




New International Accounting Standards

Greg Pound
**Banking & Financial
Services Law & Practice
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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 contract**
 - **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 / available-for-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**

