this Standard and 31 December 2010, for entities initially applying this Standard before 1 January 2011; or

(b) the beginning of the first reporting period in which the entity adopts this Standard, for entities initially applying this Standard on or after 1 January 2011.

However, if an entity elects to apply this Standard early and has not already applied AASB 9 and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* issued in December 2009 (as amended), it must apply all of the requirements in AASB 9 (December 2010) at the same time. If an entity applies this Standard in its financial statements for a period beginning before 1 January 2015, it shall disclose that fact.

7 When applied or operative, this Standard supersedes AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*. However, for annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2015, an entity may elect to apply AASB 9 (December 2009) instead of applying AASB 9 (December 2010) and therefore will apply the amendments to other Australian Accounting Standards in AASB 2009-11 instead of this Standard.

8 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard or an Interpretation, 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.

Amendments to AASB 1

9 Paragraph 29 is amended to read as follows, paragraph 39B is deleted and paragraphs 29A and 39G are added:

29 An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at

the date of designation and their classification and carrying amount in the previous financial statements.

29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.

39B [Deleted by the IASB]

39G AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 29, B1-B5, D1(j), D14, D15, D19 and D20, added paragraphs 29A, B8, B9, D19A-D19D, E1 and E2 and deleted paragraph 39B. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

10 In Appendix B, paragraphs B1-B5 are amended to read as follows, and a heading and paragraph B8, and a heading and paragraph B9 are added:

B1 An entity shall apply the following exceptions:

(a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);

(b) hedge accounting (paragraphs B4-B6);

(c) non-controlling interests (paragraph B7);

(d) classification and measurement of financial assets (paragraph B8);

(e) embedded derivatives (paragraph B9); and

(f) government loans (paragraphs B10-B12).

Derecognition of financial assets and financial liabilities

B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in AASB 9 *Financial Instruments* prospectively for transactions occurring on or after the date of transition to Australian Accounting Standards. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to Australian Accounting Standards, it shall not recognise those assets and liabilities in accordance with Australian Accounting Standards (unless they qualify for recognition as a result of a later transaction or event).

B3 Despite paragraph B2, an entity may apply the derecognition requirements in AASB 9 retrospectively from a date of the entity's choosing, provided that the information needed to apply AASB 9 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

B4 As required by AASB 9, at the date of transition to Australian Accounting Standards an entity shall:

(a) measure all derivatives at fair value; and

(b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

B5 An entity shall not reflect in its opening Australian-Accounting-Standards statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with AASB 139 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged item is a net position). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with Australian Accounting Standards, provided that it does so no later than the date of transition to Australian Accounting Standards.

Classification and measurement of financial assets

B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 of AASB 9 on the basis of the facts and circumstances that exist at the date of transition to Australian Accounting Standards.

Embedded derivatives

B9 A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph B4.3.11 of AASB 9.

11 In Appendix D, paragraphs D1(j), D14, D19 and D20 are amended to read as follows and paragraphs D19A-D19D are added:

D1 An entity may elect to use one or more of the following exemptions:

(a) …

(j) designation of previously recognised financial instruments (paragraphs D19-D19D);

(k) …

D14 When an entity prepares separate financial statements, AASB 127 requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost; or

(b) in accordance with AASB 9.

D19 AASB 9 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to Australian Accounting Standards, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of AASB 9 at that date.

D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5 of AASB 9 on the basis of the facts and circumstances that exist at the date of transition to Australian Accounting Standards.

D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5 of AASB 9 on the basis of the facts and circumstances that exist at the date of transition to Australian Accounting Standards.

D19C If it is impracticable (as defined in AASB 108) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58-65 and AG84-AG93 of AASB 139, the fair value of the financial asset at the date of transition to Australian Accounting Standards shall be the new amortised cost of that financial asset at the date of transition to Australian Accounting Standards.

D19D An entity shall determine whether the treatment in paragraph 5.7.7 of AASB 9 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to Australian Accounting Standards.

Fair value measurement of financial assets or financial liabilities at initial recognition

D20 Despite the requirements of paragraphs 7 and 9, an entity may apply the requirements in paragraph B5.1.2A(b) of AASB 9 prospectively to transactions entered into on or after the date of transition to Australian Accounting Standards.

12 In Appendix E, a heading and paragraphs E1 and E2 are added:

Exemption from the requirement to restate comparative information for AASB 9

E1 In its first Australian-Accounting-Standards financial statements, an entity that (a) adopts Australian Accounting Standards for annual periods beginning before 1 January 2012 and (b) applies AASB 9 shall present at least one year of comparative information. However, this comparative information need not comply with AASB 7 *Financial Instruments: Disclosures* or AASB 9, to the extent that the disclosures required by AASB 7 relate to items within the scope of AASB 9. For such entities, references to the 'date of transition to Australian Accounting Standards' shall mean, in the case of AASB 7 and AASB 9 only, the beginning of the first Australian-Accounting-Standards reporting period.

E2 An entity that chooses to present comparative information that does not comply with AASB 7 and AASB 9 in its first year of transition shall:

(a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of AASB 9 to comparative information about items within the scope of AASB 9.

(b) disclose this fact together with the basis used to prepare this information.

(c) treat any adjustment between the statement of financial position at the comparative period's reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first Australian-Accounting-Standards reporting period* (ie the first period that includes information that complies with AASB 7 and AASB 9) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)-(e) and (f)(i) of AASB 108. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.

(d) apply paragraph 17(c) of AASB 101 to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Amendments to AASB 3

13 Paragraphs 16, 42, 53, 56 and 58(b) are amended to read as follows, paragraph 64A is deleted and paragraph 64D is added:

16 In some situations, Australian Accounting Standards provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

(a) classification of particular financial assets and liabilities as measured at fair value or at amortised cost, in accordance with AASB 9 *Financial Instruments*;

(b) designation of a derivative instrument as a hedging instrument in accordance with AASB 139; and

(c) assessment of whether an embedded derivative should be separated from a host contract in accordance with AASB 9 (which is a matter of 'classification' as this Standard uses that term).

42 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

53 Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with AASB 132 and AASB 9.

56 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:

(a) the amount that would be recognised in accordance with AASB 137; and

(b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with AASB 118 *Revenue*.

This requirement does not apply to contracts accounted for in accordance with AASB 9.

58 Some changes …

(b) Contingent consideration classified as an asset or a liability that:

(i) is a financial instrument and is within the scope of AASB 9 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with AASB 9.

(ii) is not within the scope of AASB 9 shall be accounted for in accordance with AASB 137 or other Australian Accounting Standards as appropriate.

64A [Deleted by the IASB]

64D AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 16, 42, 53, 56 and 58(b) and deleted paragraph 64A. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 4

14 Paragraphs 3, 4(d), 7, 8, 12, 34(d), 35 and 45 are amended to read as follows, paragraph 41C is deleted and paragraph 41D is added:

3 This Standard does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see AASB 132 *Financial Instruments: Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 7 and AASB 9 *Financial Instruments*), except in the transitional provisions in paragraph 45.

4 An entity shall not apply this Standard to:

(a) …

(d) *financial guarantee contracts* unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either AASB 132, AASB 7 and AASB 9 or AASB 1023 to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable;

(e) …

7 AASB 9 requires an entity to separate some embedded derivatives from their host contract, measure them at *fair value* and include changes in their fair value in profit or loss. AASB 9 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract.

8 As an exception to the requirements in AASB 9, an insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of the host *insurance liability*. However, the requirements in AASB 9 do apply to a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in a financial variable (such as an equity or commodity price or index), or a non-financial variable that is not specific to a party to the contract. Furthermore, those requirements also apply if the holder's ability to exercise a put option or cash surrender option is triggered by a change in such a variable (for example, a put option that can be exercised if a stock market index reaches a specified level).

12 To unbundle a contract, an insurer shall:

(a) apply this Standard to the insurance component; and

(b) apply AASB 9 to the deposit component.

34 Some insurance contracts contain a discretionary participation feature as well as a *guaranteed element*. The issuer of such a contract:

(a) …

(d) shall, if the contract contains an embedded derivative within the scope of AASB 9, apply AASB 9 to that embedded derivative; and

(e) …

Discretionary participation features in financial instruments

35 The requirements in paragraph 34 also apply to a financial instrument that contains a discretionary participation feature. In addition:

(a) if the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraphs 15-19 to the whole contract (ie both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying AASB 9 to the guaranteed element.

(b) if the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying AASB 9 to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 9 exempts that option from measurement at fair value. The issuer need not disclose the amount that would result from applying AASB 9 to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher;

(c) …

41C [Deleted by the IASB]

41D AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 3, 4(d), 7, 8, 12, 34(d), 35, 45 and B18-B20 and Appendix A and deleted paragraph 41C. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

45 Despite paragraph 4.4.1 of AASB 9, when an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets so that they are measured at fair value. This reclassification is permitted if an insurer changes accounting policies when it first applies this Standard and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and AASB 108 applies.

15 In Appendix A the defined term 'deposit component' is amended to read as follows:

deposit component	A contractual component that is not accounted for as a derivative under AASB 9 and would be within the scope of AASB 9 if it were a separate instrument.

16 In Appendix B, paragraphs B18-B20 are amended to read as follows:

B18 The following are examples of contracts that are insurance contracts, if the transfer of insurance risk is significant:

(a) …

(g) credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a financial guarantee contract in AASB 9 and are within the scope of AASB 132[1] and AASB 9, not this Standard (see paragraph 4(d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either AASB 132[1] and AASB 9 or AASB 1023 to such financial guarantee contracts;

1 When an entity applies AASB 7, the reference to AASB 132 is replaced by a reference to AASB 7.

(h) …

B19 The following are examples of items that are not insurance contracts:

(a) …

(e) derivatives that expose one party to financial risk but not insurance risk, because they require that party to make payment based solely on changes in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (see AASB 9);

(f) a credit-related guarantee (or letter of credit, credit derivative default contract or credit insurance contract) that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due (see AASB 9);

(g) …

B20 If the contracts described in paragraph B19 create financial assets or financial liabilities, they are within the scope of AASB 9. Among other things, this means …

Amendments to AASB 5

17 Paragraph 5 is amended to read as follows and paragraph 44F is added:

5 The measurement provisions of this Standard[3] do not apply to the following assets, which are covered by the Australian Accounting Standards listed, either as individual assets or as part of a disposal group:

(a) …

(c) financial assets within the scope of AASB 9 *Financial Instruments*;

(d) …

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3 Other than paragraphs 18 and 19, which require the assets in question to be measured in accordance with other applicable Australian Accounting Standards.

44F AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 5. An entity shall apply that amendment when it applies AASB 9 as issued in December 2010.

Amendments to AASB 7

18 Paragraphs 2-5, 8-10, 11, 14, 20, 28 and 30 are amended to read as follows, paragraphs 12, 12A, 29(b) and 44H are deleted and a heading and paragraphs 10A, 11A, 11B, 12B-12D, 20A, 44I, 44J, 44N and 44S-44W are added:

2 The principles in this Standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in AASB 132 *Financial Instruments: Presentation* and AASB 9 *Financial Instruments*.

Scope

3 This Standard shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures.* However, in some cases, AASB 127 or AASB 128 permits an entity to account for an interest in a subsidiary, associate or joint venture using AASB 9; in those cases, entities shall apply the requirements of this Standard and, for those interests measured at fair value, the requirements of AASB 13 *Fair Value Measurement*. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in AASB 132;

(b) …

(d) insurance contracts as defined in AASB 4 *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if AASB 9 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to *financial guarantee contracts* if the issuer applies AASB 9 in recognising and measuring the contracts, but shall apply AASB 4 if the issuer elects, in accordance with paragraph 4(d) of AASB 4, to apply AASB 4 in recognising and measuring them;

(e) …

4 This Standard applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of AASB 9. Unrecognised financial instruments include some financial instruments that, although outside the scope of AASB 9, are within the scope of this Standard (such as some loan commitments).

5 This Standard applies to contracts to buy or sell a non-financial item that are within the scope of AASB 9.

8 The carrying amounts of each of the following categories, as specified in AASB 9, shall be disclosed either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value in accordance with AASB 9;

(b)-(d)[deleted by the IASB]

(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of held for trading in AASB 9;

(f) financial assets measured at amortised cost;

(g) financial liabilities measured at amortised cost; and

(h) financial assets measured at fair value through other comprehensive income.

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

9 If the entity has designated as measured at fair value a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:

(a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the financial asset (or group of financial assets) at the end of the reporting period;

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;

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

(i) ...

(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 financial asset was designated.

10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of AASB 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see paragraph 5.7.7 of AASB 9), it shall disclose:

(a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs B5.7.13-B5.7.20 of AASB 9 for guidance on determining the effects of changes in a liability's credit risk);

(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;

(c) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers; and

(d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

10A If an entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of AASB 9 and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss (see paragraphs 5.7.7 and 5.7.8 of AASB 9), 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 (see paragraphs B5.7.13-B5.7.20 of AASB 9 for guidance on determining the effects of changes in a liability's credit risk); 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 also disclose:

(a) a detailed description of the methods used to comply with the requirements in paragraphs 9(c), 10(a) and 10A(a) and paragraph 5.7.7(a) of AASB 9, including an explanation of why the method is appropriate;

(b) if the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 9(c), 10(a) or 10A(a) or paragraph 5.7.7(a) of AASB 9 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; and

(c) a detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss (see paragraphs 5.7.7 and 5.7.8 of AASB 9). If an entity is required to present the effects of changes in a liability's credit risk in profit or loss (see paragraph 5.7.8 of AASB 9), the disclosure must include a detailed description of the economic relationship described in paragraph B5.7.6 of AASB 9.

Financial assets measured at fair value through other comprehensive income

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of AASB 9, it shall disclose:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income;

(b) the reasons for using this presentation alternative;

(c) the fair value of each such investment at the end of the reporting period;

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period; and

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) the reasons for disposing of the investments;

(b) the fair value of the investments at the date of derecognition; and

(c) the cumulative gain or loss on disposal.

12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of AASB 9. For each such event, an entity shall disclose:

(a) the date of reclassification;

(b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements; and

(c) the amount reclassified into and out of each category.

12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.4.1 of AASB 9:

(a) the effective interest rate determined on the date of reclassification; and

(b) the interest income or expense recognised.

12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it shall disclose:

(a) the fair value of the financial assets at the end of the reporting period; and

(b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.

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 3.3.23(a) of AASB 9; and

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

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 measured 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 mandatorily measured at fair value in accordance with AASB 9 (eg financial liabilities that meet the definition of held for trading in AASB 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss;

(ii)-(iv) [deleted by the IASB]

(v) financial liabilities measured at amortised cost;

(vi) financial assets measured at amortised cost; and

(vii) financial assets measured at fair value through other comprehensive income;

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or financial liabilities 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 measured at amortised cost 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) ...

20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

28 In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of AASB 9). In such cases, the entity shall disclose by class of financial asset or financial liability:

(a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of AASB 9).

(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.

(c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

29 Disclosures of fair value are not required:

(a) …

(b) [deleted by the IASB]

(c) …

30 In the case described in paragraph 29(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 contracts and their fair value, including:

(a) ...

44H [Deleted by the IASB]

44I When an entity first applies AASB 9, it shall disclose for each class of financial assets and financial liabilities at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with AASB 139;

(b) the new measurement category and carrying amount determined in accordance with AASB 9; and

(c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that AASB 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies AASB 9, it shall disclose qualitative information to enable users to understand:

(a) how it applied the classification requirements in AASB 9 to those financial assets whose classification has changed as a result of applying AASB 9; and

(b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

44N AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 2-5, 8-10, 11, 14, 20, 28, 30, Appendix A, B1, B5, B10(a), B22 and B27, added paragraphs 10A, 11A, 11B, 12B-12D, 20A, 44I and 44J, and deleted paragraphs 12, 12A, 29(b), 44H, B4 and Appendix D. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

44S When an entity first applies the classification and measurement requirements of AASB 9, it shall present the disclosures set out in paragraphs 44T-44W of this Standard if it elects to, or is required to, provide these disclosures in accordance with paragraph 7.2.14 of AASB 9.

44T If required by paragraph 44S, at the date of initial application of AASB 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

(a) the changes in the carrying amounts on the basis of their measurement categories in accordance with AASB 139 (ie not resulting from a change in measurement attribute on transition to AASB 9); and

(b) the changes in the carrying amounts arising from a change in measurement attribute on transition to AASB 9.

The disclosures in this paragraph need not be made after the annual reporting period in which AASB 9 is initially applied.

44U In the reporting period in which AASB 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to AASB 9:

(a) the fair value of the financial assets or financial liabilities at the end of the reporting period;

(b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

(c) the effective interest rate determined on the date of reclassification; and

(d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 7.2.10 of AASB 9), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S-44U at the date of initial application of AASB 9, those disclosures, and the disclosures in paragraph 28 of AASB 108 during the reporting period containing the date of initial application, must permit reconciliation between:

(a) the measurement categories in accordance with AASB 139 and AASB 9; and

(b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S-44U at the date of initial application of AASB 9, those disclosures, and the disclosures in paragraph 25 of this Standard at the date of initial application, must permit reconciliation between:

(a) the measurement categories presented in accordance with AASB 139 and AASB 9; and

(b) the class of financial instrument at the date of initial application.

19 In Appendix A, the last paragraph is amended to read as follows:

The following terms are defined in paragraph 11 of AASB 132, paragraph 9 of AASB 139 or Appendix A of AASB 9 and are used in the Standard with the meaning specified in AASB 132, AASB 139 and AASB 9.

(a) amortised cost of a financial asset or financial liability;

(b) derecognition;

(c) derivative;

(d) effective interest method;

(e) equity instrument;

(f) fair value;

(g) financial asset;

(h) financial guarantee contract;

(i) financial instrument;

(j) financial liability;

(k) financial liability at fair value through profit or loss;

(l) forecast transaction;

(m) hedging instrument;

(n) held for trading;

(o) reclassification date; and

(p) regular way purchase or sale.

20 In Appendix B, paragraph B4 is deleted and paragraphs B1, B5, B10(a), B22 and B27 are amended to read as follows:

B1 Paragraph 6 requires an entity to 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. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in AASB 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

B5 Paragraph 21 requires disclosure of 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. For financial instruments, such disclosure may include:

(a) for financial liabilities designated as at fair value through profit or loss:

(i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss;

(ii) the criteria for so designating such financial liabilities on initial recognition; and

(iii) how the entity has satisfied the conditions in paragraph 4.2.2 of AASB 9 for such designation.

(aa) for financial assets designated as measured at fair value through profit or loss:

(i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and

(ii) how the entity has satisfied the criteria in paragraph 4.1.5 of AASB 9 for such designation.

(b) [deleted by the IASB]

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of AASB 9).

(d) …

B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

(a) granting loans to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;

(b) ...

B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments measured at fair value through profit or loss) is disclosed separately from the sensitivity of other comprehensive income (that arises, for example, from investments in equity instruments whose changes in fair value are presented in other comprehensive income).

21 Appendix D is deleted.

Amendments to AASB 101

22 In paragraph 7, the definition of 'other comprehensive income' and paragraphs 68, 71, 82, 93, 95 and 123 are amended to read as follows, paragraph 139E is deleted and paragraph 139G is added:

7 The following terms are used in this Standard with the meanings specified:

***Other comprehensive income* comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Australian Accounting Standards.**

The components of other comprehensive income include:

(a) ...

(d) gains and losses from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of AASB 9 *Financial Instruments*;

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see AASB 139 *Financial Instruments: Recognition and Measurement*); and

(f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of AASB 9).

...

68 The operating cycle of an entity ... Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in AASB 9) and the current portion of non-current financial assets.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in AASB 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

82 In addition to items required by other Australian Accounting Standards, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:

(a) revenue;

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in AASB 9);

(d) ...

93 Other Australian Accounting Standards specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been recognised in other comprehensive income …

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see AASB 121) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of AASB 139 in relation to cash flow hedges).

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) [deleted by the IASB]

(b) …

139E [Deleted by the IASB]

139G AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 7, 68, 71, 82, 93, 95 and 123 and deleted paragraph 139E. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 102

23 Paragraph 2(b) is amended to read as follows, paragraph 40A is deleted and paragraph 40B is added:

2 This Standard applies to all inventories, except:

(a) …

(b) financial instruments (see AASB 132 *Financial Instruments: Presentation* and AASB 9 *Financial Instruments*); and

(c) ...

40A [Deleted by the IASB]

40B AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 2(b) and deleted paragraph 40A. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 108

24 Paragraph 53 is amended to read as follows, paragraph 54A is deleted and paragraph 54B is added:

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with AASB 119 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

54A [Deleted by the IASB]

54B AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 53 and deleted paragraph 54A. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 112

25 Paragraph 20 is amended to read as follows, paragraph 96 is deleted and paragraph 97 is added:

20 Australian Accounting Standards permit or require certain assets to be carried at fair value or to be revalued (see, for example, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets*, AASB 140 *Investment Property* and AASB 9

Financial Instruments). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, ...

96 [Deleted by the IASB]

97 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 20 and deleted paragraph 96. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 118

26 Paragraphs 6(d) and 11 are amended to read as follows, paragraph 39 is deleted and paragraph 40 is added:

6 This Standard does not deal with revenue arising from:

(a) …

(d) changes in the fair value of financial assets and financial liabilities or their disposal (see AASB 9 *Financial Instruments*);

(e) …

11 In most cases … The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with AASB 9.

39 [Deleted by the IASB]

40 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 6(d) and 11 and deleted paragraph 39. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

27 In the Illustrative Examples, paragraphs 5 and 14 are amended to read as follows:

5 ...

For a sale and repurchase agreement on an asset other than a financial asset, the terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, AASB 9 *Financial Instruments* applies.

14 Financial service fees

...

(a) *Fees that are an integral part of the effective interest rate of a financial instrument*

...

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under AASB 9 is measured at fair value through profit or loss*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs[1] (as defined in AASB 139), are deferred and recognised as an adjustment to the effective interest rate.

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1 In AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*, issued in July 2008, the Board replaced the term 'direct costs' with 'transaction costs' as defined in paragraph 9 of AASB 139. This amendment removed an inconsistency for costs incurred in originating financial assets and liabilities that should be deferred and recognised as an adjustment to the underlying effective interest rate. 'Direct costs', as previously defined, did not require such costs to be incremental.

(ii) *Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of AASB 9*

If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of AASB 9, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in AASB 139), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope of AASB 9 are accounted for as derivatives and measured at fair value.

(iii) *Origination fees received on issuing financial liabilities measured at amortised cost*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as at fair value through profit or loss, the origination fees received are included, with the related transaction costs (as defined in AASB 139) incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

(b) *Fees earned as services are provided*

(i) ...

(ii) *Commitment fees to originate a loan when the loan commitment is outside the scope of AASB 9*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of AASB 9, the commitment fee is recognised as revenue on a time proportion basis over the commitment period. Loan commitments that are within the scope of AASB 9 are accounted for as derivatives and measured at fair value.

(iii) …

Amendments to AASB 120

28 Paragraph 10A is amended to read as follows and paragraph 44 is added:

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with AASB 9 *Financial Instruments*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with AASB 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

44 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 10A. An entity shall apply that amendment when it applies AASB 9 as issued in December 2010.

Amendments to AASB 121

29 Paragraphs 3(a), 4 and 52(a) are amended to read as follows, paragraph 60C is deleted and paragraph 60E is added:

3 This Standard shall be applied:[1]

(a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of AASB 9 *Financial Instruments*;

(b) …

---

1 See also Interpretation 107 *Introduction of the Euro*, as identified in AASB 1048 *Interpretation of Standards*.

4 AASB 9 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of AASB 9 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

52 An entity shall disclose:

(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with AASB 9; and

(b) …

60C [Deleted by the IASB]

60E AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 3(a), 4 and 52(a) and deleted paragraph 60C. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 127

30-31 [Deleted – see early application Appendix]

Amendments to AASB 128

32 [Deleted – see early application Appendix]

Amendments to AASB 131

33 [Deleted – see early application Appendix]

Amendments to AASB 132

34 Paragraphs 3, 4, 12, 23, 31, 42 and 96C are amended to read as follows, paragraph 97F is deleted and paragraph 97H is added:

3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial

liabilities in AASB 9 *Financial Instruments*, and for disclosing information about them in AASB 7 *Financial Instruments: Disclosures*.

Scope

4 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*. However, in some cases, AASB 127 or AASB 128 permits an entity to account for an interest in a subsidiary, associate or joint venture using AASB 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures;

(b) …

(d) insurance contracts as defined in AASB 4 *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if AASB 9 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies AASB 9 in recognising and measuring the contracts, but shall apply AASB 4 if the issuer elects, in accordance with paragraph 4(d) of AASB 4, to apply AASB 4 in recognising and measuring them;

(e) financial instruments that are within the scope of AASB 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15-32 and AG25-AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see AASB 9); and

12 The following terms are defined in Appendix A of AASB 9 or paragraph 9 of AASB 139 and are used in this Standard with the meaning specified in AASB 139 and AASB 9.

(a) amortised cost of a financial asset or financial liability;

(b) derecognition;

(c) derivative;

(d) effective interest method;

(e) financial guarantee contract;

(f) financial liability at fair value through profit or loss;

(g) firm commitment;

(h) forecast transaction;

(i) hedge effectiveness;

(j) hedged item;

(k) hedging instrument;

(l) held for trading;

(m) regular way purchase or sale; and

(n) transaction costs.

23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured in accordance with AASB 9. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).

31 AASB 9 deals with the measurement of financial assets and financial liabilities. Equity instruments …

42 …

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see AASB 9, paragraph 3.2.22).

96C The classification of instruments under this exception shall be restricted to the accounting for such an instrument under AASB 101, AASB 132, AASB 139, AASB 7 and AASB 9. The instrument shall not be considered an equity instrument under other guidance, for example AASB 2.

97F [Deleted by the IASB]

97H AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 3, 4, 12, 23, 31, 42, 96C, AG2 and AG30 and deleted paragraph 97F. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

35 In the Appendix, paragraphs AG2 and AG30 are amended to read as follows:

AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in AASB 9.

AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. AASB 9 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.

36 Paragraph IE1 is amended to read as follows:

IE1 The following examples[1] illustrate the application of paragraphs 15-27 and AASB 9 to the accounting for contracts on an entity's own equity instruments (other than the financial instruments specified in paragraphs 16A and 16B or paragraphs 16C and 16D).

---

1 In these examples, monetary amounts are denominated in 'currency units' (CU).

37 In the example in paragraph IE5, the caption below the first journal entry is amended to read as follows:

To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see AASB 9, paragraph B5.1.1).

Amendments to AASB 136

38 Paragraphs 2(e) and 5 are amended to read as follows, paragraph 140F is deleted and paragraph 140G is added:

2 ...

(e) financial assets that are within the scope of AASB 9 *Financial Instruments*;

(f) …

5 This Standard does not apply to financial assets within the scope of AASB 9, investment property measured at fair value within the scope of AASB 140, or biological assets related to agricultural activity measured at fair value less costs to sell within the scope of AASB 141. However, ...

140F [Deleted by the IASB]

140G AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 2(e) and 5 and deleted paragraph 140F. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to AASB 137

39 Paragraph 2 is amended to read as follows and paragraph 97 is added:

> 2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of AASB 9 *Financial Instruments*.
>
> 97 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 2. An entity shall apply that amendment when it applies AASB 9 as issued in December 2010.

40 Example 9 is amended to read as follows:

> On 31 December 1999, Entity A gives a guarantee of certain borrowings of Entity B, whose financial condition at that time is sound. During 2000, the financial condition of Entity B deteriorates and at 30 June 2000 Entity B files for protection from its creditors.
>
> This contract meets the definition of an insurance contract in AASB 4 *Insurance Contracts*, but is within the scope of AASB 9 *Financial Instruments*, because it also meets the definition of a financial guarantee contract in AASB 9. If an issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either AASB 4 or AASB 9 to such financial guarantee contracts. AASB 4 permits the issuer to continue its existing accounting policies for insurance contracts if specified minimum requirements are satisfied. AASB 4 also permits changes in accounting policies that meet specified criteria. The following is an example of an accounting policy that AASB 4 permits and that also complies with the requirements in AASB 9 for financial guarantee contracts within the scope of AASB 9.
>
> ...

Amendments to AASB 139

41 Paragraph 1 is deleted.

42 Paragraphs 2 and 4 are amended to read as follows:

> **2 This Standard shall be applied by all entities to all types of financial instruments except:**

(a) ...

(b) rights and obligations under leases to which AASB 117 *Leases* applies. However:

(i) lease receivables recognised by a lessor are subject to the derecognition and impairment provisions of this Standard;

(ii) finance lease payables recognised by a lessee are subject to the derecognition provisions of this Standard; and

(iii) derivatives that are embedded in leases are subject to the embedded derivatives provisions of this Standard;

(c) …

(e) rights and obligations arising under (i) an insurance contract as defined in AASB 4 *Insurance Contracts,* other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in Appendix A of AASB 9, or (ii) a contract that is within the scope of AASB 4 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of AASB 4 if the derivative is not itself a contract within the scope of AASB 4. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or AASB 4 to such financial guarantee contracts (see paragraphs AG4 and AG4A). The issuer may make that election contract by contract, but the election for each contract is irrevocable;

(f) …

(h) loan commitments other than those loan commitments described in paragraph 4. An issuer of loan commitments shall apply AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to loan commitments that are not within the scope of this Standard. However, all loan commitments are

subject to the derecognition provisions of this Standard;

(i) financial instruments, contracts and obligations under share-based payment transactions to which AASB 2 *Share-based Payment* applies, except for contracts within the scope of paragraphs 5-7 of this Standard, to which this Standard applies; and

(j) …

4 The following loan commitments are within the scope of this Standard:

(a) loan commitments that the entity designates as financial liabilities at fair value through profit or loss (see paragraph 4.2.2 of AASB 9). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class;

(b) …

(c) commitments to provide a loan at a below market interest rate (see paragraph 4.2.1 of AASB 9).

43 Paragraph 8 is amended to read as follows:

8 The terms defined in AASB 9 and AASB 132 are used in this Standard with the meanings specified in Appendix A of AASB 9 and paragraph 11 of AASB 132. AASB 9 and AASB 132 define the following terms:

(a) derecognition;

(b) derivative;

(c) equity instrument;

(d) fair value;

(e) financial asset;

(f) financial guarantee contract;

(g) financial instrument; and

(h) financial liability;

and provide guidance on applying those definitions.

44 In paragraph 9, the titles and definitions for 'Definition of a Derivative', 'Definitions of Four Categories of Financial Instruments' and 'Definition of a Financial Guarantee Contract' are deleted. In 'Definitions Relating to Recognition and Measurement', the definitions 'Derecognition', 'Fair value' and 'A regular way purchase or sale' are deleted.

45 Paragraphs 10-57 are deleted.

46 Paragraphs 61 and 66-70 and the headings above paragraphs 63, 66 and 67 are deleted.

47 The heading 'Impairment and uncollectibility of financial assets' above paragraph 58, and paragraphs 58 and 63 are amended to read as follows:

Impairment and uncollectibility of financial assets measured at amortised cost

58 An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.

63 If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as …

48 Paragraph 79 is deleted and paragraphs 88(d), 89(b), 90 and 96(c) are amended to read as follows:

88 A hedging relationship qualifies for hedge accounting under paragraphs 89-102 if, and only if, all the following conditions are met.

(a) ...

(d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the

fair value of the hedging instrument can be reliably measured.

(e) …

Fair value hedges

89 If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:

(a) …

(b) the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost.

90 If only particular risks attributable to a hedged item are hedged, recognised changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 5.7.1 of AASB 9.

96 More specifically, a cash flow hedge is accounted for as follows:

(a) …

(c) if an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 74, 75 and 88(a)), that excluded component of gain or loss is recognised in accordance with paragraph 5.7.1 of AASB 9.

49 Paragraphs 103K, 104 and 108C are amended to read as follows, paragraphs 103H-103J, 103L, 103M and 105-105D are deleted and paragraph 103O is added:

103K AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*, issued in May 2009, amended paragraphs 2(g), 97 and 100. An entity shall apply the amendments to those paragraphs prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

103L [Deleted by the IASB]

103M [Deleted by the IASB]

103O AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 2, 4, 8, 9, 58, 63, 88(d), 89(b), 90, 96(c), 103K, 104, 108C, AG3-AG4, AG8, AG84, AG95, AG114(a) and AG118(b) and deleted paragraphs 1, 10-57, 61, 66-70, 79, 103H-103J, 103L, 103M, 105-105D, AG4B-AG4K, AG9-AG12A, AG14-AG15, AG27-AG83 and AG96. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

104 This Standard shall be applied retrospectively except as specified in paragraph 108. The opening balance of retained earnings for the earliest prior period presented and all other comparative amounts shall be adjusted as if this Standard had always been in use unless restating the information would be impracticable. If restatement is impracticable, the entity shall disclose that fact and indicate the extent to which the information was restated.

108C Paragraphs 73 and AG8 were amended by AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* issued in July 2008. Paragraph 80 was amended by AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* issued in May 2009. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application of all the amendments is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

50 In Appendix A, paragraphs AG3-AG4 are amended to read as follows.

AG3 … If the equity method is not appropriate, the entity applies this Standard and AASB 9 to that strategic investment.

AG3A This Standard and AASB 9 apply to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise under contracts within the scope of AASB 4.

AG4 Financial guarantee contracts may have various legal forms, such as…

(a) Although a financial guarantee contract meets the definition of an insurance contract in AASB 4 if the risk transferred is significant, the issuer applies this Standard and AASB 9. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard and AASB 9 or AASB 4 to such financial guarantee contracts. If this Standard and AASB 9 apply, paragraph 5.1.1 of AASB 9 requires the issuer to recognise a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through profit or loss or unless paragraphs 3.2.15-3.2.23 and B3.2.12-B3.2.17 of AASB 9 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

(i) the amount determined in accordance with AASB 137; and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with AASB 118 (see paragraph 4.2.1(c) of AASB 9).

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in AASB 9, and are not insurance contracts as defined in AASB 4. Such guarantees are derivatives and the issuer applies this Standard and AASB 9 to them.

(c) ...

51 In Appendix A, paragraphs AG4B-AG4K, AG9-AG12A and AG14-AG15 are deleted and paragraph AG8 is amended to read as follows:

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense.

52 In Appendix A, paragraphs AG27-AG83 are deleted.

53 In Appendix A, the heading 'Impairment and uncollectibility of financial assets (paragraphs 58-70)' above paragraph AG84 and paragraph AG84 are amended to read as follows:

Impairment and uncollectibility of financial assets measured at amortised cost (paragraphs 58-65)

AG84 Impairment of a financial asset measured at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost. If the terms of a financial asset measured at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a financial asset measured at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset measured at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

54 In Appendix A, paragraph AG96 and the first footnote to paragraph AG118(b) are deleted and paragraphs AG95, AG114(a) and AG118(b) are amended to read as follows:

AG95 A financial asset measured at amortised cost may be designated as a hedging instrument in a hedge of foreign currency risk.

AG96 [Deleted by the IASB]

AG114 For a fair value hedge of interest rate risk associated with a portfolio of financial assets or financial liabilities, an entity would meet the requirements of this Standard if it complies with the procedures set out in (a)-(i) and paragraphs AG115-AG132 below.

(a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios, in which case it applies the guidance below to each portfolio separately.

(b) …

AG118 As an example of the designation set out …

(a) …

(b) items that could have qualified for fair value hedge accounting if they had been designated as hedged individually. In particular, because AASB 9 specifies that the fair value of a financial liability with a demand feature (such as ...

55 The heading above paragraph AG133 is amended to read as follows:

Transition (paragraphs 103-108C)

Amendments to AASB 1023

56 In paragraphs 2.3.2, 2.4.4, 15.2, 15.5, 15.5.1 15.5.2 and 16.1, and in paragraphs 17, 18 and 19 of the Appendix, the references to 'AASB 139' are replaced with 'AASB 9'.

57 Paragraphs 2.2(f), 2.3.1, 15.2.1, 15.2.2, 16.1.1 and 19.1 are amended, paragraph 18.4 is deleted and paragraphs 16.1.2, 16.1.3 and 18.5 are added as follows:

2.2 This Standard does not apply to:

(a) ...

(f) *financial guarantee contracts* unless ... the issuer may elect to apply either AASB 9 *Financial Instruments,* AASB 132 *Financial Instruments: Presentation* and AASB 7 *Financial Instruments: Disclosures* or this Standard to such financial guarantee contracts. ...

(g) ...

2.3.1 AASB 9 *Financial Instruments* requires hybrid contracts that contain financial asset hosts to be classified and measured in their entirety in accordance with the requirements in paragraphs 4.1.1-4.1.5 of that Standard. However, AASB ~~13~~9 requires an entity to separate some embedded derivatives from their financial liability hosts~~ contract~~, measure them at *fair value* and include changes in their fair value in the statement of comprehensive income. AASB ~~13~~9 applies to derivatives embedded in a general insurance contract unless the embedded derivative is itself a general insurance contract.

15.2.1 An insurer applies AASB ~~13~~9 to its financial assets. Under AASB ~~13~~9 a financial asset is classified and measured at fair value through profit or loss when ~~is a financial asset that meets either of the following conditions~~:

(a) it does not meet the criteria specified in paragraph 4.1.2 of AASB 9 to be ~~is~~ classified ~~as held for trading~~ at amortised cost; or

(b) it is designated as "at fair value through profit or loss" upon initial recognition in accordance with paragraph 4.1.5 of AASB 9. ~~An entity may use this designation when it is a contract with an embedded derivative and paragraph 11A of AASB 139 allows the entity to measure the contract as "at fair value through profit or loss"; or when doing so results in more relevant information, because either:~~

~~(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to~~

~~as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or~~

~~(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors and chief executive officer.~~

…

15.2.2 The view adopted in this Standard is that financial assets, within the scope of AASB ~~1~~39 that back general insurance liabilities, are permitted to be measured at fair value through profit or loss under AASB ~~1~~39. This is because the measurement of general insurance liabilities under this Standard incorporates current information and measuring the financial assets backing these general insurance liabilities at fair value, eliminates or significantly reduces a potential measurement inconsistency which would arise if the assets were classified ~~as available for sale or~~ and measured at amortised cost.

16.1.1 In relation to non-insurance contracts regulated under the Insurance Act, an insurer applies AASB ~~1~~39 to its financial assets and financial liabilities. ~~Under AASB 139 a financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions:~~

~~(a) it is classified as held for trading; or~~

~~(b) it is designated as "at fair value through profit or loss" upon initial recognition. An entity may use this designation when it is a contract with an embedded derivative and paragraph 11A of AASB 139 allows the entity to measure the contract as "at fair value through profit or loss"; or when doing so results in more relevant information, because either:~~

~~(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to~~

~~as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or~~

~~(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors and chief executive officer.~~

~~AASB 1 *First-time Adoption of Australian Accounting Standards* permits entities to designate financial assets and financial liabilities as "at fair value through profit or loss" on first application of the Standard.~~

16.1.2 Under AASB 9 a financial asset is classified and measured at fair value through profit or loss when:

(a) it does not meet the criteria specified in paragraph 4.1.2 of AASB 9 to be classified at amortised cost; or

(b) it is designated as "at fair value through profit or loss" upon initial recognition in accordance with paragraph 4.1.5 of AASB 9.

AASB 1 *First-time Adoption of Australian Accounting Standards* permits entities to designate financial assets as "at fair value through profit or loss" on first application of the Standard.

16.1.3 Under AASB 9 a financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions:

(a) it meets the definition of held for trading; or

(b) it is designated as "at fair value through profit or loss" upon initial recognition in accordance with paragraph 4.2.2, because either:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors and chief executive officer.

An entity may also use this designation when it is a contract with an embedded derivative and paragraph 4.3.3 of AASB 9 allows the entity to measure the hybrid contract as "at fair value through profit or loss".

AASB 1 *First-time Adoption of Australian Accounting Standards* permits entities to designate financial liabilities as "at fair value through profit or loss" on first application of the Standard.

18.4 [Deleted by the AASB]

18.5 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 2.2(f), 2.3.1, 2.3.2, 2.4.4, 15.2, 15.2.1, 15.2.2, 15.5, 15.5.1, 15.5.2, 16.1, 16.1.1 and 19.1, and paragraphs 17, 18 and 19 in the Appendix to AASB 1023 and added paragraphs 16.1.2 and 16.1.3. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

19.1 In this Standard:

...

***deposit component* means a contractual component that is not accounted for as a derivative under AASB 9 *Financial Instruments* and would be within the scope of AASB 9 if it were a separate instrument**

...

Amendments to AASB 1038

58 In paragraphs 2.2.2, 10.2, 10.5, 10.5.1, 10.6, 10.6.1, 10.7, 10.7.1, 10.7.2, 12.1, 12.1.1, 12.1.2, 17.5.4 and 17.5.5, and paragraphs 16 and 17 in the Appendix, the references to 'AASB 139' are replaced with 'AASB 9'.

59 Paragraphs 2.2.1, 10.2.1 and 10.2.2 and 20.1 are amended, paragraph 19.4 is deleted and paragraph 19.5 is added as follows:

2.2.1 AASB 9 *Financial Instruments* requires hybrid contracts that contain financial asset hosts to be classified and measured in their entirety in accordance with the requirements in paragraphs 4.1.1-4.1.5 of that Standard. However, AASB ~~13~~9 ~~*Financial Instruments: Recognition and Measurement*~~ requires an entity to separate some embedded derivatives from their financial liability hosts~~ contract~~, measure them at *fair value* and include changes in their fair value in the statement of comprehensive income. AASB ~~13~~9 applies to derivatives embedded in a life insurance contract unless the embedded derivative is itself a life insurance contract.

10.2.1 An insurer applies AASB ~~13~~9 to its financial assets. Under AASB ~~13~~9 a financial asset is classified and measured at fair value through profit or loss when~~ is a financial asset that meets either of the following conditions~~:

(a) it ~~is classified as held for trading~~ does not meet the criteria specified in paragraph 4.1.2 of AASB 9 to be classified at amortised cost; or

(b) it is designated as "at fair value through profit or loss" upon initial recognition in accordance with paragraph 4.1.5 of AASB 9.~~ An entity may use this designation when it is a contract with an embedded derivative and paragraph 11A of AASB 139 allows the entity to measure the contract as "at fair value through profit or loss"; or when doing so results in more relevant information, because either:~~

~~(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or~~

~~(ii) a group of financial assets, *financial liabilities* or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors and chief executive officer.~~

AASB 1 *First-time Adoption of Australian Accounting Standards* permits entities to designate financial assets as "at fair value through profit or loss" on first application of the Standard.

10.2.2 The view adopted in this Standard is that, in all but rare cases, financial assets within the scope of AASB ~~13~~9 that back life insurance liabilities or life investment contract liabilities are permitted to be measured at fair value through profit or loss under AASB ~~13~~9. This is because the measurement of life insurance liabilities under this Standard incorporates current information and measuring the financial assets backing these life insurance liabilities at fair value eliminates or significantly reduces a potential measurement inconsistency which would arise if the assets were classified ~~as available for sale or~~ and measured at amortised cost. ~~In addition, under AASB 139, a group of financial assets may be designated as at fair value through profit or loss where it is both managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. In the vast majority of cases, financial assets backing life investment contract liabilities and financial assets backing life insurance liabilities would be managed and their performance would be evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.~~

19.4 [Deleted by the AASB]

19.5 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 2.2.1, 2.2.2, 10.2, 10.2.1, 10.2.2, 10.5, 10.5.1, 10.6, 10.6.1, 10.7, 10.7.1, 10.7.2, 12.1, 12.1.1, 12.1.2, 17.5.4, 17.5.5 and 20.1 and paragraphs 16 and 17 in the Appendix. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

20.1 In this Standard:

...

deposit component **means a contractual component that is not accounted for as a derivative under AASB ~~139~~** ***Financial Instruments~~: Recognition and Measurement~~*** **and would be within the scope of AASB ~~139~~** ***Financial Instruments~~: Recognition and Measurement~~*** **if it were a separate instrument**

...

Amendments to Interpretation 2

60 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added.

61 Paragraph 15 is added:

15 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs A8 and A10. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

62 In the Appendix, paragraph A10 is amended to read as follows:

A10 Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 per cent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on 1 January 20x3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 5.4.3 of AASB 9. It therefore transfers on 1 January 20x3 from equity to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity. In this example the entity does not recognise a gain or loss on the transfer.

Amendments to Interpretation 5

63 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added.

64 Paragraph 5 is amended to read as follows and paragraph 14A is added:

5 A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of AASB 9 and is not within the scope of this Interpretation.

14A AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraph 5. An entity shall apply that amendment when it applies AASB 9 as issued in December 2010.

Amendments to Interpretation 10

65 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added.

66 Paragraphs 5, 6 and 11 are deleted, paragraphs 1, 2, 7 and 8 are amended to read as follows and paragraph 12 is added:

1 An entity is required to assess goodwill for impairment at the end of each reporting period, and, if required, to recognise an impairment loss at that date in accordance with AASB 136 *Impairment of Assets*. However, …

2 The Interpretation addresses the interaction between the requirements of AASB 134 *Interim Financial Reporting* and the recognition of impairment losses on goodwill in AASB 136, and the effect of that interaction on subsequent interim and annual financial statements.

7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

Consensus

8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

11 [Deleted by the IASB]

12 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5, 6 and 11. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to Interpretation 12

67 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added.

68 Paragraphs 23-25 are amended to read as follows, paragraph 28A is deleted and paragraph 28B is added:

23 AASB 132 *Financial Instruments: Presentation* and AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* apply to the financial asset recognised under paragraphs 16 and 18.

24 The amount due from or at the direction of the grantor is accounted for in accordance with AASB 9 as:

(a) at amortised cost; or

(b) measured at fair value through profit or loss.

25 If the amount due from the grantor is accounted for at amortised cost, AASB 9 requires interest calculated using the effective interest method to be recognised in profit or loss.

28A [Deleted by the IASB]

28B AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 23-25 and deleted paragraph 28A. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

69 Paragraphs IE7 and IE28 are amended to read as follows:

IE7 AASB 9 *Financial Instruments* may require the entity to measure the amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss. If the receivable is measured at amortised cost in accordance with AASB 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.

IE28 AASB 9 *Financial Instruments* may require the entity to measure the amount due from or at the direction of the grantor in exchange for the construction services at amortised cost. If the receivable is measured at amortised cost in accordance with AASB 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.

Amendments to Interpretation 19

70 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added.

71 Paragraphs 4(a), 5, 9 and 10 are amended to read as follows and paragraph 14 is added:

4 This Interpretation addresses the following issues:

(a) Are an entity's equity instruments issued to extinguish all or part of a financial liability 'consideration paid' in accordance with paragraph 3.3.3 of AASB 9?

(b) …

Consensus

5 The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 3.3.3 of AASB 9. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 3.3.1 of AASB 9.

9 The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 3.3.3 of AASB 9. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.

10 When only part of the financial liability is extinguished, consideration shall be allocated in accordance with paragraph 8. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 3.3.2 of AASB 9.

14 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, issued in December 2010, amended paragraphs 4(a), 5, 7, 9 and 10. An entity shall apply those amendments when it applies AASB 9 as issued in December 2010.

Amendments to Interpretation 127

72 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added.

73 In the Consensus, paragraph 7 is amended to read as follows:

7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, AASB 1023 *General Insurance Contracts* or AASB 9 *Financial Instruments*, depending on the terms.

74 Paragraphs 14 and 15 are amended to read as follows:

14 When an entity ... A financial asset and a financial liability, or a portion of either, are derecognised only when the requirements of paragraphs 3.2.1-3.2.23, 3.3.1-3.3.4, B3.2.1-B3.2.17 and B3.3.1-B3.3.7 of AASB 9 are met.

15 AASB 1023 provides guidance for recognising and measuring financial guarantees and similar instruments that provide for payments to be made if the debtor fails to make payments when due, if that contract transfers significant insurance risk to the issuer. Financial guarantee contracts that provide for payments to be made in response to changes in relation to a variable (sometimes referred to as an 'underlying') are subject to AASB 139.[1]

1 In December 2009 and December 2010 the AASB issued amendments to some of the requirements of AASB 139 and relocated them to AASB 9 *Financial Instruments*. AASB 9 applies to all items within the scope of AASB 139.

APPENDIX

EARLY APPLICATION

This appendix is an integral part of this Standard.

A1 Australian Accounting Standards AASB 9 *Financial Instruments* (December 2010) and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* may be applied early to annual reporting periods beginning before 1 January 2015 from:

(a) any date between 6 and 31 December 2010, for entities initially applying the Standards before 1 January 2011; or

(b) the beginning of the first reporting period in which the entity adopts the Standards, for entities initially applying the Standards on or after 1 January 2011.

Amendments to AASB 127, AASB 128 and AASB 131

A2 If AASB 9 (December 2010) and AASB 2010-7 are applied early to annual reporting periods that begin before 1 January 2013, AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures* are applicable, provided that AASB 10 *Consolidated Financial Statements* and the other Standards that supersede those Standards for periods beginning on or after 1 January 2013 are not also applied early to such periods.

A3 In the circumstances set out in paragraph A2, versions of AASB 127, AASB 128 and AASB 131 are amended as originally set out in paragraphs 30-33 of AASB 2010-7 (as issued in December 2010).

A4 If AASB 13 *Fair Value Measurement* is also applied in the circumstances set out in paragraph A2, paragraph 1 of versions of AASB 128 and AASB 131 is amended by deleting the sentence ‘An entity shall measure such investments at fair value through profit or loss in accordance with AASB 9.’