

# TREASURY ANALYSIS - INTERNATIONAL ACCOUNTING STANDARDS

## AASB 132 “Financial Instruments: Disclosure and Presentation” replaces AAS 33 / AASB 1033

### Major impacts of changes

- *In-substance defeasance* - Prohibits offsetting a financial asset and financial liability when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation.
- *Changes to presentation and disclosure requirements with additional disclosure obligations* - including disclosing the sensitivities of fair value estimates to significant valuation assumptions.
- *Focuses on the substance rather than legal form of financial instruments* - hybrid securities may be classified as debt rather than equity.
- *Comparative information for 2004/05* - need not comply with AASB 132 (refer AASB 1). This defers the AASB 132 date of transition by 12 months to 1 July 2005, rather than 1 July 2004.

### Key features of Standard

- AASB 132 substantially replicates the requirements of AAS 33 / AASB 1033, except for the areas discussed under “main differences” below.

### Main differences compared to previous Australian requirements

- *In-substance defeasance* – Prohibits offsetting a financial asset and financial liability when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation (para 49(d)). This represents a change from AAS 23/ AASB 1014 “Set-Off and Extinguishment of Debt” which allowed debt to be accounted for as having been extinguished when it has been subject to an in-substance defeasance.
- *Transaction costs* - Requires disclosure of “fair value” information (para 86) while AAS 33/AASB 1033 required disclosure of “net fair value”.
- *Additional disclosures* – e.g.:
  - Material items of income, expense and gains and losses resulting from financial assets and financial liabilities, whether included in profit or loss or as a separate component of equity (para 94(h));
  - Information about the use of valuation techniques, including sensitivities of fair value estimates to significant valuation assumptions (para 92). Where fair value cannot be reliably measured, this must be disclosed, along with a description, carrying value, explanation why it may not be reliably measured and a range of estimates;
  - Carrying amount of financial assets and financial liabilities classified as “held for trading” and those designated by the entity upon initial recognition as financial assets and financial liabilities at fair value through profit or loss (para 94(e));
- *Liability and equity classification* – Includes additional guidance as to whether a financial instrument is a financial liability or equity instrument (paras 15-16).
- *Measurement of components of a compound financial instrument* – Requires that any asset and liability components of a compound financial instrument must be separated first and the residual is the amount of any equity component (para 31). AASB 1033 did not prescribe any particular method for assigning a carrying amount of the liability and equity components.

### Impact on the public sector

- There are no additional paragraphs included in AASB 132 for “not-for-profit entities”. That is, not-for-profit and for-profit entities are subject to identical requirements.

### Policy and Implementation issues (see attached)

#### *Mandating Options*

- *Comparative information* – For first time adoption, AASB 1 includes an exemption so that entities will not be required to restate comparative information. Treasury has mandated this option (refer TPP 06-4 and NSWTC 06/14).
- *Date of transition to AEIFRS* (AASB 1, para 36A) – For an entity that chooses to present comparative information that does not comply with AASB 132, references to the “date of transition” to AEIFRS, in the case of AASB 132, means the beginning of the first AEIFRS reporting period (i.e. 1 July 2005 for 30 June entities).

#### *Policy and guidance*

- *Additional disclosures and guidance* – Agencies will be required to collect additional information in certain areas, as discussed above. In addition, Treasury has issued some general guidance (refer TPP 06-4) and updated the example disclosures regarding financial instruments in the Financial Reporting Code for Budget Dependent General Government Sector Agencies (refer TPP 06-05).

#### *Other implementation issues*

- *In-substance defeasance* – Agencies will no longer be able to offset or extinguish financial assets and liabilities resulting from certain in-substance defeasance arrangements (see also AASB 139 Treasury Analysis).
- *Transaction costs* – Agencies will be required to exclude transaction costs from the fair value disclosures.
- *Complex financial instruments* - Agencies that have significant complex financial instruments may have additional implementation issues and may need to obtain specialist advice to further assess the impact of this Standard.
- *Disclosure relief available to a parent entity* – AASB 132 (para Aus3.5) provides relief to a parent from the Standard’s disclosure requirements. This means that disclosures need only be presented for the consolidated financial statements. However, where this relief is used, the parent will not be in compliance with IAS 32 and therefore cannot make an explicit and unreserved statement of compliance with the International Financial Reporting Standards (refer AASB 101 “Presentation of Financial Statements”, para Aus14.2).

### Recent AASB/IASB Developments

- This analysis of AASB 132 does **not** incorporate the requirements of:
  - AASB 2005-4 *Amendments to Australian Accounting Standards* related to the fair value option in AASB 139 *Financial Instruments: Recognition and Measurement* (discussed in Treasury Analysis on AASB 139).
  - AASB 7 *Financial Instruments: Disclosure* (discussed in separate Treasury Analysis on AASB 7).
  - AASB 2005-10 *Amendments to Australian Accounting Standards* related to changes arising from the release of AASB 7 (discussed in separate Treasury Analysis on AASB 7).

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES**  
**AASB 132 “FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION”**  
**TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	Mandate Options for GFS Harmonisation	Total State Sector Issues
		Mandate Option	Additional Guidance			
1	Comparative information	✓				
2	In-substance defeasance			✓		✓
3	Transaction costs – disclosure of fair value information rather than net fair value.			✓		✓
4	Additional disclosures and updated example disclosure in the Financial Reporting Code.		✓	✓		✓
5	Complex financial instruments – agencies that have significant complex financial instruments may have additional issues that may require specialist advice.			✓		✓
6	Disclosure relief available to a parent entity			✓		✓
7	AASB 1 First time adoption – compound financial instruments (para 23) i.e. need not separate the two equity components (i.e. retained earnings and cumulative interest), where the liability component is no longer outstanding at the date of transition.	✓				