

# **Explanatory Statement**

**Accounting Standard AASB 2013-9**

***Amendments to Australian Accounting Standards – Conceptual  
Framework, Materiality and Financial Instruments***

**December 2013**



**Australian Government**

**Australian Accounting  
Standards Board**

# EXPLANATORY STATEMENT

## Reasons for Issuing AASB 2013-9

AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* makes amendments to the Australian Accounting Standards and Interpretations listed in the Appendix to AASB 2013-9.

This Standard comprises Parts A-C, each addressed below.

## Main Features of AASB 2013-9 and Application Dates

### Part A – Conceptual Framework

#### Main Requirements

Part A of AASB 2013-9 updates references to the *Framework for the Preparation and Presentation of Financial Statements* (July 2004) (*Framework*) in particular Australian Accounting Standards (including Interpretations) as a consequence of the issue of AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* in December 2013.

It updates references to the *Framework* in a manner that is consistent with the amendments made by the International Accounting Standards Board (IASB) in its corresponding pronouncements. This includes, to be consistent with the AASB's IFRS adoption policy, retaining references to specific superseded paragraphs of the *Framework* in Accounting Standards and Interpretations where the IASB has not yet updated the corresponding reference in the body of its pronouncements.

Part A of AASB 2013-9 also makes various editorial corrections to Australian Accounting Standards.

#### Application Date

Part A of AASB 2013-9 applies to annual reporting periods ending on or after 20 December 2013 and when the *Framework for the Preparation and Presentation of Financial Statements*, as amended by AASB CF 2013-1, is applied. It may be applied to periods beginning on or after 1 January 2005 but ending before 20 December 2013.

### Part B – Materiality

#### Main Requirements

Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 January 2005 incorporate International Financial Reporting Standards (IFRSs), which comprise Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB). The adoption of IFRSs in Australia is in accordance with a strategic direction made by the Financial Reporting Council (FRC).

As noted in the Preface to AASB 1031 *Materiality* (July 2004), at the time AASB 1031 was issued, the *Framework for the Preparation and Presentation of Financial Statements* contained limited guidance on materiality in comparison to AASB 1031. Accordingly, as part of the AASB's implementation of the FRC's strategic direction, the AASB decided to retain AASB 1031, in a revised format, to ensure that the meaning of materiality remained well explained.

The AASB has a policy of not providing unnecessary local guidance on matters covered by IFRSs. As a consequence, the AASB decided to withdraw AASB 1031 as was proposed in AASB Exposure Draft ED 243 *Withdrawal of AASB 1031 Materiality*. In making its decision to withdraw AASB 1031, the AASB noted that it would not expect the withdrawal to change practice regarding the application of materiality in financial reporting. In particular, the withdrawal of AASB 1031 would not change the level of disclosure presently specified by other accounting standards.

The withdrawal of AASB 1031 requires consequential amendments to all Australian Accounting Standards (including Interpretations) to remove references to AASB 1031. Until all such references have been removed, revised AASB 1031 (December 2013) is an interim Standard that cross-references to other Standards and the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*)<sup>1</sup> (*Framework*) that contain guidance on materiality. Once all references to AASB 1031 have been deleted from Standards, AASB 1031 will be withdrawn.

Part B of AASB 2013-9 makes amendments to particular Australian Accounting Standards to delete references to AASB 1031.

Part B of AASB 2013-9 also makes various editorial corrections to Australian Accounting Standards.

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<sup>1</sup> AASB *Framework for the Preparation and Presentation of Financial Statements* was amended in December 2013.

## Application Date

Part B of AASB 2013-9 applies to annual reporting periods beginning on or after 1 January 2014. Early adoption is not permitted.

## Part C – Financial Instruments

### Main Requirements

Part C of AASB 2013-9 amends AASB 9 *Financial Instruments*, AASB 7 *Financial Instruments: Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* and consequentially amends a number of other Australian Accounting Standards and Interpretations.

#### *Hedge Accounting*

Part C of AASB 2013-9 amends AASB 9 to add Chapter 6 *Hedge accounting* and makes consequential amendments to AASB 139 *Financial Instruments: Recognition and Measurement* and numerous other Standards.

Chapter 6 includes significant changes to the general hedge accounting requirements in AASB 139 including more closely aligning hedge accounting with an entity's risk management activities and introducing an objective-based hedge effectiveness assessment.

#### *'Own Credit' Provisions – Early Application*

AASB 9 as issued in December 2010 introduced requirements relating to presentation of gains and losses of financial liabilities designated as at fair value through profit or loss, with changes in fair value due to changes in own credit risk being recognised through other comprehensive income (OCI) (the 'own credit' provisions).

Part C of AASB 2013-9 amends paragraph 7.1.2 of AASB 9 as issued in December 2010, to permit an entity to elect to apply the 'own credit' provisions without applying the other requirements in AASB 9. If an entity does so, it is required to disclose that fact and provide additional disclosure.

Part C of AASB 2013-9 does not change the existing requirements in relation to the 'own credit' provisions; it merely permits their early application without requiring other requirements of AASB 9 to be applied at the same time.

#### *AASB 7 Reduced Disclosure Requirements*

Part C of AASB 2013-9 adds to or amends the Australian Accounting Standards – Reduced Disclosure Requirements for AASB 7 *Financial Instruments: Disclosures* and AASB 101 *Presentation of Financial Statements*. AASB 1053 *Application of Tiers of Australian Accounting Standards* provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.

#### *Application Date*

Part C of AASB 2013-9 amends the mandatory effective date of AASB 9 so that AASB 9 is required to be applied for annual reporting periods beginning on or after 1 January 2017 instead of 1 January 2015.

In its amending standard the IASB withdrew the mandatory application date of IFRS 9, whilst allowing early application. However, at its November 2013 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017.

The *Corporations Act 2001* section 334(4) states the following:

- (4) An accounting standard applies to:
  - (a) periods ending after the commencement date of the standard; or
  - (b) periods ending, or starting, on or after a later date specified in the standard.

Based on the above, in the absence of the standard including a specified mandatory application date, the requirements would become immediately applicable for periods ending after the commencement of the standard; therefore the AASB included a mandatory application date to prevent this issue arising for Australian entities.

## Application Date

Part C of AASB 2013-9 applies to annual reporting periods beginning on or after 1 January 2015.

Part C of AASB 2013-9 may be applied to annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2015, except that the amendments to AASB 9 (December 2010) and AASB 2010-7 may be applied early only as set out in those Standards.

## Consultation Prior to Issuing this Standard

### Part A – Conceptual Framework

Public consultation was carried out in developing the amending document AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* that resulted in the consequential amendments to Accounting Standards (including Interpretations) included in Part A of AASB 2013-9.

The AASB issued Invitation to Comment ITC 11 Request for Comment on IASB Discussion Paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting: *The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*” in July 2006. The comment periods for ITC 11 and the IASB Discussion Paper closed on 9 October 2006 and 3 November 2006 respectively. The AASB received eight submissions from Australian constituents, raising various issues for consideration. The AASB also held roundtables in Melbourne and Sydney in September 2006 at which more than 20 constituents attended.

Subsequently, the AASB issued AASB Exposure Draft ED 164 *An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* (which incorporated the IASB exposure draft of the same name) for public comment in June 2008. The AASB received five submissions from Australian constituents on ED 164. Most were generally supportive of the proposals, whilst raising various issues for consideration. The AASB considered the comments it received on ED 164 in developing its submission to the IASB, and the IASB considered those comments before issuing its revised Framework. The AASB then adapted that IASB revised Framework to the Australian context, having regard to the comments it received on ED 164.

A Regulation Impact Statement (RIS) has not been prepared specifically in connection with Part A of AASB 2013-9 as the amendments update cross- references to the *Framework*, which is not mandatory.

### Part B – Materiality

In June 2013, as noted above, the AASB issued Exposure Draft ED 243 *Withdrawal of AASB 1031 Materiality*.

The AASB received a total of eight submissions from Australian constituents on ED 243. The majority of the submissions received were generally supportive of the proposals to withdraw AASB 1031. The AASB considered comments made in the submissions in developing AASB 1031 as an interim standard, pending removal of references to AASB 1031 from all other standards – at which time AASB 1031 will be formally withdrawn.

A RIS has not been prepared specifically in connection with the issuance of Part B of AASB 2013-9 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.

### Part C – Financial Instruments

#### *Hedge Accounting*

In December 2010, the AASB issued ED 208 *Hedge Accounting* which incorporated IASB ED/2010/13 (of the same title). The comment periods for ED 208 and ED/2010/13 closed on 18 February 2011 and 9 March 2011 respectively. The AASB also held outreach in Melbourne, Sydney and Perth in September 2011 at which more than 20 constituents attended.

The AASB received six comment letters from Australian constituents on ED 208. Submissions received were generally supportive of the proposals, whilst raising various issues for consideration. The AASB considered comments it received in making its submission to the IASB on ED/2010/13.

In September 2012 the IASB made available on its website a Draft Standard on Hedge Accounting. The AASB also made the draft available on its website and received three comment letters from Australian constituents in response to the Draft Standard.

The AASB considered comments it received on the Draft Standard in making a submission to the IASB on the Draft Standard and in finalising AASB 2013-9.

A RIS has not been prepared specifically in connection with the issuance of the Hedge Accounting requirements in Part C of AASB 2013-9 as the amendments relate to the application of non-mandatory, elective hedge accounting requirements.

#### ***‘Own Credit’ Provisions – Early Application***

In November 2012 the AASB issued ED 230 *Classification and Measurement: Limited Amendments to IFRS 9* (which incorporated the IASB ED/2012/3 of the same name). Amongst other proposals (which have not yet been finalised), question 8 of ED 230 concerned whether entities should be able to choose to early apply only the ‘own credit’ provisions in IFRS 9.

The AASB received eight comment letters from Australian constituents in response to ED 230. Submissions received were generally supportive of the proposals concerning early application of the 'own credit' provisions, whilst raising various issues for consideration. The AASB considered the comments it received in making its submission to the IASB on ED/2012/3 and in finalising AASB 2013-9.

A RIS has not been prepared specifically in connection with the issuance of the 'own credit' provisions as the existing requirements in relation to the 'own credit' provisions were not changed by Part C of AASB 2013-9. Part C of AASB 2013-9 merely permits their early application without requiring other requirements of AASB 9 to be applied at the same time.

#### ***AASB 7 Reduced Disclosure Requirements***

The AASB issued a Tier 2 Supplement to ED 208 *Hedge Accounting* in March 2011. The comment period closed on 2 June 2011. The AASB received two comment letters from Australian constituents in response to the Tier 2 Supplement to ED 208. Submissions received were largely supportive of the proposals, whilst raising various issues for consideration. The AASB considered the comments it received in finalising AASB 2013-9.

#### ***Application Date***

No specific consultation was carried out in relation to the application date. The application date remains subject to review, pending the IASB determining the application date for IFRS 9.

# Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the  
*Human Rights (Parliamentary Scrutiny) Act 2011*

## **Accounting Standard AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments**

### **Overview of the Accounting Standard**

AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* consists of Part A, Part B and Part C.

Part A of AASB 2013-9 updates references to the *Framework for the Preparation and Presentation of Financial Statements* (July 2004) (*Framework*) in particular Australian Accounting Standards (including Interpretations) as a consequence of the issue of AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* in December 2013.

It updates references to the *Framework* in a manner that is consistent with the amendments made by the International Accounting Standards Board (IASB) in its corresponding pronouncements. This includes, to be consistent with the AASB's IFRS adoption policy, retaining references to specific superseded paragraphs of the *Framework* in Accounting Standards and Interpretations where the IASB has not yet updated the corresponding reference in the body of its pronouncements.

Part A of AASB 2013-9 also makes various editorial corrections to Australian Accounting Standards.

Part B of AASB 2013-9 makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 *Materiality*.

The AASB has a policy of not providing unnecessary local guidance on matters covered by IFRSs. As a consequence, the AASB decided to withdraw AASB 1031. The withdrawal of AASB 1031 requires consequential amendments to all Australian Accounting Standards (including Interpretations) to remove references to AASB 1031.

Part B of AASB 2013-9 also makes various editorial corrections to Australian Accounting Standards.

Part C of AASB 2013-9 amends AASB 9 *Financial Instruments* to:

- add Chapter 6 *Hedge accounting*;
- permit an entity to elect to apply the 'own credit' provisions without applying the other requirements in AASB 9;
- adds to or amends the Australian Accounting Standards – Reduced Disclosure Requirements for AASB 7 *Financial Instruments: Disclosures* and AASB 101 *Presentation of Financial Statements*; and
- amend the mandatory effective date of AASB 9 so that AASB 9 is required to be applied for annual reporting periods beginning on or after 1 January 2017 instead of 1 January 2015.

Part C of 2013-9 consequentially amends a number of other Australian Accounting Standards and Interpretations including AASB 7 and AASB 139 *Financial Instruments: Recognition and Measurement*.

### **Human Rights Implications**

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### **Conclusion**

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.