AASB Exposure Draft

ED 207
December 2010

Amendments to AASB 7: Tier 2

Comments to AASB by 28 February 2011

Australian Government

Australian Accounting Standards Board

Commenting on this Tier 2 AASB Exposure Draft

Comments on this Tier 2 AASB Exposure Draft ED 207 are requested by 28 February 2011. Comments should be addressed to:

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

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

Obtaining a Copy of this Tier 2 AASB Exposure Draft

This Tier 2 AASB Exposure Draft ED 207 is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Supplement are available by contacting:

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

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

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aasb.gov.au

ISSN 1030-5882

AASB REQUEST FOR COMMENTS

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

In June 2010, the AASB issued AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*, which made amendments to AASB 7 *Financial Instruments: Disclosures* for the Tier 2 requirements, based on classification and measurement for financial assets under AASB 9 (issued in November 2009) and financial liabilities under AASB 139 *Financial Instruments: Recognition and Measurement*.

This Tier 2 ED 207 relates to:

(a) amendments to AASB 7 arising from the revised AASB 9 *Financial Instruments* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*, as at December 2010, which incorporate aspects of financial liabilities classification, measurement and presentation amendments to financial liabilities designated at fair value. AASB 9 and AASB 2010-7 apply mandatorily to annual periods beginning on or after 1 January 2013;

(b) amendments to AASB 7 arising from AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*, issued in November 2010, relating to additional disclosures on transfers of financial assets. AASB 2010-6 applies mandatorily to annual periods beginning on or after 1 July 2011; and

(c) consequential amendments to AASB 101 *Presentation of Financial Statements* relating to line items to be shown on the face of the financial statements;

and includes proposals on the disclosure requirements that could be included in the Tier 2 reporting requirements.

Due Date for Comments to the AASB

Comments on this Tier 2 ED 207 should be submitted to the AASB by 28 February 2011.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether you agree with the AASB disclosure proposals for Tier 2 set out in the attached analysis as underlined text, in particular:
   (a) paragraphs 10, 11, 20(a)(i), 42A, 42B, 42C, 42D, 42E, 42F, 42G, 42H, B1, B5, B10(a), B22, B27, B29, B32, B33, B34, B35, B36, B37, B38 and B39 of AASB 7; and
   (b) paragraphs 82(aa) and 82(ca) of AASB 101;
2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
   (i) not-for-profit entities; and
   (ii) public sector entities;
3. whether, overall, the proposals would result in financial statements that would be useful to users;
4. whether the proposals are in the best interests of the Australian economy; and
5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

ANALYSIS OF PROPOSED DISCLOSURES

This Tier 2 ED 207 is relevant for those entities that are planning to adopt the requirements in AASB 9, and proposes to exempt Tier 2 entities from making certain disclosures in their general purpose financial statements.

All disclosure requirements under AASB 7 are included in this ED—that is, the existing AASB 7 disclosures as amended or added to by AASB 2010-6 (issued in November 2010), the revised AASB 9 and AASB 2010-7 (issued in December 2010). This ED also includes paragraph 82 of AASB 101, as a result of amendments to other Standards under AASB 2010-7.

Paragraphs 10, 11, 20(a)(i), 42A, 42B, 42C, 42D, 42E, 42F, 42G, 42H, B1, B5, B10(a), B22, B27, B29, B32, B33, B34, B35, B36, B37, B38 and B39 relate to the amendments and additions to AASB 7 and are underlined. Paragraphs 82(aa) and 82(ca) of AASB 101 are also underlined. Comment is requested on the underlined text.

Text that is not underlined relates to the AASB's previous decisions on Tier 2 disclosure requirements (issued in June 2010).

Determining Tier 2 Disclosure

In determining the proposed reduced disclosure requirements, consideration has been given to the principles that were applied in analysing full International Financial Reporting Standards (IFRSs) as adopted in Australia when the reduced disclosure requirements were first established for Tier 2 entities. The principles for determining Tier 2 disclosure requirements ('Tier 2 Disclosure Principles') are as follows:

(a) drawing directly on the *International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs)* when the Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and

(b) using the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when the Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

Further explanation of the above principles is provided on the AASB website[1]. Because the distinction between principles (a) and (b) above depends on whether there are differences in recognition and measurement requirements under Tier 2 and the *IFRS for SMEs*, the differences pertinent to this exposure draft are identified below.

1 See www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements/Tier-2-Disclosure-Principles.aspx.

Comparison of AASB 7 (based on AASB 2010-6, revised AASB 9 and AASB 2010-7) and Sections 11 and 12 of *IFRS for SMEs*

Sections 11 and 12 of the *IFRS for SMEs* differ from AASB 2010-6, revised AASB 9 and AASB 2010-7 with respect to classification and measurement in the following ways:

(i) *Classification of financial assets and financial liabilities*

Under both AASB 9 and the *IFRS for SMEs*, financial instruments that meet specified criteria are measured at cost or amortised cost, and all others are measured at fair value through profit or loss. The election to present certain components of fair value changes for some equity instruments, and the requirement to present certain components of fair value changes in financial liabilities measured using the fair value option, through other comprehensive income (OCI) are not available in the *IFRS for SMEs*. The associated disclosures relating to the classification/presentation of certain components of fair value change in OCI are considered to relate to recognition and measurement differences between AASB 9 and the *IFRS for SMEs*, given that the change in classification/presentation can have direct consequences for measurement.

(ii) *Embedded derivatives*

Hybrid contracts under AASB 9 where the host is a financial asset are accounted for in their entirety, whereas, embedded derivatives within other hybrid contracts under AASB 9 are accounted for separately from the host contract. The *IFRS for SMEs* does not require separate accounting for embedded derivatives across all financial instruments, including non-financial contracts that contain an embedded derivative with economic characteristics not closely related to the host contract. Associated disclosures relating to embedded derivatives are considered to relate to recognition and measurement differences between AASB 9 and the *IFRS for SMEs* in the case of hybrid contracts other than where the host is a financial asset.

Tier 2 Disclosure Proposals

The following table sets out the additional disclosures that are proposed to be exempted from the Tier 2 entities reporting requirements.

Amending standards	Issued	Proposed exemptions
AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*	November 2010	• Paragraphs 42A, 42B(b), 42C, 42D(c), 42D(d), 42D(e), 42E, 42F, 42G, 42H, B29, B33, B34, B35, B36, B37, B38 and B39 of AASB 7; and • The words '… the total carrying amount of the original asset before the transfer' in paragraph 42D(f) of AASB 7.
AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*	December 2010	• Paragraphs 10(b), 11, B1, B10, B22, B27, of AASB 7; and • Paragraph 82(aa) of AASB 101.

An analysis of the proposed disclosure requirements is available on the AASB website[2].

2 See www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements/Analyses-of-Disclosure-Requirements.aspx.

Proposed Reduced Disclosure Requirements

The following are the disclosure requirements set out in AASB 7 as amended or added to by AASB 2010-6 (November 2010) and AASB 2010-7 (December 2010), showing, where relevant, requirements from which it is proposed entities applying Tier 2 requirements should be exempt as shaded text.

AASB 7 *Financial Instruments: Disclosures*

Classes of Financial Instruments and Level of Disclosure

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

Significance of Financial Instruments for Financial Position and Performance

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

Statement of financial position
Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as 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) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or

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

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

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

Reclassification

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.

Derecognition

13 [Deleted by the IASB]

Collateral

14 An entity shall disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 3.2.23(a) of AASB 9; and
(b) the terms and conditions relating to its pledge.

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

(a) the fair value of the collateral held;
(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
(c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

16 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

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

Defaults and breaches

18 For *loans payable* recognised at the reporting date, an entity shall disclose:
- (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
- (b) the carrying amount of the loans payable in default at the end of the reporting period; and
- (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

RDR18.1 For *loans payable* recognised at the end of the reporting period for which there is a breach of terms or default of principal, interest, sinking fund, or redemption terms that has not been remedied by the end of the reporting period, an entity applying Australian Accounting Standards – Reduced Disclosure Requirements shall disclose the following:
- (a) details of that breach or default;
- (b) the carrying amount of the related loans payable at the end of the reporting period; and
- (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

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

Statement of comprehensive income
Items of income, expense, gains or losses

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
  - (i) financial assets or financial liabilities 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 that are mandatorily measured at fair value in accordance with AASB 9 (e.g. 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) the amount of any impairment loss for each class of financial asset.

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.

Other disclosures
Accounting policies

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

Hedge accounting

22 An entity shall disclose the following separately for each type of hedge described in AASB 139 (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):
(a) a description of each type of hedge;
(b) a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
(c) the nature of the risks being hedged.

23 For cash flow hedges, an entity shall disclose:
(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
(c) the amount that was recognised in other comprehensive income during the period;
(d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and
(e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

24 An entity shall disclose separately:
(a) in fair value hedges, gains or losses:
(i) on the hedging instrument; and
(ii) on the hedged item attributable to the hedged risk;
(b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and
(c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

Fair value

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

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

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

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

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

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.
(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.
(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
    (i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);
    (ii) total gains or losses recognised in other comprehensive income;
    (iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
    (iv) transfers into or out of Level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

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

28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs B5.4.6-B5.4.12 of AASB 9). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless conditions described in paragraph B5.4.8 of AASB 9 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

(a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph B5.4.9 of AASB 9); and
(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

29 Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables; or
(b) [deleted by the IASB]
(c) for a contract containing a discretionary participation feature (as described in AASB 4) if the fair value of that feature cannot be measured reliably.

30 In the cases described in paragraph 29(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) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
(b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
(c) information about the market for the instruments;
(d) information about whether and how the entity intends to dispose of the financial instruments; and
(e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Nature and Extent of Risks Arising from Financial Instruments

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

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

32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity’s exposures to risks.

Qualitative disclosures

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

(a) the exposures to risk and how they arise;
(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
(c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

34 For each type of risk arising from financial instruments, an entity shall disclose:
(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in AASB 124 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer;
(b) the disclosures required by paragraphs 36-42, to the extent not provided in accordance with (a); and
(c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

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

Credit risk

36 An entity shall disclose by class of financial instrument:
(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with AASB 132); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk;
(b) a description of collateral held as security and of other credit enhancements, and their financial effect (e.g. a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument); and
(c) information about the credit quality of financial assets that are neither past due nor impaired.
(d) [deleted by the IASB]

Financial assets that are either past due or impaired

37 An entity shall disclose by class of financial asset:
(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and
(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired.
(c) [deleted by the IASB]

Collateral and other credit enhancements obtained

38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Australian Accounting Standards, an entity shall disclose for such assets held at the reporting date:
(a) the nature and carrying amount of the assets; and
(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

39 An entity shall disclose:
(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

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

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

Market risk
Sensitivity analysis

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

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

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

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

41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:

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

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

Other market risk disclosures

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

Transfers of financial assets

42A The disclosure requirements in paragraphs 42B-42H relating to transfers of financial assets supplement the other disclosure requirements of this Standard. An entity shall present the disclosures required by paragraphs 42B-42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset), if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of that financial asset; or

(b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

42B An entity shall disclose information that enables users of its financial statements:

(a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and

(b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

42C For the purposes of applying the disclosure requirements in paragraphs 42E-42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 42E-42H, the following do not constitute continuing involvement:

(a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

(b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

(c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 19(a)-(c) of AASB 139 are met.

Transferred financial assets that are not derecognised in their entirety

42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

(a) the nature of the transferred assets;

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

(c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets;

(d) when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities);

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

(f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 20(c)(ii) and 30 of AASB 139), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Transferred financial assets that are derecognised in their entirety

42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 20(a) and (c)(i) of AASB 139) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

(a) the carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised;

(b) the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;

(c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined;

(d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (e.g. the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date;

(e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement; and

(f) qualitative information that explains and supports the quantitative disclosures required in (a)-(e).

42F An entity may aggregate the information required by paragraph 42E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognised financial asset, and report it under one type of continuing involvement.

42G In addition, an entity shall disclose for each type of continuing involvement:

(a) the gain or loss recognised at the date of transfer of the assets;

(b) income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (e.g. fair value changes in derivative instruments);

(c) if the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (e.g. if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

(i) when the greatest transfer activity took place within that reporting period (e.g. the last five days before the end of the reporting period);

(ii) the amount (e.g. related gains or losses) recognised from transfer activity in that part of the reporting period; and

(iii) the total amount of proceeds from transfer activity in that part of the reporting period. An entity shall provide this information for each period for which a statement of comprehensive income is presented.

Supplementary information

42H An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph 42B.

Appendix B
Application guidance

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 (e.g. debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (e.g. 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).

…

Continuing involvement (paragraph 42C)

B29 The assessment of continuing involvement in a transferred financial asset for the purposes of the disclosure requirements in paragraphs 42E-42H is made at the level of the reporting entity. For example, if a subsidiary transfers to an unrelated third party a financial asset in which the parent of the subsidiary has continuing involvement, the subsidiary does not include the parent's involvement in the assessment of whether it has continuing involvement in the transferred asset in its stand-alone financial statements (i.e. when the subsidiary is the reporting entity). However, a parent would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its subsidiary in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (i.e. when the reporting entity is the group).

…

Transferred financial assets that are not derecognised in their entirety

B32 Paragraph 42D[ψ] requires disclosures when part or all of the transferred financial assets do not qualify for derecognition. Those disclosures are required at each reporting date at which the entity continues to recognise the transferred financial assets, regardless of when the transfers occurred.

Types of continuing involvement (paragraphs 42E-42H)

B33 Paragraphs 42E-42H require qualitative and quantitative disclosures for each type of continuing involvement in derecognised financial assets. An entity shall aggregate its continuing involvement into types that are representative of the entity's exposure to risks. For example, an entity may aggregate its continuing involvement by type of financial instrument (e.g. guarantees or call options) or by type of transfer (e.g. factoring of receivables, securitisations and securities lending).

Maturity analysis for undiscounted cash outflows to repurchase transferred assets (paragraph 42E(e))

B34 Paragraph 42E(e) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognised financial assets or other amounts payable to the transferee in respect of the derecognised financial assets, showing the remaining contractual maturities of the entity's continuing involvement. This analysis distinguishes cash flows that are required to be paid (e.g.

ψ RDR footnote: Where there is a cross reference to a disclosure requirement in this Standard that is shaded for Tier 2 entities, the cross reference should be treated as shaded accordingly.

forward contracts), cash flows that the entity may be required to pay (e.g. written put options) and cash flows that the entity might choose to pay (e.g. purchased call options).

B35 An entity shall use its judgement to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 42E(e). For example, an entity might determine that the following maturity time bands are appropriate:

(a) not later than one month;
(b) later than one month and not later than three months;
(c) later than three months and not later than six months;
(d) later than six months and not later than one year;
(e) later than one year and not later than three years;
(f) later than three years and not later than five years; and
(g) more than five years.

B36 If there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or is permitted to pay.

Qualitative information (paragraph 42E(f))

B37 The qualitative information required by paragraph 42E(f) includes a description of the derecognised financial assets and the nature and purpose of the continuing involvement retained after transferring those assets. It also includes a description of the risks to which an entity is exposed, including:

(a) a description of how the entity manages the risk inherent in its continuing involvement in the derecognised financial assets;
(b) whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (i.e. its continuing involvement in the asset); and
(c) a description of any triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

Gain or loss on derecognition (paragraph 42G(a))

B38 Paragraph 42G(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset (i.e. the interest in the asset derecognised and the interest retained by the entity) were different from the fair value of the previously recognised asset as a whole. In that situation, the entity also shall disclose whether the fair value measurements included significant inputs that were not based on observable market data, as described in paragraph 27A.

Supplementary information (paragraph 42H)

B39 The disclosures required in paragraphs 42D-42G may not be sufficient to meet the disclosure objectives in paragraph 42B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

Consequential amendments to AASB 101 *Presentation of Financial Statements* as a result of AASB 2010-7

82 As a minimum, the statement of comprehensive income 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) tax expense;

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of discontinued operations; and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

(f) profit or loss;

(g) each component of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.