## New International Accounting Standards

### Greg Pound Banking & Financial Services Law & Practice Conference 6 August 2005

## Why IFRS?

- FRC Directive
- "Harmonisation" Convergence"
- Global market international language
- National perspective –
  Comprehensive set of high quality standards

## **Application Dates**

#### December balance dates

- 30 June 2005 half-year financial report including comparatives
- 31 December 2005 financial report including comparatives
- June balance dates
  - 31 December 2005 half-year financial report including comparatives
  - 30 June 2006 half-year report including comparatives

### **Transition Issues**

- Manage
  - strategic management/risk management
  - systems changes/controls
  - business implications
  - inform/educate users
  - regulatory risk

### **Transition Issues**

- Business impacts
  - system changes
  - loan covenants
  - tax
  - dividend policy
  - incentive plans

## Financial Reporting Issues

- AASB 1047 30 June 2005
- First-time adoption of IFRSs
  - Eliminate any assets and liabilities from opening balance sheet that do not qualify under IFRS
  - Recognise all assets and liabilities required by IFRS
  - Adjust against retained earnings
  - Apply IFRS measurement principles (some exceptions)

## Financial Reporting Issues

- Explanation of transition to IFRSs
  - Reconciliation of equity
  - Reconciliation of profit or loss
  - Material adjustments

# IFRS – Financial Reporting Issues

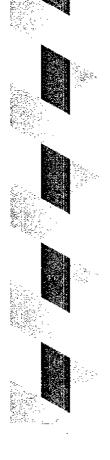
- Reclassification of debt/equity
- Acquisitions
- Goodwill
- Identifiable intangibles
- Share-based payments
- Defined benefit superannuation
- Financial instruments
- Impairment testing
- Research expenditure

#### AASB 130 "Disclosure in the Financial Statements of Banks and Similar Financial Institutions"

- Main differences in disclosure between AASB 130 and AASB 1032
  - Prohibits offsetting of income and expenses
  - Limits disclosure of commitments to extend credit to irrevocable commitments
  - Fair value of each class of financial assets and liabilities as required by AASB 132

#### AASB 130 "Disclosure in the Financial Statements of Banks and Similar Financial Institutions

- Accounting policy disclosures to deal with differing methods of recognition and measurement
- Aggregate amount of secured liabilities and nature and amount of assets pledged as security



#### AASB 132 "Financial Instruments: Disclosure and Presentation"

#### Scope

- Presentation and disclosure
- Essentially the same as AASB 1033
- Defines financial instruments, financial assets and liabilities and derivatives, distinguishes financial liabilities and equity instruments and prescribes detailed disclosures

#### AASB 132 "Financial Instruments: Disclosure and Presentation"

#### Main impact

- Some equity instruments classified as debt
- Prescriptive requirements for offsetting financial assets and liabilities
- Disclosure

### AASB 139 "Financial Instruments: Recognition and Measurement

- All financial instruments, including derivatives initially recorded at fair value
  - Four categories of financial instruments rules for each re initial and subsequent measurement, gains and losses and impairment
  - Defines embedded derivatives and rules for separating from host contact
  - Permits hedge accounting under strict criteria

## Categories

- Financial assets and liabilities to be recognised on the balance sheet
- For measurement four categories
  - A financial asset or liability at fair value through profit and loss (held for trading or designated by entity – all derivatives except when used for hedging)
  - Held-to-maturity investments
  - Loans and receivables
  - Available-for-sale financial assets

#### Initial Measurement

 Fair value of consideration given/received plus transaction costs, except for those measured at FV through profit and loss

#### Subsequent measurement

- At FV through profit and loss / availablefor-sale at FV (no deduction for transaction cost)
- FV through P & L change in FV to P & L
- Available-for-sale asset change in FV to equity until derecognised – then to P & L
- Held-to-maturity / loans and receivables amortised cost

## Measurement Considerations

- FV hierarchy
  - active market quoted price
    - no active market
      - » valuation technique
      - » equity instruments
- No reliable measurement value at cost
- No reclassification

## Impairment

- Does not apply to FV through P & L category
- Held-to-maturity / loans and receivables – to P & L
- Available-for-sale-remove from equity to P & L

# Hedging

#### Criteria for hedge accounting

- formal designation and documentation at inception
- Hedge expected to be highly effective
- Forecasted transaction highly probable
- Effectiveness reliably measured
- Ongoing assessment of effectiveness