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Accounting Standards now effective

AASB 7 Financial Instruments: Disclosures

The first version of AASB 7 was issued in August 2005 by Australian Accounting Standards Board (AASB) and was applicable for reporting periods beginning on or after 1 January 2007. As such, for June year end reports 30 June 2008 is the first reporting period for which AASB 7 becomes mandatory.

AASB 7 outlines what is required to be disclosed by an entity in relation to their financial instruments. It replaces the financial instrument disclosures contained in both AASB 130 and AASB 132. Whilst the majority of AASB 7 is purely a replacement of the requirements in these two standards, AASB 7 does introduce some significant new requirements. These new disclosures are required not only for the June 2008 actual reporting period but also for the comparative June 2007 period.

The purpose of AASB 7 is to enable users of financial statements to assess “through the eyes of management”:

- the significance of financial instruments to an entity; and
- the nature & extent of risks arising from financial instruments on an entity.

Some of the significant new requirements of AASB 7 are:

- no relief for parent entities;
- comparatives to be disclosed; and
- six significant disclosure additions with the introduction of the new standard:
 - Loans and receivables, and financial liabilities at fair value through profit and loss;
 - Impairment provision reconciliation;
 - Hedge ineffectiveness;
 - Fair value hedge adjustments;
 - Financial asset by class disclosure; and
 - Financial Instrument risk sensitivity analysis.

Some entities have experienced significant increases, up to 20 pages, in the level of disclosures required in their financial reports as a result of AASB 7, and significant increases in time associated with preparing notes such as financial asset past due analyses and sensitivity analyses associated with interest, market and other price risk.

Key issues to note:

- The extent of disclosure will depend on the extent to which the entity uses financial instruments and has assumed risks.
- The risk of taking a ‘minimal disclosure’ approach is that external stakeholders may form a view that management has something to hide.
- Simply not disclosing information because it is not mandated by AASB7 is contrary to the requirement to disclose quantitative data based on internal information.

Act now, AASB 7 is likely to result in significant increases in workload and disclosures for your financial report.

Other Accounting standards and Interpretations effective for June 2008 reporting

The following accounting standards are now mandatory for June 2008 financial reporting:

- AASB 101 - Presentation of Financial Statements (amended – capital management disclosures);
- AASB 2007-4 - Harmonisation to IFRS (ED 151); and
- AASB 2007-5 - AASB 102 Inventories Held for Distribution by Not-for-Profit Entities.

The following Interpretations are now mandatory for June 2008 financial reporting:

- Interpretation 10 - Interim Financial Reporting and Impairment;
- Interpretation 11 - AASB 2 – Group and Treasury Share Transactions;
- Interpretation 113 - Jointly Controlled Entities – Non-Monetary Contributions by Venturers; and
- Interpretation 1003 - Australian Petroleum Resource Rent Tax.

Accounting Standards issued but not yet effective

AASB 108 paragraph 30 requires an entity that has not applied a new Australian Accounting Standard that has been issued but is not yet effective, to disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Australian Accounting Standard will have on the entity's financial report in the period of initial application.

In complying with paragraph 30, AASB 108 paragraph 31 requires an entity to consider disclosing:

- (a) the title of the new Australian Accounting Standard;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the Australian Accounting Standard is required;
- (d) the date as at which it plans to apply the Australian Accounting Standard initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the Australian Accounting Standard is expected to have on the entity's financial report; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

This requirement applies up to the date of the authorisation of the financial report and is therefore a moving target up to that date. This list is current as at 15 May 2008 but needs to be updated for any subsequent changes prior to authorisation of the financial report in question.

The following Australian Accounting Standards¹ have been issued or amended as at 15 May 2008 but are not yet effective.

¹ This is not an exhaustive list of accounting standards that have been issued but not yet effective but represents the standards most likely to have a material impact on Australian entities.

Accounting Standards

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
8	Operating Segments	Feb 2007	1 Jan 2009
101	Presentation of Financial Statements (Amended)	Sept 2007	1 Jan 2009
123	Borrowing Costs (Amended)	June 2007	1 Jan 2009
3	Business combinations	Mar 2008	1 July 2009
127	Consolidated and Separate Financial Statements	Mar 2008	1 July 2009
2008-1	Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations	Mar 2008	1 Jan 2009
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	Mar 2008	1 July 2009

Australian interpretations

Int No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
4	Determining whether an Arrangement contains a Lease [revised]	Feb 2007	1 Jan 2008
12	Service Concession Arrangements	Feb 2007	1 Jan 2008
13	Customer Loyalty Programmes	Aug 2007	1 July 2008
129	Service Concession Arrangements: Disclosures [revised]	Feb 2007	1 Jan 2008

Should you require assistance or additional information, please contact your Engagement Partner or:

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The material contained in this briefing is based on current Australian Accounting Standards including Australian Interpretations, and is in the nature of general communication and information only. The briefing neither purports nor is intended to be advice on any particular matter, highlights only key matters, and may not provide a complete summary of all potential impacts on financial reporting for financial reporting periods ending on 30 June 2008.

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