

TREASURY ANALYSIS – AASB 7 & AASB 2005-10

AASB 7 *Financial Instruments: Disclosures* supersedes the disclosure requirements of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.

Major Impacts of changes

- Locates all disclosure requirements for financial instruments within one standard, replacing the disclosure requirements in AASB 132 (paras 51-95) and superseding AASB 130.
- Requires more extensive balance sheet and operating statement disclosures.
- Prescribes both quantitative and qualitative disclosures about entities' exposures to risks.
- Does not retain the relief from making parent disclosures previously available under AASB 130 and AASB 132.

Key features of the Standards

AASB 7 Financial Instruments: Disclosures

- AASB 7 applies to annual reporting periods beginning on or after 1 January 2007 but can be early adopted. Treasury is likely to mandate that AASB 7 should not be early adopted.
- The Standard substantially replicates the disclosure requirements of AASB 132 (i.e. paras 51-95) and AASB 130, except as discussed below in "main differences compared to previous Australian requirements". The presentation requirements of AASB 132 remain unchanged.
- Although AASB 7 applies to all entities, the extent of disclosures required depends on the extent of the entity's use of financial instruments and of its exposure to risk. The Standard applies to all risks arising from all financial instruments except those covered specifically by another Standard e.g. interests in subsidiaries, associates and joint ventures.
- AASB 7 incorporates changes arising from amendments to AASB 139 *Financial Instruments: Recognition and Measurement* relating to the fair value option (refer AASB 2005-4 *Amendments to Australian Accounting Standards*).

AASB 2005-10 Amendments to Australian Accounting Standards

- AASB 2005-10 makes miscellaneous consequential changes to other Standards arising from the release of AASB 7. The Standard has the same application date as AASB 7.

Main differences compared to previous Australian requirements

- AASB 7 broadens the scope of financial instruments covered under the previous AASB 132 to include financial instruments covered by AASB 130 and requires more extensive balance sheet and income statement disclosures – refer below.
- AASB 7 does not retain the relief from making parent disclosures previously available in AASB 130 (para Aus1.5) and AASB 132 (para Aus3.5). Therefore, all disclosure requirements must be made for both the parent and consolidated entity in the financial report.
- The Standard requires minimum disclosures about credit risk, liquidity risk and market risk in addition to those required under AASB 132 (AASB 7, paras 31-42). See the following examples:
 - § Qualitative information for each type of risk arising from an entity's financial instruments, including the exposures and how they arise; objectives, policies and processes for managing risk; the methods used to measure the risk; and any changes since the previous reporting period (AASB 7, para 33). AASB 132 required disclosure only of financial risk management objectives and policies.
 - § Quantitative disclosures, including summary data about exposure to each type of risk, based on information provided internally to key management personnel of the entity, as well as concentrations of risk (AASB 7, para 34).
 - Specific quantitative disclosures required for credit risk, liquidity risk and market risk include:
 - Credit risk – maximum exposure to credit risk, an analysis of financial assets that are either past due or impaired, information about the credit quality of financial assets

that are neither past due nor impaired and collateral and other credit enhancement obtained (AASB 7, paras 36-38). Previously, only disclosure of the maximum exposure to credit risk was required.

- Liquidity risk – a maturity analysis for financial liabilities that shows the remaining contractual maturities and description of how the liquidity risk is managed (AASB 7, para 39). Previously, only banks disclosed this information under AASB 130.
- Market risk – a sensitivity analysis for each type of market risk to which the entity is exposed, showing how profit or loss and equity would have been affected by changes in the risk variable, the methods and assumptions used in preparing the analysis and changes from the previous period (AASB 7, paras 40-42 and Appendix B Application Guidance, paras B17-B28).
- Other AASB 7 disclosures not previously required under AASB 130 or AASB 132 include:
 - carrying amount for each category of financial assets and liabilities (AASB 7, para 8). Previously, AASB 132 only required this information for financial assets and liabilities at fair value through profit or loss.
 - credit risk information about loans or receivables and financial liabilities designated at fair value through profit or loss, including disclosure of the amount of the change in fair value attributable to changes in credit risk and the method used to determine the amount of the change (AASB 7, paras 9 - 11).
 - a reconciliation of changes in any allowance accounts for credit losses for each class of financial assets (AASB 7, para 16).
 - disclosure of the net gains or net losses on all classes of financial instruments (AASB 7, para 20(a)). Previously, AASB 132 only required the information for financial instruments at fair value through profit or loss and available for sale financial assets.
 - disclosure of fee income and expense from financial instruments not at fair value through profit or loss and trust and other fiduciary activities (AASB 7, para 20(c)). Previously, this information was only required for financial institutions.
 - additional disclosures regarding gains or losses on fair value hedges and for cash flow hedges, the ineffectiveness recognised in profit or loss (AASB 7, para 24).
- AASB 7 does not retain the Australian paragraph requirement in AASB 132 (para Aus94.1) to disclose details of credit standby arrangements and a summary of used and unused loan facilities. However, as this disclosure provides information that enables users of the financial report to evaluate the nature and extent of risks arising from financial instruments to which the agency is exposed (a requirement of AASB 7, para 31), it may be prudent to include the information although not specifically required by AASB 7.

Impact on the public sector

- No differential impact.

Policy and Implementation issues

Mandating options

- Treasury is likely to mandate that AASB 7 and AASB 2005-10 should not be early adopted. Therefore, these Standards will apply for the first time to annual reporting periods beginning on or after 1 January 2007. Although Treasury is likely to encourage agencies to disclose the carrying amounts for *each* of the AASB 139 categories of financial instruments (AASB 7, para 8) (refer Treasury's draft Financial Instruments Policy).

Policy and guidance

- *Additional disclosures* – Agencies will be required to collect additional information in certain areas, as discussed above. For 30 June year-end entities, this information will need to be collected for periods commencing on or after 1 July 2006 for the purposes of restating comparatives in the first report for which AASB 7 is applicable.

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