

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



Australian Government

**Australian Accounting
Standards Board**

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(available on the AASB website)

IN RELATION TO PART C:
IASB BASIS FOR CONCLUSIONS – AMENDMENTS
(available on the AASB website)

Australian Accounting Standard AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* is set out in paragraphs 1 – 96 and the Appendix. All the paragraphs have equal authority.

PREFACE

Introduction

This Standard makes amendments to the Australian Accounting Standards and Interpretations listed in the Appendix to this Standard.

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

Part A – Conceptual Framework

Application Date

Part A of this Standard 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 *Amendments to the Australian Conceptual Framework*, is applied. It may be applied to periods beginning on or after 1 January 2005 but ending before 20 December 2013.

Main Requirements

Part A of this Standard 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 in December 2013.

Part A of this Standard makes various editorial corrections to Australian Accounting Standards.

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 This includes, to be consistent with the AASB's IFRS adoption policy, retaining references to specific superseded paragraphs of the *Framework* in Accounting Standards and Interpretations where the IASB has not yet updated the corresponding reference in the body of its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 B – Materiality

Application Date

Part B of this Standard applies to annual reporting periods beginning on or after 1 January 2014. Early adoption is not permitted.

Main Requirements

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 Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005, 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 International Financial Reporting Standards (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*. Accordingly, the AASB is re-issuing AASB 1031 as an interim Standard that cross-references to other pronouncements that contain guidance on materiality. Part B of this Standard deletes references to AASB 1031 in various Australian Accounting Standards (including Interpretations). Once all references to AASB 1031 have been deleted from all Australian Accounting Standards, AASB 1031 will be withdrawn.

Part B of this Standard makes amendments to particular Australian Accounting Standards to delete references to AASB 1031.

Part B of this Standard makes various editorial corrections to Australian Accounting Standards.

Part C – Financial Instruments

Application Date

Part C of this Standard applies to annual reporting periods beginning on or after 1 January 2015.

Main Requirements

Part C of this Standard amends AASB 9 *Financial Instruments* to add Chapter 6 *Hedge accounting* and makes consequential amendments to AASB 9 and numerous other Standards. Part C also amends AASB 9 to permit requirements relating to the 'own credit risk' of financial liabilities measured at fair value to be applied without applying the other requirements of AASB 9 at the same time.

Furthermore, Part C of this Standard 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.

Part C of this Standard 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.

ACCOUNTING STANDARD AASB 2013-9

The Australian Accounting Standards Board makes Accounting Standard AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* under section 334 of the *Corporations Act 2001*.

Dated 20 December 2013

Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 2013-9

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CONCEPTUAL FRAMEWORK, MATERIALITY AND FINANCIAL INSTRUMENTS

Objective

- 1 The objective of this Standard is to make amendments to the Standards and Interpretations listed in the Appendix:
- (a) as a consequence of the issue of Accounting Framework AASB CF 2013-1 *Amendments to the Australian Conceptual Framework*, and editorial corrections, as set out in Part A of this Standard;
 - (b) to delete references to AASB 1031 *Materiality* in other Australian Accounting Standards, and to make editorial corrections, as set out in Part B of this Standard; and
 - (c) as a consequence of the issuance of *IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39* by the IASB in November 2013, as set out in Part C of this Standard.

Application

- 2 **Subject to paragraphs 3-15, this Standard applies to:**
- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 3 **In respect of AASB 101 and AASB 108, this Standard applies to:**
- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;**
 - (b) **general purpose financial statements of each reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 4 **In respect of AASB 120 and Interpretation 110, this Standard applies to:**
- (a) **each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial statements of each other for-profit reporting entity; and**
 - (c) **financial statements of a for-profit entity that are, or are held out to be, general purpose financial statements.**
- 5 **In respect of AASB 134, this Standard applies to:**
- (a) **each disclosing entity required to prepare half-year financial reports in accordance with Part 2M.3 of the Corporations Act;**
 - (b) **interim financial reports that are general purpose financial statements of each other reporting entity; and**
 - (c) **interim financial reports that are, or are held out to be, general purpose financial statements.**

- 6 In respect of AASB 1038, this Standard applies to each entity that is:
- (a) a life insurer; or
 - (b) the parent in a group that includes a life insurer;
- when the entity:
- (c) is a reporting entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
 - (d) is an other reporting entity and prepares general purpose financial statements; or
 - (e) prepares financial statements that are, or are held out to be, general purpose financial statements.
- 7 In respect of AASB 1049, this Standard applies to each government's whole of government general purpose financial statements and GGS financial statements.
- 8 In respect of AASB 1050, this Standard applies to general purpose financial statements of government departments.
- 9 In respect of AASB 1051, this Standard applies to general purpose financial statements of local governments, government departments and whole of governments, and financial statements of GGSs.
- 10 In respect of AASB 1052, this Standard applies to general purpose financial statements of local governments and government departments.
- 11 In respect of AASB 1055, this Standard applies to:
- (a) whole of government general purpose financial statements of each government;
 - (b) financial statements of each government's GGS;
 - (c) general purpose financial statements of each not-for-profit reporting entity within the GGS; and
 - (d) financial statements of each not-for-profit entity within the GGS that are, or are held out to be, general purpose financial statements.
- 12 In respect of AAS 25, this Standard applies to general purpose financial reports of each superannuation plan in the private or public sector that is a reporting entity.
- 13 In respect of Interpretation 1019, this Standard applies to superannuation plans when AASB 137 applies.
- 14 In respect of Interpretation 1038, this Standard applies to public sector entities as follows:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 15 In respect of Interpretation 1047, this Standard applies to entities that are or include medical defence organisations as follows:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 2001 and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 16 Part A of this Standard applies to annual reporting periods ending on or after 20 December 2013.
- 17 Part A of this Standard shall be applied when Accounting Framework AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* is applied. It may be applied to annual reporting periods beginning on or after 1 January 2005 that end before 20 December 2013, provided that AASB CF 2013-1 and AASB 1048 *Interpretation of Standards* (December 2013) are also applied to the same period. When an entity applies Part A of this Standard to such an annual reporting period, it shall disclose that fact.
- 18 Part B of this Standard applies to annual reporting periods beginning on or after 1 January 2014. Early adoption of Part B of this Standard is not permitted.

- 19 Part C of this Standard applies to annual reporting periods beginning on or after 1 January 2015.**
- 20 Part C of this Standard 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.**
- 21 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard or an Interpretation, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

Part A – Conceptual Framework

General Amendments

- 22 The reference to the “*Framework for the Preparation and Presentation of Financial Statements*” or to the “*Framework*” is amended to refer to the “*Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*)” in each Accounting Standard or Interpretation listed in the table below:

Australian Accounting Standards (including Interpretations)	Paragraph / Section amended
AASB 3	11
AASB 118	Objective
Interpretation 12	References
Interpretation 18	References
Interpretation 19	References
Interpretation 127	6
Interpretation 132	5
Interpretation 1019	18, References
Interpretation 1031	References
Interpretation 1038	References, 34
Interpretation 1052	42

and a footnote is added against each of those references, as follows:

In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*.

Amendments to AASB 101

- 23 In paragraph 7, a footnote is added against the phrase “The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25” that is in the text immediately following the definition of ‘material’, as follows:

In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* is identified in AASB 1048 *Interpretation of Standards*. Paragraph 25 was superseded by Chapter 3 of the *Framework*.

- 24 In paragraph 15, a footnote is added against the phrase “the *Framework*”, as follows:

Paragraphs 15–24 contain references to the objective of financial statements set out in the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048). In December 2013 the AASB amended the *Framework*, and thereby replaced the objective of financial statements with the objective of general purpose financial reporting: see Chapter 1 of the *Framework*.

- 25 In paragraphs 28 and 89, a footnote is added against the phrase “the *Framework*”, as follows:

The *Framework for the Preparation and Presentation of Financial Statements* was amended by the AASB in December 2013.

Amendments to AASB 108

- 26 In paragraph 6, a footnote is added against the phrase “The *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) states in paragraph 25”, as follows:

In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* is identified in AASB 1048 *Interpretation of Standards*. Paragraph 25 was superseded by Chapter 3 of the *Framework*.

- 27 In paragraph 11, a footnote is added against the phrase “the *Framework*”, as follows:

In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*.

Amendments to AASB 134

28 Paragraph 31 is amended as follows (new text is underlined and deleted text is struck through):

- 31 Under the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) (as identified in AASB 1048 Interpretation of Standards)¹, recognition is the “process of incorporating in the statement of financial position balance sheet or statement of comprehensive income statement an item that meets the definition of an element and satisfies the criteria for recognition”. ...

1 In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*.

29 Paragraph 33 is amended as follows (new text is underlined and deleted text is struck through):

- 33 ... The *Framework* says that “expenses are recognised in the statement of comprehensive income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.... [The] *Framework* does not allow the recognition of items in the statement of financial position balance sheet which do not meet the definition of assets or liabilities”.

Amendments to AASB 1023

30 Paragraph 17.6.4 is amended as follows (new text is underlined and deleted text is struck through):

- 17.6.4 When an insurer is presenting the disclosures required by paragraphs 17.6.1(c) and 17.6.1(d) the insurer determines the level and extent of disclosure that is appropriate having regard to its circumstances and the qualitative characteristics of financial statements under the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 Interpretation of Standards) ~~of understandability, relevance, reliability and comparability.~~

Amendments to AASB 1038

31 Paragraph 14.1.7 is amended as follows (new text is underlined and deleted text is struck through):

- 14.1.7 When an insurer is presenting the disclosures required by paragraphs 14.1.1(c) and 14.1.1(d) the insurer determines the level and extent of disclosure that is appropriate having regard to its circumstances and the qualitative characteristics of financial statements under the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 Interpretation of Standards) ~~of understandability, relevance, reliability and comparability.~~

Amendments to Interpretation 115

32 In paragraph 7, a footnote is added against the phrase “Paragraph 35 of the *Framework for the Preparation and Presentation of Financial Statements*”, as follows:

In December 2013 the AASB amended the *Framework*. Paragraph 35 was superseded by Chapter 3 of the *Framework*. References to the *Framework* in this Interpretation are to the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 Interpretation of Standards).

33 In paragraph 8, a footnote is added against the phrase “Paragraph 22 of the *Framework*”, as follows:

In December 2013 the AASB amended the *Framework*. Paragraph 22 was deleted.

Amendments to Interpretation 127

34 In paragraph 13, a footnote is added against the phrase “paragraph 35 of the *Framework*”, as follows:

In December 2013 the AASB amended the *Framework*. Paragraph 35 was superseded by Chapter 3 of the *Framework*. References to the *Framework* in this Interpretation are to the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 Interpretation of Standards).

Amendments to Interpretation 131

35 In paragraph 7, a footnote is added against the phrase “Paragraph 31 of the *Framework for the Preparation and Presentation of Financial Statements*”, as follows:

In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*. References to the *Framework* in this Interpretation are to the *Framework for the Preparation and*

Presentation of Financial Statements (as identified in AASB 1048 *Interpretation of Standards*). Paragraph 31 was superseded by Chapter 3 of the *Framework*.

Amendments to Interpretation 1031

36 Paragraph 21 is amended as follows (new text is underlined, and deleted text is struck through):

21 ... This Interpretation reflects the view that in these cases the GST is not part of the cost of the asset acquired or the expense incurred. This is consistent with the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*), which states that 'expenses are recognised in the income statement ~~of comprehensive income~~ when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.' ...

Part B – Materiality

Deletion of References to AASB 1031

- 37 The statement in each Australian Accounting Standard (including Interpretations) that the requirements of the Standard apply where information resulting from their application is material in accordance with AASB 1031 *Materiality* is deleted from the Australian Accounting Standard as listed in the table below:

Australian Accounting Standards (including Interpretations)	Paragraphs deleted
AASB 1	Aus1.4
AASB 3	Aus1.4
AASB 4	Aus1.4
AASB 5	Aus1.4
AASB 7	Aus2.4
AASB 9 (December 2009)	Aus1.5
AASB 9 (December 2010)	Aus1.6
AASB 101	Aus1.4
AASB 102	Aus1.4
AASB 108	Aus2.4
AASB 112	Aus1.4
AASB 118	Aus1.4
AASB 120	Aus1.4
AASB 121	Aus2.4
AASB 132	Aus3.4
AASB 134	Aus1.6
AASB 136	Aus1.4
AASB 137	Aus1.4
AASB 139	Aus1.4
AASB 1023	1.4
AASB 1038	1.4
AASB 1049	5
AASB 1050	5
AASB 1051	5
AASB 1052	9
AASB 1055	5
Interpretation 1	Aus8.4
Interpretation 2	Aus13.4
Interpretation 4	Aus15.4
Interpretation 5	Aus13.4
Interpretation 6	Aus9.4
Interpretation 7	Aus5.4
Interpretation 9	Aus8.4
Interpretation 10	Aus9.4
Interpretation 12	Aus27.4
Interpretation 13	Aus9.4
Interpretation 14	Aus26.4
Interpretation 15	Aus23.4
Interpretation 16	Aus17.4
Interpretation 17	Aus17.4
Interpretation 18	Aus21.5
Interpretation 19	Aus11.4
Interpretation 20	Aus16.4
Interpretation 21	Aus14.4
Interpretation 107	Aus4.4
Interpretation 110	Aus3.4

Australian Accounting Standards (including Interpretations)	Paragraphs deleted
Interpretation 115	Aus6.4
Interpretation 125	Aus4.4
Interpretation 127	Aus11.4
Interpretation 129	Aus7.4
Interpretation 131	Aus5.4
Interpretation 132	Aus10.4
Interpretation 1003	13
Interpretation 1019	14
Interpretation 1030	12
Interpretation 1031	16
Interpretation 1038	16
Interpretation 1042	11
Interpretation 1047	13
Interpretation 1052	20
Interpretation 1055	12

- 38 Except in relation to Interpretations 1, 6, 7, 9, 10, 12, 13, 14, 16, 19, 20, 21, 107, 110 and 125, a note is added against the paragraph number of each paragraph deleted as specified in paragraph 37, as follows:

[Deleted by the AASB]

Amendments to AASB 134

- 39 Paragraph 24 is amended as follows (new text is underlined and deleted text is struck through):

24 ~~In deciding whether an item is material, its nature and amount usually need to be evaluated together. AASB 1031 *Materiality* provides guidance on the role of materiality in making judgements in the preparation and presentation of financial statements. AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. AASB 101 requires separate disclosure of material items, including (for example) discontinued operations, and AASB 108 requires disclosure of changes in accounting estimates, errors and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.~~

Amendments to AASB 1023

- 40 Paragraph 1.4.1 is deleted and a note added as follows:

1.4.1 [Deleted by the AASB]

Amendments to AASB 1038

- 41 Paragraph 1.4.1 is deleted and a note added as follows:

1.4.1 [Deleted by the AASB]

Amendments to AASB 1052

- 42 Paragraph 20 is amended as follows (new text is underlined and deleted text is struck through):

20 Judgement is required to identify those activities of a government department that warrant separate disclosure in the complete set of financial statements. Exercising this judgement involves a consideration of the following: ...

- (d) ~~the concept of materiality as set out in the *Framework for the Preparation and Presentation of Financial Statements* and AASB 1031. AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* define an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements.~~

Amendments to AAS 25

- 43 Paragraphs 8 and 9, and the heading “Application of Materiality”, are deleted. A note concerning each paragraph is added as follows:

8 [Deleted by the AASB]

9 [Deleted by the AASB]

44 Paragraph 38 is amended as follows (deleted text is struck through):

38 ... In establishing net market values of assets it may be necessary to exercise judgement in respect of determining such matters as:

- (a) the costs expected to be incurred in realising the proceeds of any disposals (~~consistent with the provisions of Australian Accounting Standard AAS 5 “Materiality in Financial Statements”~~, where such costs are not expected to be material, assets can be measured at gross market value. In addition, as a practical measure, the expected cost of disposal may be estimated by application of an average rate over all assets); ...

Editorial Corrections

Amendments to AASB 3

45 In Appendix B, paragraph AusB68 is renumbered to paragraph B68 and the second sentence “Paragraph Aus1.3 allows earlier application by for-profit entities only.” is amended to “Earlier application is permitted.”.

Amendments to AASB 4

46 The second sentence of paragraph B7(b) in Appendix B is amended to read as follows:

That approach is also acceptable under this Standard, which permits the service provider (i) to continue its existing accounting policies for these contracts unless they involve practices prohibited by paragraph 14 and (ii) to improve its accounting policies if so permitted by paragraphs 22-30.

Amendments to AASB 5

47 The text “Australian equivalent to IFRSs.” in paragraph Aus42.1 is amended to “Australian Accounting Standard.”.

Amendments to AASB 7

48 Paragraph Aus2.9(e) is deleted.

Amendments to AASB 101

49 Paragraphs 7, 33, 47, 113 and 114(c) are amended as follows (new text is underlined and deleted text is struck through):

7 The following terms are used in this Standard with the meanings specified:

...

Notes contain information in addition to that presented in the statement of financial position, statement(s) of profit or loss and other comprehensive income, ~~separate income statement (if presented)~~, statement of changes in equity and statement of cash flows. ...

...

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of profit or loss and other comprehensive income or financial position ~~or in the separate income statement (if presented)~~, except when offsetting reflects the substance ...

47 This Standard requires particular disclosures in the statement of financial position or the statement(s) of profit or loss and other comprehensive income, ~~in the separate income statement (if presented)~~, or in the statement of changes in equity ...

113 An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, ~~in the separate income statement (if presented)~~, and in the statements of changes in equity ...

114 An entity normally presents notes in the following order ...

- (a) ...

- (c) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity ...
- (d) ...

50 The text “81A-81B” in paragraph 139J is amended to read “81A, 81B”.

Amendments to AASB 112

51 The text “other start up costs” in paragraph 5 of Example B in the Illustrative Examples accompanying AASB 112 is amended to read “other start-up costs”.

Amendments to AASB 121

52 The text “in which the foreign operation is consolidated, or accounted for” in paragraph 33 is amended to read “in which the foreign operation is consolidated or accounted for”.

53 The text “financial statements of the reporting entity by consolidation, or the equity method.” in paragraph 44 is amended to read “financial statements of the reporting entity by consolidation or the equity method.”.

Amendments to AASB 132

54 The comma after ‘associates’ in the first sentence of paragraph 4(a) is deleted.

55 The heading “Offsetting a Financial Asset and a Financial Liability (see also paragraphs AG38 and AG39)” immediately before paragraph 42 is amended to “Offsetting a Financial Asset and a Financial Liability (see also paragraphs AG38A-AG38F and AG39)”.

56 The text “derivates” in paragraph AG30 in the Application Guidance is amended to “derivatives”.

Amendments to AASB 1049

57 Paragraph 14(d) is deleted.

58 The reference to AASB 127 in paragraph 44(b) is amended to AASB 10.

Amendments to Interpretation 12

59 Appendix B *Amendments to AASB 1 and to Other Interpretations* accompanying Interpretation 12 is deleted.

Amendments to Interpretation 14

60 The heading “Effective Date of IFRIC 14” before paragraph 27 is amended to read “Effective Date”.

Part C – Financial Instruments

Amendments to AASB 9 (December 2009)

61 Paragraphs Aus1.3 and Aus1.4 of AASB 9 (December 2009) are amended to read as follows:

Aus1.3 This Standard applies to annual reporting periods beginning on or after 1 January 2017.¹

Aus1.4 This Standard may be applied to annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2017. When an entity applies this Standard to an annual reporting period beginning before 1 January 2017 it shall disclose that fact and at the same time apply the amendments in AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (as amended).

1 The International Accounting Standards Board, through International Financial Reporting Standard *IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (November 2013) removed the mandatory effective date of IFRS 9. The application date of AASB 9 has been made for Australian legislative reasons and remains subject to review.

Amendments to AASB 2009-11

62 Paragraphs 5 and 6 of AASB 2009-11 are amended to read as follows:

5 This Standard applies to annual reporting periods beginning on or after 1 January 2017.

6 This Standard shall be applied when AASB 9 (December 2009) is applied. This Standard may be applied to annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2017 provided AASB 9 (December 2009) is also applied for the same period. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

Amendments to AASB 9 (December 2010)

63 Paragraphs Aus1.3 and Aus1.7 of AASB 9 (December 2010) are amended to read as follows:

Aus1.3 This Standard applies to annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted. However, if an entity elects to apply this Standard early and has not already applied AASB 9 *Financial Instruments* issued in December 2009 (as amended), it must apply all of the requirements in this Standard at the same time (but see also paragraph Aus1.7 of this Standard). If an entity applies this Standard in its financial statements for a period beginning before 1 January-2017, it shall disclose that fact and at the same time apply the amendments in AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (as amended).¹

Aus1.7 When applied or operative, this Standard supersedes AASB 9 issued in December 2009 (as amended). However, for annual reporting periods beginning before 1 January 2017, an entity may elect to apply AASB 9 issued in December 2009 (as amended) or this Standard as amended to September 2012, instead of applying this Standard (as amended to December 2013).

1 The International Accounting Standards Board, through International Financial Reporting Standard *IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (November 2013) removed the mandatory effective date of IFRS 9. The application date of AASB 9 has been made for Australian legislative reasons and remains subject to review.

64 In Chapter 4, sections 4.2 and 4.4 are amended to read as follows (amended paragraphs are set out in full, paragraphs not included are not amended by Part C of this Standard):

Option to designate a financial liability at fair value through profit or loss

4.2.2 An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32); or**

- (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in AASB 124 *Related Party Disclosures*), for example, the entity's board of directors and chief executive officer (see paragraphs B4.1.33–B4.1.36).

4.2.3 AASB 7 requires the entity to provide disclosures about the financial liabilities it has designated as at fair value through profit or loss.

...

4.4 Reclassification

...

4.4.3 The following changes in circumstances are not reclassifications for the purposes of paragraphs 4.4.1–4.4.2:

- (a) an item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- (b) an item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- (c) changes in measurement in accordance with Section 6.7.

65 In Chapter 5, sections 5.2, 5.3 and 5.7 are amended to read as follows (amended paragraphs are set out in full, paragraphs that are not included are not amended by Part C of this Standard):

5.2 Subsequent measurement of financial assets

5.2.1 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at fair value or amortised cost (see paragraphs 9 and AG5–AG8 of AASB 139).

5.2.2 An entity shall apply the impairment requirements in paragraphs 58–65 and AG84–AG93 of AASB 139 to financial assets measured at amortised cost.

5.2.3 An entity shall apply the hedge accounting requirements in paragraphs 6.5.8–6.5.14 (and, if applicable, paragraphs 89–94 of AASB 139 for the fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial asset that is designated as a hedged item.

5.3 Subsequent measurement of financial liabilities

5.3.1 After initial recognition, an entity shall measure a financial liability in accordance with paragraphs 4.2.1–4.2.2 (see paragraphs 9 and AG5–AG8 of AASB 139).

5.3.2 An entity shall apply the hedge accounting requirements in paragraphs 6.5.8–6.5.14 (and, if applicable, paragraphs 89–94 of AASB 139 for fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial liability that is designated as a hedged item.

...

5.7 Gains and losses

5.7.1 A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

- (a) it is part of a hedging relationship (see paragraphs 6.5.8–6.5.14 and, if applicable, paragraphs 89–94 of AASB 139 for the fair value hedge accounting for a portfolio hedge of interest rate risk);
- (b) it is an investment in an *equity instrument* and the entity has elected to present gains and losses on that investment in other comprehensive income in accordance with paragraph 5.7.5; or
- (c) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's *credit risk* in other comprehensive income in accordance with paragraph 5.7.7.

5.7.2 A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 6.5.8–6.5.14 and, if applicable, paragraphs 89–94 of AASB 139 for the fair value hedge accounting for a portfolio hedge of interest rate risk) shall be recognised in profit or

loss when the financial asset is derecognised, impaired or reclassified in accordance with paragraph 5.6.2, and through the amortisation process. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 6.5.8–6.5.14 and, if applicable, paragraphs 89–94 of AASB 139 for the fair value hedge accounting for a portfolio hedge of interest rate risk) shall be recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

5.7.3 A gain or loss on financial assets or financial liabilities that are hedged items in a hedging relationship shall be recognised in accordance with paragraphs 6.5.8–6.5.14 and, if applicable, paragraphs 89–94 of AASB 139 for the fair value hedge accounting for a portfolio hedge of interest rate risk.

5.7.4 If an entity recognises financial assets using settlement date accounting (see paragraphs 3.1.2, B3.1.3 and B3.1.6), any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets measured at amortised cost (other than impairment losses). For assets measured at fair value, however, the change in fair value shall be recognised in profit or loss or in other comprehensive income, as appropriate under paragraph 5.7.1.

66 Chapter 6 is added:

Chapter 6 Hedge accounting

6.1 Objective and scope of hedge accounting

6.1.1 The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5). This approach aims to convey the context of hedging instruments for which hedge accounting is applied in order to allow insight into their purpose and effect.

6.1.2 An entity may choose to designate a hedging relationship between a hedging instrument and a hedged item in accordance with paragraphs 6.2.1–6.3.7 and B6.2.1–B6.3.25. For hedging relationships that meet the qualifying criteria, an entity shall account for the gain or loss on the hedging instrument and the hedged item in accordance with paragraphs 6.5.1–6.5.14 and B6.5.1–B6.5.28. When the hedged item is a group of items, an entity shall comply with the additional requirements in paragraphs 6.6.1–6.6.6 and B6.6.1–B6.6.16.

6.1.3 For a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only for such a hedge), an entity may apply the hedge accounting requirements in AASB 139 instead of those in this Standard. In that case, the entity must also apply the specific requirements for the fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount (see paragraphs 81A, 89A and AG114–AG132 of AASB 139).

6.2 Hedging instruments

Qualifying instruments

6.2.1 A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options (see paragraph B6.2.4).

6.2.2 A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income in accordance with paragraph 5.7.7. For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5.

6.2.3 For hedge accounting purposes, only contracts with a party external to the reporting entity (ie external to the group or individual entity that is being reported on) can be designated as hedging instruments.

Designation of hedging instruments

6.2.4 A qualifying instrument must be designated in its entirety as a hedging instrument. The only exceptions permitted are:

- (a) separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value (see paragraphs 6.5.15 and B6.5.29–B6.5.33);
- (b) separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element; similarly, the foreign currency basis spread may be separated and excluded from the designation of a financial instrument as the hedging instrument (see paragraphs 6.5.16 and B6.5.34–B6.5.39); and
- (c) a proportion of the entire hedging instrument, such as 50 per cent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

6.2.5 An entity may view in combination, and jointly designate as the hedging instrument, any combination of the following (including those circumstances in which the risk or risks arising from some hedging instruments offset those arising from others):

- (a) derivatives or a proportion of them; and
- (b) non-derivatives or a proportion of them.

6.2.6 However, a derivative instrument that combines a written option and a purchased option (for example, an interest rate collar) does not qualify as a hedging instrument if it is, in effect, a net written option at the date of designation (unless it qualifies in accordance with paragraph B6.2.4). Similarly, two or more instruments (or proportions of them) may be jointly designated as the hedging instrument only if, in combination, they are not, in effect, a net written option at the date of designation (unless it qualifies in accordance with paragraph B6.2.4).

6.3 Hedged items

Qualifying items

6.3.1 A hedged item can be a recognised asset or liability, an unrecognised *firm commitment*, a *forecast transaction* or a *net investment in a foreign operation*. The hedged item can be:

- (a) a single item; or
- (b) a group of items (subject to paragraphs 6.6.1–6.6.6 and B6.6.1–B6.6.16).

A hedged item can also be a component of such an item or group of items (see paragraphs 6.3.7 and B6.3.7–B6.3.25).

6.3.2 The hedged item must be reliably measurable.

6.3.3 If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.

6.3.4 An aggregated exposure that is a combination of an exposure that could qualify as a hedged item in accordance with paragraph 6.3.1 and a derivative may be designated as a hedged item (see paragraphs B6.3.3–B6.3.4). This includes a forecast transaction of an aggregated exposure (ie uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) if that aggregated exposure is highly probable and, once it has occurred and is therefore no longer forecast, is eligible as a hedged item.

6.3.5 For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions with a party external to the reporting entity can be designated as hedged items. Hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in AASB 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements.

6.3.6 However, as an exception to paragraph 6.3.5, the foreign currency risk of an intragroup monetary item (for example, a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*. In accordance with AASB 121, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is transacted between two group entities that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements

provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

Designation of hedged items

6.3.7 An entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. An entire item comprises all changes in the cash flows or fair value of an item. A component comprises less than the entire fair value change or cash flow variability of an item. In that case, an entity may designate only the following types of components (including combinations) as hedged items:

- (a) only changes in the cash flows or fair value of an item attributable to a specific risk or risks (risk component), provided that, based on an assessment within the context of the particular market structure, the risk component is separately identifiable and reliably measurable (see paragraphs B6.3.8–B6.3.15). Risk components include a designation of only changes in the cash flows or the fair value of a hedged item above or below a specified price or other variable (a one-sided risk).
- (b) one or more selected contractual cash flows.
- (c) components of a nominal amount, ie a specified part of the amount of an item (see paragraphs B6.3.16–B6.3.20).

6.4 Qualifying criteria for hedge accounting

6.4.1 A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

- (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items.
- (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the *hedge ratio*).
- (c) the hedging relationship meets all of the following hedge effectiveness requirements:
 - (i) there is an economic relationship between the hedged item and the hedging instrument (see paragraphs B6.4.4–B6.4.6);
 - (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship (see paragraphs B6.4.7–B6.4.8); and
 - (iii) the *hedge ratio* of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting (see paragraphs B6.4.9–B6.4.11).

6.5 Accounting for qualifying hedging relationships

6.5.1 An entity applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 6.4.1 (which include the entity's decision to designate the hedging relationship).

6.5.2 There are three types of hedging relationships:

- (a) **fair value hedge:** a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.
- (b) **cash flow hedge:** a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.
- (c) **hedge of a net investment in a foreign operation as defined in AASB 121.**

6.5.3 If the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5, the hedged exposure referred to in

paragraph 6.5.2(a) must be one that could affect other comprehensive income. In that case, and only in that case, the recognised hedge ineffectiveness is presented in other comprehensive income.

- 6.5.4 A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or a cash flow hedge.
- 6.5.5 If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio (see paragraph 6.4.1(c)(iii)) but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (this is referred to in this Standard as ‘rebalancing’—see paragraphs B6.5.7–B6.5.21).
- 6.5.6 An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity’s documented risk management objective. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:
- (a) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a ‘clearing organisation’ or ‘clearing agency’) or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as a counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties the requirement in this subparagraph is met only if each of those parties effects clearing with the same central counterparty.
 - (b) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.

Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

6.5.7 An entity shall apply:

- (a) paragraph 6.5.10 when it discontinues hedge accounting for a fair value hedge for which the hedged item is (or is a component of) a financial instrument measured at amortised cost; and
- (b) paragraph 6.5.12 when it discontinues hedge accounting for cash flow hedges.

Fair value hedges

6.5.8 As long as a fair value hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

- (a) the gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5).
- (b) the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

6.5.9 When a hedged item in a fair value hedge is a firm commitment (or a component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognised in the statement of financial position.

6.5.10 Any adjustment arising from paragraph 6.5.8(b) shall be amortised to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortised cost. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses. The amortisation is based on a recalculated effective interest rate at the date that amortisation begins.

Cash flow hedges

6.5.11 As long as a cash flow hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

- (a) the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
 - (i) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - (ii) the cumulative change in fair value (present value) of the hedged item (ie the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.
- (b) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (ie the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognised in other comprehensive income.
- (c) any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)) is hedge ineffectiveness that shall be recognised in profit or loss.
- (d) the amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:
 - (i) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see AASB 101 *Presentation of Financial Statements*) and hence it does not affect other comprehensive income.
 - (ii) for cash flow hedges other than those covered by (i), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see AASB 101) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs).
 - (iii) however, if that amount is a loss and an entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment (see AASB 101).

6.5.12 When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

- (a) if the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or until paragraph 6.5.11(d)(iii) applies. When the future cash flows occur, paragraph 6.5.11(d) applies.
- (b) if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see AASB 101). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedges of a net investment in a foreign operation

6.5.13 Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see AASB 121), shall be accounted for similarly to cash flow hedges:

- (a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income (see paragraph 6.5.11); and

- (b) the ineffective portion shall be recognised in profit or loss.

6.5.14 The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from equity to profit or loss as a reclassification adjustment (see AASB 101) in accordance with paragraphs 48–49 of AASB 121 on the disposal or partial disposal of the foreign operation.

Accounting for the time value of options

6.5.15 When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option (see paragraph 6.2.4(a)), it shall account for the time value of the option as follows (see paragraphs B6.5.29–B6.5.33):

- (a) an entity shall distinguish the time value of options by the type of hedged item that the option hedges (see paragraph B6.5.29):
- (i) a transaction related hedged item; or
 - (ii) a time-period related hedged item.
- (b) the change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of equity (the ‘amount’) shall be accounted for as follows:
- (i) if the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see AASB 101) and hence does not affect other comprehensive income.
 - (ii) for hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see AASB 101) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, when a forecast sale occurs).
 - (iii) however, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment (see AASB 101).
- (c) the change in fair value of the time value of an option that hedges a time-period related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The time value at the date of designation of the option as a hedging instrument, to the extent that it relates to the hedged item, shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option’s intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5). Hence, in each reporting period, the amortisation amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see AASB 101). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (ie including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see AASB 101).

Accounting for the forward element of forward contracts and foreign currency basis spreads of financial instruments

6.5.16 When an entity separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract, or when an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument (see paragraph 6.2.4(b)), the entity may apply paragraph 6.5.15 to the forward element of the forward contract or to the foreign currency basis spread in the same manner as it is applied to the time value of an option. In that case, the entity shall apply the application guidance in paragraphs B6.5.34–B6.5.39.

6.6 Hedges of a group of items

Eligibility of a group of items as the hedged item

6.6.1 A group of items (including a group of items that constitute a net position; see paragraphs B6.6.1–B6.6.8) is an eligible hedged item only if:

- (a) it consists of items (including components of items) that are, individually, eligible hedged items;**
- (b) the items in the group are managed together on a group basis for risk management purposes; and**
- (c) in the case of a cash flow hedge of a group of items whose variabilities in cash flows are not expected to be approximately proportional to the overall variability in cash flows of the group so that offsetting risk positions arise:**
 - (i) it is a hedge of foreign currency risk; and**
 - (ii) the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect profit or loss, as well as their nature and volume (see paragraphs B6.6.7–B6.6.8).**

Designation of a component of a nominal amount

6.6.2 A component that is a proportion of an eligible group of items is an eligible hedged item provided that designation is consistent with the entity's risk management objective.

6.6.3 A layer component of an overall group of items (for example, a bottom layer) is eligible for hedge accounting only if:

- (a) it is separately identifiable and reliably measurable;
- (b) the risk management objective is to hedge a layer component;
- (c) the items in the overall group from which the layer is identified are exposed to the same hedged risk (so that the measurement of the hedged layer is not significantly affected by which particular items from the overall group form part of the hedged layer);
- (d) for a hedge of existing items (for example, an unrecognised firm commitment or a recognised asset) an entity can identify and track the overall group of items from which the hedged layer is defined (so that the entity is able to comply with the requirements for the accounting for qualifying hedging relationships); and
- (e) any items in the group that contain prepayment options meet the requirements for components of a nominal amount (see paragraph B6.3.20).

Presentation

6.6.4 For a hedge of a group of items with offsetting risk positions (ie in a hedge of a net position) whose hedged risk affects different line items in the statement of profit or loss and other comprehensive income, any hedging gains or losses in that statement shall be presented in a separate line from those affected by the hedged items. Hence, in that statement the amount in the line item that relates to the hedged item itself (for example, revenue or cost of sales) remains unaffected.

6.6.5 For assets and liabilities that are hedged together as a group in a fair value hedge, the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognised as an adjustment of the carrying amount of the respective individual items comprising the group in accordance with paragraph 6.5.8(b).

Nil net positions

6.6.6 When the hedged item is a group that is a nil net position (ie the hedged items among themselves fully offset the risk that is managed on a group basis), an entity is permitted to designate it in a hedging relationship that does not include a hedging instrument, provided that:

- (a) the hedge is part of a rolling net risk hedging strategy, whereby the entity routinely hedges new positions of the same type as time moves on (for example, when transactions move into the time horizon for which the entity hedges);
- (b) the hedged net position changes in size over the life of the rolling net risk hedging strategy and the entity uses eligible hedging instruments to hedge the net risk (ie when the net position is not nil);

- (c) hedge accounting is normally applied to such net positions when the net position is not nil and it is hedged with eligible hedging instruments; and
- (d) not applying hedge accounting to the nil net position would give rise to inconsistent accounting outcomes, because the accounting would not recognise the offsetting risk positions that would otherwise be recognised in a hedge of a net position.

6.7 Option to designate a credit exposure as measured at fair value through profit or loss

Eligibility of credit exposures for designation at fair value through profit or loss

6.7.1 If an entity uses a credit derivative that is measured at fair value through profit or loss to manage the credit risk of all, or a part of, a financial instrument (credit exposure) it may designate that financial instrument to the extent that it is so managed (ie all or a proportion of it) as measured at fair value through profit or loss if:

- (a) **the name of the credit exposure (for example, the borrower, or the holder of a loan commitment) matches the reference entity of the credit derivative ('name matching'); and**
- (b) **the seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative.**

An entity may make this designation irrespective of whether the financial instrument that is managed for credit risk is within the scope of this Standard (for example, an entity may designate loan commitments that are outside the scope of this Standard). The entity may designate that financial instrument at, or subsequent to, initial recognition, or while it is unrecognised. The entity shall document the designation concurrently.

Accounting for credit exposures designated at fair value through profit or loss

6.7.2 If a financial instrument is designated in accordance with paragraph 6.7.1 as measured at fair value through profit or loss after its initial recognition, or was previously not recognised, the difference at the time of designation between the carrying amount, if any, and the fair value shall immediately be recognised in profit or loss.

6.7.3 An entity shall discontinue measuring the financial instrument that gave rise to the credit risk, or a proportion of that financial instrument, at fair value through profit or loss if:

- (a) the qualifying criteria in paragraph 6.7.1 are no longer met, for example:
 - (i) the credit derivative or the related financial instrument that gives rise to the credit risk expires or is sold, terminated or settled; or
 - (ii) the credit risk of the financial instrument is no longer managed using credit derivatives. For example, this could occur because of improvements in the credit quality of the borrower or the loan commitment holder or changes to capital requirements imposed on an entity; and
- (b) the financial instrument that gives rise to the credit risk is not otherwise required to be measured at fair value through profit or loss (ie the entity's business model has not changed in the meantime so that a reclassification in accordance with paragraph 4.4.1 was required).

6.7.4 When an entity discontinues measuring the financial instrument that gives rise to the credit risk, or a proportion of that financial instrument, at fair value through profit or loss, that financial instrument's fair value at the date of discontinuation becomes its new carrying amount. Subsequently, the same measurement that was used before designating the financial instrument at fair value through profit or loss shall be applied (including amortisation that results from the new carrying amount). For example, a financial asset that had originally been classified as measured at amortised cost would revert to that measurement and its effective interest rate would be recalculated based on its new carrying amount on the date of discontinuing measurement at fair value through profit or loss. Similarly, a loan commitment or a financial guarantee contract would be measured at the higher of:

- (a) the amount determined in accordance with AASB 137; and
- (b) the new carrying amount at the date of discontinuation less cumulative amortisation. The amortisation period is the remaining life of the instrument.

67 Chapter 7 is amended to read as follows (paragraphs not included are deleted):

Chapter 7 Effective date and transition

7.1 Effective date

7.1.1 [Deleted by the AASB]

7.1.2 Notwithstanding the requirements in paragraphs Aus1.2–Aus1.8, an entity may elect to apply the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.12 and B5.7.5–B5.7.20 without applying the other requirements in this Standard. If an entity elects to apply only those paragraphs, it shall disclose that fact and provide on an ongoing basis the related disclosures set out in paragraphs 10–11 of AASB 7 (as amended by AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*).

7.2 Transition

7.2.1 An entity shall apply this Standard retrospectively, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 7.2.4–7.2.15 and 7.2.16–7.2.21. This Standard shall not be applied to items that have already been derecognised at the date of initial application.

7.2.2 For the purposes of the transition provisions in paragraphs 7.2.1, 7.2.3–7.2.15 and 7.2.18, the date of initial application is the date when an entity first applies those requirements of this Standard. The date of initial application is the beginning of the first reporting period in which the entity adopts those requirements. Depending on the entity's chosen approach to applying AASB 9, the transition can involve one or several dates of initial application for different requirements.

7.2.3 At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraph 4.1.2(a) on the basis of the facts and circumstances that exist at that date. The resulting classification shall be applied retrospectively irrespective of the entity's business model in prior reporting periods.

7.2.4 If an entity measures a hybrid contract at fair value in accordance with paragraphs 4.1.4 or 4.1.5 but the fair value of the hybrid contract had not been measured in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.

7.2.5 At the date of initial application, an entity shall recognise any difference between the fair value of the entire hybrid contract at the date of initial application and the sum of the fair values of the components of the hybrid contract at the date of initial application:

- (a) in the opening retained earnings of the reporting period of initial application if the entity initially applies this Standard at the beginning of a reporting period; or
- (b) in profit or loss if the entity initially applies this Standard during a reporting period.

7.2.6 At the date of initial application an entity may designate:

- (a) a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5; or
- (b) an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5.

Such designation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

7.2.7 At the date of initial application an entity:

- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset does not meet the condition in paragraph 4.1.5.
- (b) may revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset meets the condition in paragraph 4.1.5.

Such revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

7.2.8 At the date of initial application, an entity:

- (a) may designate a financial liability as measured at fair value through profit or loss in accordance with paragraph 4.2.2(a).
- (b) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with the condition now in paragraph 4.2.2(a) and such designation does not satisfy that condition at the date of initial application.
- (c) may revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with the condition now in paragraph 4.2.2(a) and such designation satisfies that condition at the date of initial application.

Such designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

7.2.9 If it is impracticable (as defined in AASB 108) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of AASB 139, the entity shall treat:

- (a) the fair value of the financial asset or the financial liability at the end of each comparative period presented as its amortised cost if the entity restates prior periods;
- (b) the fair value of the financial asset or the financial liability at the date of initial application as the new amortised cost of that financial asset or financial liability at the date of initial application of this Standard.

7.2.10 If an entity previously accounted at cost in accordance with AASB 139, for an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) (or for a derivative asset that is linked to and must be settled by delivery of such an equity instrument) it shall measure that instrument at fair value at the date of initial application. Any difference between the previous carrying amount and the fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.

7.2.11 If an entity previously accounted for a derivative liability that is linked to, and must be settled by, delivery of an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) at cost in accordance with AASB 139, it shall measure that derivative liability at fair value at the date of initial application. Any difference between the previous carrying amount and the fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.

7.2.12 At the date of initial application, an entity shall determine whether the treatment in paragraph 5.7.7 would create or enlarge an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of initial application. This Standard shall be applied retrospectively on the basis of that determination.

7.2.13 Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this Standard shall provide the disclosures set out in paragraphs 44S–44W of AASB 7 but need not restate prior periods. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this Standard.

7.2.14 If an entity prepares interim financial reports in accordance with AASB 134 *Interim Financial Reporting* the entity need not apply the requirements in this Standard to interim periods prior to the date of initial application if it is impracticable (as defined in AASB 108).

Entities that have applied AASB 9 (2009) or AASB 9 (2010) early

7.2.15 An entity shall apply the transition requirements in paragraphs 7.2.1–7.2.14 at the relevant date of initial application. An entity shall apply each of the transition provisions in paragraphs 7.2.3–7.2.12 only once (ie if an entity chooses an approach of applying AASB 9 that involves several dates of initial application, it cannot apply any of those provisions again if they were already applied at an earlier date).

Transition for hedge accounting (Chapter 6)

7.2.16 When an entity first applies this Standard as amended in December 2013, it may choose as its accounting policy to continue to apply the hedge accounting requirements of AASB 139 instead of the requirements in Chapter 6 of this Standard. An entity shall apply that policy to all of its hedging relationships. An entity that chooses that policy shall also apply Interpretation 16 *Hedges of a Net*

Investment in a Foreign Operation (as identified in AASB 1048 *Interpretation of Standards*) without the amendments that conform that Interpretation to the requirements in Chapter 6 of this Standard.

- 7.2.17 Except as provided in paragraph 7.2.21, an entity shall apply the hedge accounting requirements of this Standard prospectively.
- 7.2.18 To apply hedge accounting from the date of initial application of the hedge accounting requirements of this Standard, all qualifying criteria must be met as at that date.
- 7.2.19 Hedging relationships that qualified for hedge accounting in accordance with AASB 139 that also qualify for hedge accounting in accordance with the criteria of this Standard (see paragraph 6.4.1), after taking into account any rebalancing of the hedging relationship on transition (see paragraph 7.2.20(b)), shall be regarded as continuing hedging relationships.
- 7.2.20 On initial application of the hedge accounting requirements of this Standard, an entity:
- (a) may start to apply those requirements from the same point in time as it ceases to apply the hedge accounting requirements of AASB 139; and
 - (b) shall consider the hedge ratio in accordance with AASB 139 as the starting point for rebalancing the hedge ratio of a continuing hedging relationship, if applicable. Any gain or loss from such a rebalancing shall be recognised in profit or loss.
- 7.2.21 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:
- (a) shall apply the accounting for the time value of options in accordance with paragraph 6.5.15 retrospectively if, in accordance with AASB 139, only the change in an option's intrinsic value was designated as a hedging instrument in a hedging relationship. This retrospective application applies only to those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter.
 - (b) may apply the accounting for the forward element of forward contracts in accordance with paragraph 6.5.16 retrospectively if, in accordance with AASB 139, only the change in the spot element of a forward contract was designated as a hedging instrument in a hedging relationship. This retrospective application applies only to those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter. In addition, if an entity elects retrospective application of this accounting, it shall be applied to all hedging relationships that qualify for this election (ie on transition this election is not available on a hedging-relationship-by-hedging-relationship basis). The accounting for foreign currency basis spreads (see paragraph 6.5.16) may be applied retrospectively for those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter.
 - (c) shall apply retrospectively the requirement of paragraph 6.5.6 that there is not an expiration or termination of the hedging instrument if:
 - (i) as a consequence of laws or regulations, or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
 - (ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty.

7.3 Withdrawal of IFRIC 9, IFRS 9 (2009) and IFRS 9 (2010)

7.3.1 [Deleted by the AASB]

7.3.2 [Deleted by the AASB]

68 Appendix A to AASB 9 is amended to read as follows:

derecognition The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

derivative A financial instrument or other contract within the scope of this Standard (see paragraph 2.1) with all three of the following characteristics:

- (a) Its value changes in response to the change in a specified interest rate,

	<p>financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).</p> <p>(b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.</p> <p>(c) It is settled at a future date.</p>
fair value	<p><i>Fair value</i> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See AASB 13.)</p>
financial guarantee contract	<p>A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.</p>
financial liability at fair value through profit or loss	<p>A financial liability that meets one of the following conditions:</p> <p>(a) It meets the definition of held for trading.</p> <p>(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss in accordance with paragraph 4.2.2 or 4.3.5.</p> <p>(c) It is designated either upon initial recognition or subsequently as at fair value through profit or loss in accordance with paragraph 6.7.1.</p>
firm commitment	<p>A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.</p>
forecast transaction	<p>An uncommitted but anticipated future transaction.</p>
hedge ratio	<p>The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.</p>
held for trading	<p>A financial asset or financial liability that:</p> <p>(a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;</p> <p>(b) on initial recognition is part of a portfolio of identified financial</p>

instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

- (c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

reclassification date The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

regular way purchase or sale A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The following terms are defined in paragraph 11 of AASB 132, paragraph 9 of AASB 139 or Appendix A of AASB 7 and are used in this Standard with the meanings specified in AASB 132, AASB 139 or AASB 7:

- (a) amortised cost of a financial asset or financial liability;
- (b) credit risk;
- (c) effective interest method;
- (d) equity instrument;
- (e) financial asset;
- (f) financial instrument;
- (g) financial liability;
- (h) transaction costs.

69 In Appendix B, paragraphs B3.1.2, B4.1.30, B4.3.8 and B5.7.2 are amended to read as follows:

Initial recognition (section 3.1)

...

B3.1.2 The following are examples of applying the principle in paragraph 3.1.1:

- (a) Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.
- (b) Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognise an asset (and the entity that places the order does not recognise a liability) at the time of the commitment but, rather, delays recognition until the ordered goods or services have been shipped, delivered or rendered. If a firm commitment to buy or sell non-financial items is within the scope of this Standard in accordance with paragraphs 5–7 of AASB 139, its net fair value is recognised as an asset or a liability on the commitment date (see B4.1.30(c)). In addition, if a previously unrecognised firm commitment is designated as a hedged item in a fair value hedge, any change in the net fair value attributable to the hedged risk is recognised as an asset or a liability after the inception of the hedge (see paragraphs 6.5.8(b) and 6.5.9).
- (c) ...

Designation eliminates or significantly reduces an accounting mismatch

...

B4.1.30 The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 4.1.5 or 4.2.2(a):

- (a) an entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by paragraph 24 of AASB 4) and financial assets that it considers to be related and that would otherwise be measured at amortised cost.
- (b) an entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through profit or loss (for example, those that are derivatives, or are classified as held for trading). It may also be the case that the requirements for hedge accounting are not met because, for example, the requirements for hedge effectiveness in paragraph 6.4.1 are not met.
- (c) an entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through profit or loss. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example, the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or loss eliminates the inconsistency in the timing of the recognition of the gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.

...

Embedded derivatives (section 4.3)

...

B4.3.8 The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

- (a) ...
- (c) An embedded foreign currency derivative that provides a stream of principal or interest payments that are denominated in a foreign currency and is embedded in a host debt instrument (for example, a dual currency bond) is closely related to the host debt instrument. Such a derivative is not separated from the host instrument because AASB 121 *The Effects of Changes in Foreign Exchange Rates* requires foreign currency gains and losses on monetary items to be recognised in profit or loss.
- (d) ...

Gains and losses (section 5.7)

...

B5.7.2 An entity applies AASB 121 to financial assets and financial liabilities that are monetary items in accordance with AASB 121 and denominated in a foreign currency. AASB 121 requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge (see paragraph 6.5.11), a hedge of a net investment (see paragraph 6.5.13) or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 (see paragraph 6.5.8).

70 After paragraph B5.7.20, paragraphs B6.2.1–B6.6.16 and their related headings are added:

Hedge accounting (chapter 6)

Hedging instruments (section 6.2)

Qualifying instruments

B6.2.1 Derivatives that are embedded in hybrid contracts, but that are not separately accounted for, cannot be designated as separate hedging instruments.

B6.2.2 An entity's own equity instruments are not financial assets or financial liabilities of the entity and therefore cannot be designated as hedging instruments.

B6.2.3 For hedges of foreign currency risk, the foreign currency risk component of a non-derivative financial instrument is determined in accordance with AASB 121.

Written options

B6.2.4 This Standard does not restrict the circumstances in which a derivative that is measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options. A written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (for example, a written call option used to hedge a callable liability).

Designation of hedging instruments

B6.2.5 For hedges other than hedges of foreign currency risk, when an entity designates a non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss as a hedging instrument, it may only designate the non-derivative financial instrument in its entirety or a proportion of it.

B6.2.6 A single hedging instrument may be designated as a hedging instrument of more than one type of risk, provided that there is a specific designation of the hedging instrument and of the different risk positions as hedged items. Those hedged items can be in different hedging relationships.

Hedged items (section 6.3)

Qualifying items

B6.3.1 A firm commitment to acquire a business in a business combination cannot be a hedged item, except for foreign currency risk, because the other risks being hedged cannot be specifically identified and measured. Those other risks are general business risks.

B6.3.2 An equity method investment cannot be a hedged item in a fair value hedge. This is because the equity method recognises in profit or loss the investor's share of the investee's profit or loss, rather than changes in the investment's fair value. For a similar reason, an investment in a consolidated subsidiary cannot be a hedged item in a fair value hedge. This is because consolidation recognises in profit or loss the subsidiary's profit or loss, rather than changes in the investment's fair value. A hedge of a net investment in a foreign operation is different because it is a hedge of the foreign currency exposure, not a fair value hedge of the change in the value of the investment.

B6.3.3 Paragraph 6.3.4 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. When designating such a hedged item, an entity assesses whether the aggregated exposure combines an exposure with a derivative so that it creates a different aggregated exposure that is managed as one exposure for a particular risk (or risks). In that case, the entity may designate the hedged item on the basis of the aggregated exposure. For example:

- (a) an entity may hedge a given quantity of highly probable coffee purchases in 15 months' time against price risk (based on US dollars) using a 15-month futures contract for coffee. The highly probable coffee purchases and the futures contract for coffee in combination can be viewed as a 15-month fixed-amount US dollar foreign currency risk exposure for risk management purposes (ie like any fixed-amount US dollar cash outflow in 15 months' time).
- (b) an entity may hedge the foreign currency risk for the entire term of a 10-year fixed-rate debt denominated in a foreign currency. However, the entity requires fixed-rate exposure in its functional currency only for a short to medium term (say two years) and floating rate exposure in its functional currency for the remaining term to maturity. At the end of each of the two-year intervals (ie on a two-year rolling basis) the entity fixes the next two years' interest rate exposure (if the interest level is such that the entity wants to fix interest rates). In such a situation an entity may enter into a 10-year fixed-to-floating cross-currency interest rate swap that swaps the fixed-rate foreign currency debt into a variable-rate functional currency exposure. This is overlaid with a two-year interest rate swap that—on the basis of the functional currency—swaps variable-rate debt into fixed-rate debt. In effect, the fixed-rate foreign currency debt and the 10-year fixed-to-floating cross-currency interest rate swap in combination are viewed as a 10-year variable-rate debt functional currency exposure for risk management purposes.

B6.3.4 When designating the hedged item on the basis of the aggregated exposure, an entity considers the combined effect of the items that constitute the aggregated exposure for the purpose of assessing hedge effectiveness and measuring hedge ineffectiveness. However, the items that constitute the aggregated exposure remain accounted for separately. This means that, for example:

- (a) derivatives that are part of an aggregated exposure are recognised as separate assets or liabilities measured at fair value; and

- (b) if a hedging relationship is designated between the items that constitute the aggregated exposure, the way in which a derivative is included as part of an aggregated exposure must be consistent with the designation of that derivative as the hedging instrument at the level of the aggregated exposure. For example, if an entity excludes the forward element of a derivative from its designation as the hedging instrument for the hedging relationship between the items that constitute the aggregated exposure, it must also exclude the forward element when including that derivative as a hedged item as part of the aggregated exposure. Otherwise, the aggregated exposure shall include a derivative, either in its entirety or a proportion of it.

B6.3.5 Paragraph 6.3.6 states that in consolidated financial statements the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect consolidated profit or loss. For this purpose an entity can be a parent, subsidiary, associate, joint arrangement or branch. If the foreign currency risk of a forecast intragroup transaction does not affect consolidated profit or loss, the intragroup transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same group, unless there is a related external transaction. However, when the foreign currency risk of a forecast intragroup transaction will affect consolidated profit or loss, the intragroup transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same group if there is an onward sale of the inventory to a party external to the group. Similarly, a forecast intragroup sale of plant and equipment from the group entity that manufactured it to a group entity that will use the plant and equipment in its operations may affect consolidated profit or loss. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognised for the plant and equipment may change if the forecast intragroup transaction is denominated in a currency other than the functional currency of the purchasing entity.

B6.3.6 If a hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss is recognised in, and taken out of, other comprehensive income in accordance with paragraph 6.5.11. The relevant period or periods during which the foreign currency risk of the hedged transaction affects profit or loss is when it affects consolidated profit or loss.

Designation of hedged items

B6.3.7 A component is a hedged item that is less than the entire item. Consequently, a component reflects only some of the risks of the item of which it is a part or reflects the risks only to some extent (for example, when designating a proportion of an item).

Risk components

B6.3.8 To be eligible for designation as a hedged item, a risk component must be a separately identifiable component of the financial or the non-financial item, and the changes in the cash flows or the fair value of the item attributable to changes in that risk component must be reliably measurable.

B6.3.9 When identifying what risk components qualify for designation as a hedged item, an entity assesses such risk components within the context of the particular market structure to which the risk or risks relate and in which the hedging activity takes place. Such a determination requires an evaluation of the relevant facts and circumstances, which differ by risk and market.

B6.3.10 When designating risk components as hedged items, an entity considers whether the risk components are explicitly specified in a contract (contractually specified risk components) or whether they are implicit in the fair value or the cash flows of an item of which they are a part (non-contractually specified risk components). Non-contractually specified risk components can relate to items that are not a contract (for example, forecast transactions) or contracts that do not explicitly specify the component (for example, a firm commitment that includes only one single price instead of a pricing formula that references different underlyings). For example:

- (a) Entity A has a long-term supply contract for natural gas that is priced using a contractually specified formula that references commodities and other factors (for example, gas oil, fuel oil and other components such as transport charges). Entity A hedges the gas oil component in that supply contract using a gas oil forward contract. Because the gas oil component is specified by the terms and conditions of the supply contract it is a contractually specified risk component. Hence, because of the pricing formula, Entity A concludes that the gas oil price exposure is separately identifiable. At the same time, there is a market for gas oil forward contracts. Hence, Entity A concludes that the gas oil price exposure is reliably measurable. Consequently, the gas oil price exposure in the supply contract is a risk component that is eligible for designation as a hedged item.
- (b) Entity B hedges its future coffee purchases based on its production forecast. Hedging starts up to 15 months before delivery for part of the forecast purchase volume. Entity B increases the hedged volume over time (as the delivery date approaches). Entity B uses two different types of contracts to manage its coffee price risk:

- (i) exchange-traded coffee futures contracts; and
- (ii) coffee supply contracts for Arabica coffee from Colombia delivered to a specific manufacturing site. These contracts price a tonne of coffee based on the exchange-traded coffee futures contract price plus a fixed price differential plus a variable logistics services charge using a pricing formula. The coffee supply contract is an executory contract in accordance with which Entity B takes actual delivery of coffee.

For deliveries that relate to the current harvest, entering into the coffee supply contracts allows Entity B to fix the price differential between the actual coffee quality purchased (Arabica coffee from Colombia) and the benchmark quality that is the underlying of the exchange-traded futures contract. However, for deliveries that relate to the next harvest, the coffee supply contracts are not yet available, so the price differential cannot be fixed. Entity B uses exchange-traded coffee futures contracts to hedge the benchmark quality component of its coffee price risk for deliveries that relate to the current harvest as well as the next harvest. Entity B determines that it is exposed to three different risks: coffee price risk reflecting the benchmark quality, coffee price risk reflecting the difference (spread) between the price for the benchmark quality coffee and the particular Arabica coffee from Colombia that it actually receives, and the variable logistics costs. For deliveries related to the current harvest, after Entity B enters into a coffee supply contract, the coffee price risk reflecting the benchmark quality is a contractually specified risk component because the pricing formula includes an indexation to the exchange-traded coffee futures contract price. Entity B concludes that this risk component is separately identifiable and reliably measurable. For deliveries related to the next harvest, Entity B has not yet entered into any coffee supply contracts (ie those deliveries are forecast transactions). Hence, the coffee price risk reflecting the benchmark quality is a non-contractually specified risk component. Entity B's analysis of the market structure takes into account how eventual deliveries of the particular coffee that it receives are priced. Hence, on the basis of this analysis of the market structure, Entity B concludes that the forecast transactions also involve the coffee price risk that reflects the benchmark quality as a risk component that is separately identifiable and reliably measurable even though it is not contractually specified. Consequently, Entity B may designate hedging relationships on a risk components basis (for the coffee price risk that reflects the benchmark quality) for coffee supply contracts as well as forecast transactions.

- (c) Entity C hedges part of its future jet fuel purchases on the basis of its consumption forecast up to 24 months before delivery and increases the volume that it hedges over time. Entity C hedges this exposure using different types of contracts depending on the time horizon of the hedge, which affects the market liquidity of the derivatives. For the longer time horizons (12–24 months) Entity C uses crude oil contracts because only these have sufficient market liquidity. For time horizons of 6–12 months Entity C uses gas oil derivatives because they are sufficiently liquid. For time horizons up to six months Entity C uses jet fuel contracts. Entity C's analysis of the market structure for oil and oil products and its evaluation of the relevant facts and circumstances is as follows:
 - (i) Entity C operates in a geographical area in which Brent is the crude oil benchmark. Crude oil is a raw material benchmark that affects the price of various refined oil products as their most basic input. Gas oil is a benchmark for refined oil products, which is used as a pricing reference for oil distillates more generally. This is also reflected in the types of derivative financial instruments for the crude oil and refined oil products markets of the environment in which Entity C operates, such as:
 - the benchmark crude oil futures contract, which is for Brent crude oil;
 - the benchmark gas oil futures contract, which is used as the pricing reference for distillates—for example, jet fuel spread derivatives cover the price differential between jet fuel and that benchmark gas oil; and
 - the benchmark gas oil crack spread derivative (ie the derivative for the price differential between crude oil and gas oil—a refining margin), which is indexed to Brent crude oil.
 - (ii) the pricing of refined oil products does not depend on which particular crude oil is processed by a particular refinery because those refined oil products (such as gas oil or jet fuel) are standardised products.

Hence, Entity C concludes that the price risk of its jet fuel purchases includes a crude oil price risk component based on Brent crude oil and a gas oil price risk component, even though crude oil and gas oil are not specified in any contractual arrangement. Entity C concludes that these two risk components are separately identifiable and reliably measurable even though they are not contractually specified. Consequently, Entity C may designate hedging relationships for forecast jet fuel purchases on a risk components basis (for crude oil or gas oil). This analysis also means that if, for example, Entity C used crude oil derivatives based on West Texas Intermediate (WTI) crude oil, changes in the price differential between Brent crude oil and WTI crude oil would cause hedge ineffectiveness.

- (d) Entity D holds a fixed-rate debt instrument. This instrument is issued in an environment with a market in which a large variety of similar debt instruments are compared by their spreads to a benchmark rate (for example, LIBOR) and variable-rate instruments in that environment are typically indexed to that benchmark rate. Interest rate swaps are frequently used to manage interest rate risk on the basis of that benchmark rate, irrespective of the spread of debt instruments to that benchmark rate. The price of fixed-rate debt instruments varies directly in response to changes in the benchmark rate as they happen. Entity D concludes that the benchmark rate is a component that can be separately identified and reliably measured. Consequently, Entity D may designate hedging relationships for the fixed-rate debt instrument on a risk component basis for the benchmark interest rate risk.

B6.3.11 When designating a risk component as a hedged item, the hedge accounting requirements apply to that risk component in the same way as they apply to other hedged items that are not risk components. For example, the qualifying criteria apply, including that the hedging relationship must meet the hedge effectiveness requirements, and any hedge ineffectiveness must be measured and recognised.

B6.3.12 An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a 'one-sided risk'). The intrinsic value of a purchased option hedging instrument (assuming that it has the same principal terms as the designated risk), but not its time value, reflects a one-sided risk in a hedged item. For example, an entity can designate the variability of future cash flow outcomes resulting from a price increase of a forecast commodity purchase. In such a situation, the entity designates only cash flow losses that result from an increase in the price above the specified level. The hedged risk does not include the time value of a purchased option, because the time value is not a component of the forecast transaction that affects profit or loss.

B6.3.13 There is a rebuttable presumption that unless inflation risk is contractually specified, it is not separately identifiable and reliably measurable and hence cannot be designated as a risk component of a financial instrument. However, in limited cases, it is possible to identify a risk component for inflation risk that is separately identifiable and reliably measurable because of the particular circumstances of the inflation environment and the relevant debt market.

B6.3.14 For example, an entity issues debt in an environment in which inflation-linked bonds have a volume and term structure that results in a sufficiently liquid market that allows constructing a term structure of zero-coupon real interest rates. This means that for the respective currency, inflation is a relevant factor that is separately considered by the debt markets. In those circumstances the inflation risk component could be determined by discounting the cash flows of the hedged debt instrument using the term structure of zero-coupon real interest rates (ie in a manner similar to how a risk-free (nominal) interest rate component can be determined). Conversely, in many cases an inflation risk component is not separately identifiable and reliably measurable. For example, an entity issues only nominal interest rate debt in an environment with a market for inflation-linked bonds that is not sufficiently liquid to allow a term structure of zero-coupon real interest rates to be constructed. In this case the analysis of the market structure and of the facts and circumstances does not support the entity concluding that inflation is a relevant factor that is separately considered by the debt markets. Hence, the entity cannot overcome the rebuttable presumption that inflation risk that is not contractually specified is not separately identifiable and reliably measurable. Consequently, an inflation risk component would not be eligible for designation as the hedged item. This applies irrespective of any inflation hedging instrument that the entity has actually entered into. In particular, the entity cannot simply impute the terms and conditions of the actual inflation hedging instrument by projecting its terms and conditions onto the nominal interest rate debt.

B6.3.15 A contractually specified inflation risk component of the cash flows of a recognised inflation-linked bond (assuming that there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable, as long as other cash flows of the instrument are not affected by the inflation risk component.

Components of a nominal amount

B6.3.16 There are two types of components of nominal amounts that can be designated as the hedged item in a hedging relationship: a component that is a proportion of an entire item or a layer component. The type of component changes the accounting outcome. An entity shall designate the component for accounting purposes consistently with its risk management objective.

B6.3.17 An example of a component that is a proportion is 50 per cent of the contractual cash flows of a loan.

B6.3.18 A layer component may be specified from a defined, but open, population, or from a defined nominal amount. Examples include:

- (a) part of a monetary transaction volume, for example, the next FC10 cash flows from sales denominated in a foreign currency after the first FC20 in March 201X;³
- (b) a part of a physical volume, for example, the bottom layer, measuring 5 million cubic metres, of the natural gas stored in location XYZ;

- (c) a part of a physical or other transaction volume, for example, the first 100 barrels of the oil purchases in June 201X or the first 100 MWh of electricity sales in June 201X; or
- (d) a layer from the nominal amount of the hedged item, for example, the last CU80 million of a CU100 million firm commitment, the bottom layer of CU20 million of a CU100 million fixed-rate bond or the top layer of CU30 million from a total amount of CU100 million of fixed-rate debt that can be prepaid at fair value (the defined nominal amount is CU100 million).

3 In this Standard monetary amounts are denominated in ‘currency units’ (CU) and ‘foreign currency units’ (FC).

B6.3.19 If a layer component is designated in a fair value hedge, an entity shall specify it from a defined nominal amount. To comply with the requirements for qualifying fair value hedges, an entity shall remeasure the hedged item for fair value changes (ie remeasure the item for fair value changes attributable to the hedged risk). The fair value hedge adjustment must be recognised in profit or loss no later than when the item is derecognised. Consequently, it is necessary to track the item to which the fair value hedge adjustment relates. For a layer component in a fair value hedge, this requires an entity to track the nominal amount from which it is defined. For example, in paragraph B6.3.18(d), the total defined nominal amount of CU100 million must be tracked in order to track the bottom layer of CU20 million or the top layer of CU30 million.

B6.3.20 A layer component that includes a prepayment option is not eligible to be designated as a hedged item in a fair value hedge if the prepayment option’s fair value is affected by changes in the hedged risk, unless the designated layer includes the effect of the related prepayment option when determining the change in the fair value of the hedged item.

Relationship between components and the total cash flows of an item

B6.3.21 If a component of the cash flows of a financial or a non-financial item is designated as the hedged item, that component must be less than or equal to the total cash flows of the entire item. However, all of the cash flows of the entire item may be designated as the hedged item and hedged for only one particular risk (for example, only for those changes that are attributable to changes in LIBOR or a benchmark commodity price).

B6.3.22 For example, in the case of a financial liability whose effective interest rate is below LIBOR, an entity cannot designate:

- (a) a component of the liability equal to interest at LIBOR (plus the principal amount in case of a fair value hedge); and
- (b) a negative residual component.

B6.3.23 However, in the case of a fixed-rate financial liability whose effective interest rate is (for example) 100 basis points below LIBOR, an entity can designate as the hedged item the change in the value of that entire liability (ie principal plus interest at LIBOR minus 100 basis points) that is attributable to changes in LIBOR. If a fixed-rate financial instrument is hedged some time after its origination and interest rates have changed in the meantime, the entity can designate a risk component equal to a benchmark rate that is higher than the contractual rate paid on the item. The entity can do so provided that the benchmark rate is less than the effective interest rate calculated on the assumption that the entity had purchased the instrument on the day when it first designates the hedged item. For example, assume that an entity originates a fixed-rate financial asset of CU100 that has an effective interest rate of six per cent at a time when LIBOR is four per cent. It begins to hedge that asset some time later when LIBOR has increased to eight per cent and the fair value of the asset has decreased to CU90. The entity calculates that if it had purchased the asset on the date it first designates the related LIBOR interest rate risk as the hedged item, the effective yield of the asset based on its then fair value of CU90 would have been 9.5 per cent. Because LIBOR is less than this effective yield, the entity can designate a LIBOR component of eight per cent that consists partly of the contractual interest cash flows and partly of the difference between the current fair value (ie CU90) and the amount repayable on maturity (ie CU100).

B6.3.24 If a variable-rate financial liability bears interest of (for example) three-month LIBOR minus 20 basis points (with a floor at zero basis points), an entity can designate as the hedged item the change in the cash flows of that entire liability (ie three-month LIBOR minus 20 basis points—including the floor) that is attributable to changes in LIBOR. Hence, as long as the three-month LIBOR forward curve for the remaining life of that liability does not fall below 20 basis points, the hedged item has the same cash flow variability as a liability that bears interest at three-month LIBOR with a zero or positive spread. However, if the three-month LIBOR forward curve for the remaining life of that liability (or a part of it) falls below 20 basis points, the hedged item has a lower cash flow variability than a liability that bears interest at three-month LIBOR with a zero or positive spread.

B6.3.25 A similar example of a non-financial item is a specific type of crude oil from a particular oil field that is priced off the relevant benchmark crude oil. If an entity sells that crude oil under a contract using a contractual pricing formula that sets the price per barrel at the benchmark crude oil price minus CU10 with

a floor of CU15, the entity can designate as the hedged item the entire cash flow variability under the sales contract that is attributable to the change in the benchmark crude oil price. However, the entity cannot designate a component that is equal to the full change in the benchmark crude oil price. Hence, as long as the forward price (for each delivery) does not fall below CU25, the hedged item has the same cash flow variability as a crude oil sale at the benchmark crude oil price (or with a positive spread). However, if the forward price for any delivery falls below CU25, the hedged item has a lower cash flow variability than a crude oil sale at the benchmark crude oil price (or with a positive spread).

Qualifying criteria for hedge accounting (section 6.4)

Hedge effectiveness

- B6.4.1 Hedge effectiveness is the extent to which changes in the fair value or the cash flows of the hedging instrument offset changes in the fair value or the cash flows of the hedged item (for example, when the hedged item is a risk component, the relevant change in fair value or cash flows of an item is the one that is attributable to the hedged risk). Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item.
- B6.4.2 When designating a hedging relationship and on an ongoing basis, an entity shall analyse the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term. This analysis (including any updates in accordance with paragraph B6.5.21 arising from rebalancing a hedging relationship) is the basis for the entity's assessment of meeting the hedge effectiveness requirements.
- B6.4.3 For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraph 6.5.6 shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.

Economic relationship between the hedged item and the hedging instrument

- B6.4.4 The requirement that an economic relationship exists means that the hedging instrument and the hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk. Hence, there must be an expectation that the value of the hedging instrument and the value of the hedged item will systematically change in response to movements in either the same underlying or underlyings that are economically related in such a way that they respond in a similar way to the risk that is being hedged (for example, Brent and WTI crude oil).
- B6.4.5 If the underlyings are not the same but are economically related, there can be situations in which the values of the hedging instrument and the hedged item move in the same direction, for example, because the price differential between the two related underlyings changes while the underlyings themselves do not move significantly. That is still consistent with an economic relationship between the hedging instrument and the hedged item if the values of the hedging instrument and the hedged item are still expected to typically move in the opposite direction when the underlyings move.
- B6.4.6 The assessment of whether an economic relationship exists includes an analysis of the possible behaviour of the hedging relationship during its term to ascertain whether it can be expected to meet the risk management objective. The mere existence of a statistical correlation between two variables does not, by itself, support a valid conclusion that an economic relationship exists.

The effect of credit risk

- B6.4.7 Because the hedge accounting model is based on a general notion of offset between gains and losses on the hedging instrument and the hedged item, hedge effectiveness is determined not only by the economic relationship between those items (ie the changes in their underlyings) but also by the effect of credit risk on the value of both the hedging instrument and the hedged item. The effect of credit risk means that even if there is an economic relationship between the hedging instrument and the hedged item, the level of offset might become erratic. This can result from a change in the credit risk of either the hedging instrument or the hedged item that is of such a magnitude that the credit risk dominates the value changes that result from the economic relationship (ie the effect of the changes in the underlyings). A level of magnitude that gives rise to dominance is one that would result in the loss (or gain) from credit risk frustrating the effect of changes in the underlyings on the value of the hedging instrument or the hedged item, even if those changes were significant. Conversely, if during a particular period there is little change in the underlyings, the fact that even small credit risk-related changes in the value of the hedging instrument or the hedged item might affect the value more than the underlyings does not create dominance.
- B6.4.8 An example of credit risk dominating a hedging relationship is when an entity hedges an exposure to commodity price risk using an uncollateralised derivative. If the counterparty to that derivative experiences a severe deterioration in its credit standing, the effect of the changes in the counterparty's credit standing might outweigh the effect of changes in the commodity price on the fair value of the hedging instrument, whereas changes in the value of the hedged item depend largely on the commodity price changes.

Hedge ratio

B6.4.9 In accordance with the hedge effectiveness requirements, the hedge ratio of the hedging relationship must be the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Hence, if an entity hedges less than 100 per cent of the exposure on an item, such as 85 per cent, it shall designate the hedging relationship using a hedge ratio that is the same as that resulting from 85 per cent of the exposure and the quantity of the hedging instrument that the entity actually uses to hedge those 85 per cent. Similarly, if, for example, an entity hedges an exposure using a nominal amount of 40 units of a financial instrument, it shall designate the hedging relationship using a hedge ratio that is the same as that resulting from that quantity of 40 units (ie the entity must not use a hedge ratio based on a higher quantity of units that it might hold in total or a lower quantity of units) and the quantity of the hedged item that it actually hedges with those 40 units.

B6.4.10 However, the designation of the hedging relationship using the same hedge ratio as that resulting from the quantities of the hedged item and the hedging instrument that the entity actually uses shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would in turn create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. Hence, for the purpose of designating a hedging relationship, an entity must adjust the hedge ratio that results from the quantities of the hedged item and the hedging instrument that the entity actually uses if that is needed to avoid such an imbalance.

B6.4.11 Examples of relevant considerations in assessing whether an accounting outcome is inconsistent with the purpose of hedge accounting are:

- (a) whether the intended hedge ratio is established to avoid recognising hedge ineffectiveness for cash flow hedges, or to achieve fair value hedge adjustments for more hedged items with the aim of increasing the use of fair value accounting, but without offsetting fair value changes of the hedging instrument; and
- (b) whether there is a commercial reason for the particular weightings of the hedged item and the hedging instrument, even though that creates hedge ineffectiveness. For example, an entity enters into and designates a quantity of the hedging instrument that is not the quantity that it determined as the best hedge of the hedged item because the standard volume of the hedging instruments does not allow it to enter into that exact quantity of hedging instrument (a 'lot size issue'). An example is an entity that hedges 100 tonnes of coffee purchases with standard coffee futures contracts that have a contract size of 37,500 lbs (pounds). The entity could only use either five or six contracts (equivalent to 85.0 and 102.1 tonnes respectively) to hedge the purchase volume of 100 tonnes. In that case, the entity designates the hedging relationship using the hedge ratio that results from the number of coffee futures contracts that it actually uses, because the hedge ineffectiveness resulting from the mismatch in the weightings of the hedged item and the hedging instrument would not result in an accounting outcome that is inconsistent with the purpose of hedge accounting.

Frequency of assessing whether the hedge effectiveness requirements are met

B6.4.12 An entity shall assess at the inception of the hedging relationship, and on an ongoing basis, whether a hedging relationship meets the hedge effectiveness requirements. At a minimum, an entity shall perform the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

Methods for assessing whether the hedge effectiveness requirements are met

B6.4.13 This Standard does not specify a method for assessing whether a hedging relationship meets the hedge effectiveness requirements. However, an entity shall use a method that captures the relevant characteristics of the hedging relationship including the sources of hedge ineffectiveness. Depending on those factors, the method can be a qualitative or a quantitative assessment.

B6.4.14 For example, when the critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument (see paragraphs B6.4.4–B6.4.6).

B6.4.15 The fact that a derivative is in or out of the money when it is designated as a hedging instrument does not in itself mean that a qualitative assessment is inappropriate. It depends on the circumstances whether hedge ineffectiveness arising from that fact could have a magnitude that a qualitative assessment would not adequately capture.

- B6.4.16 Conversely, if the critical terms of the hedging instrument and the hedged item are not closely aligned, there is an increased level of uncertainty about the extent of offset. Consequently, the hedge effectiveness during the term of the hedging relationship is more difficult to predict. In such a situation it might only be possible for an entity to conclude on the basis of a quantitative assessment that an economic relationship exists between the hedged item and the hedging instrument (see paragraphs B6.4.4–B6.4.6). In some situations a quantitative assessment might also be needed to assess whether the hedge ratio used for designating the hedging relationship meets the hedge effectiveness requirements (see paragraphs B6.4.9–B6.4.11). An entity can use the same or different methods for those two different purposes.
- B6.4.17 If there are changes in circumstances that affect hedge effectiveness, an entity may have to change the method for assessing whether a hedging relationship meets the hedge effectiveness requirements in order to ensure that the relevant characteristics of the hedging relationship, including the sources of hedge ineffectiveness, are still captured.
- B6.4.18 An entity's risk management is the main source of information to perform the assessment of whether a hedging relationship meets the hedge effectiveness requirements. This means that the management information (or analysis) used for decision-making purposes can be used as a basis for assessing whether a hedging relationship meets the hedge effectiveness requirements.
- B6.4.19 An entity's documentation of the hedging relationship includes how it will assess the hedge effectiveness requirements, including the method or methods used. The documentation of the hedging relationship shall be updated for any changes to the methods (see paragraph B6.4.17).

Accounting for qualifying hedging relationships (section 6.5)

- B6.5.1 An example of a fair value hedge is a hedge of exposure to changes in the fair value of a fixed-rate debt instrument arising from changes in interest rates. Such a hedge could be entered into by the issuer or by the holder.
- B6.5.2 The purpose of a cash flow hedge is to defer the gain or loss on the hedging instrument to a period or periods in which the hedged expected future cash flows affect profit or loss. An example of a cash flow hedge is the use of a swap to change floating rate debt (whether measured at amortised cost or fair value) to fixed-rate debt (ie a hedge of a future transaction in which the future cash flows being hedged are the future interest payments). Conversely, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value through profit or loss, is an example of an item that cannot be the hedged item in a cash flow hedge, because any gain or loss on the hedging instrument that would be deferred could not be appropriately reclassified to profit or loss during a period in which it would achieve offset. For the same reason, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value with changes in fair value presented in other comprehensive income also cannot be the hedged item in a cash flow hedge.
- B6.5.3 A hedge of a firm commitment (for example, a hedge of the change in fuel price relating to an unrecognised contractual commitment by an electric utility to purchase fuel at a fixed price) is a hedge of an exposure to a change in fair value. Accordingly, such a hedge is a fair value hedge. However, in accordance with paragraph 6.5.4, a hedge of the foreign currency risk of a firm commitment could alternatively be accounted for as a cash flow hedge.

Measurement of hedge ineffectiveness

- B6.5.4 When measuring hedge ineffectiveness, an entity shall consider the time value of money. Consequently, the entity determines the value of the hedged item on a present value basis and therefore the change in the value of the hedged item also includes the effect of the time value of money.
- B6.5.5 To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item (this is commonly referred to as a 'hypothetical derivative'), and, for example for a hedge of a forecast transaction, would be calibrated using the hedged price (or rate) level. For example, if the hedge was for a two-sided risk at the current market level, the hypothetical derivative would represent a hypothetical forward contract that is calibrated to a value of nil at the time of designation of the hedging relationship. If the hedge was for example for a one-sided risk, the hypothetical derivative would represent the intrinsic value of a hypothetical option that at the time of designation of the hedging relationship is at the money if the hedged price level is the current market level, or out of the money if the hedged price level is above (or, for a hedge of a long position, below) the current market level. Using a hypothetical derivative is one possible way of calculating the change in the value of the hedged item. The hypothetical derivative replicates the hedged item and hence results in the same outcome as if that change in value was determined by a different approach. Hence, using a 'hypothetical derivative' is not a method in its own right but a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a 'hypothetical derivative' cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item). An example is debt denominated in a foreign currency (irrespective of whether it is fixed-rate or variable-rate debt). When using a hypothetical derivative to calculate the change in the value of such debt or the present value of the cumulative change in its cash flows, the hypothetical derivative cannot simply impute a charge for exchanging different

currencies even though actual derivatives under which different currencies are exchanged might include such a charge (for example, cross-currency interest rate swaps).

- B6.5.6 The change in the value of the hedged item determined using a hypothetical derivative may also be used for the purpose of assessing whether a hedging relationship meets the hedge effectiveness requirements.

Rebalancing the hedging relationship and changes to the hedge ratio

- B6.5.7 Rebalancing refers to the adjustments made to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements. Changes to designated quantities of a hedged item or of a hedging instrument for a different purpose do not constitute rebalancing for the purpose of this Standard.

- B6.5.8 Rebalancing is accounted for as a continuation of the hedging relationship in accordance with paragraphs B6.5.9–B6.5.21. On rebalancing, the hedge ineffectiveness of the hedging relationship is determined and recognised immediately before adjusting the hedging relationship.

- B6.5.9 Adjusting the hedge ratio allows an entity to respond to changes in the relationship between the hedging instrument and the hedged item that arise from their underlyings or risk variables. For example, a hedging relationship in which the hedging instrument and the hedged item have different but related underlyings changes in response to a change in the relationship between those two underlyings (for example, different but related reference indices, rates or prices). Hence, rebalancing allows the continuation of a hedging relationship in situations in which the relationship between the hedging instrument and the hedged item changes in a way that can be compensated for by adjusting the hedge ratio.

- B6.5.10 For example, an entity hedges an exposure to Foreign Currency A using a currency derivative that references Foreign Currency B and Foreign Currencies A and B are pegged (ie their exchange rate is maintained within a band or at an exchange rate set by a central bank or other authority). If the exchange rate between Foreign Currency A and Foreign Currency B were changed (ie a new band or rate was set), rebalancing the hedging relationship to reflect the new exchange rate would ensure that the hedging relationship would continue to meet the hedge effectiveness requirement for the hedge ratio in the new circumstances. In contrast, if there was a default on the currency derivative, changing the hedge ratio could not ensure that the hedging relationship would continue to meet that hedge effectiveness requirement. Hence, rebalancing does not facilitate the continuation of a hedging relationship in situations in which the relationship between the hedging instrument and the hedged item changes in a way that cannot be compensated for by adjusting the hedge ratio.

- B6.5.11 Not every change in the extent of offset between the changes in the fair value of the hedging instrument and the hedged item's fair value or cash flows constitutes a change in the relationship between the hedging instrument and the hedged item. An entity analyses the sources of hedge ineffectiveness that it expected to affect the hedging relationship during its term and evaluates whether changes in the extent of offset are:

- (a) fluctuations around the hedge ratio, which remains valid (ie continues to appropriately reflect the relationship between the hedging instrument and the hedged item); or
- (b) an indication that the hedge ratio no longer appropriately reflects the relationship between the hedging instrument and the hedged item.

An entity performs this evaluation against the hedge effectiveness requirement for the hedge ratio, ie to ensure that the hedging relationship does not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. Hence, this evaluation requires judgement.

- B6.5.12 Fluctuation around a constant hedge ratio (and hence the related hedge ineffectiveness) cannot be reduced by adjusting the hedge ratio in response to each particular outcome. Hence, in such circumstances, the change in the extent of offset is a matter of measuring and recognising hedge ineffectiveness but does not require rebalancing.

- B6.5.13 Conversely, if changes in the extent of offset indicate that the fluctuation is around a hedge ratio that is different from the hedge ratio that is currently used for that hedging relationship, or that there is a trend leading away from that hedge ratio, hedge ineffectiveness can be reduced by adjusting the hedge ratio, whereas retaining the hedge ratio would increasingly produce hedge ineffectiveness. Hence, in such circumstances, an entity must evaluate whether the hedging relationship reflects an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. If the hedge ratio is adjusted, it also affects the measurement and recognition of hedge ineffectiveness because, on rebalancing, the hedge ineffectiveness

of the hedging relationship must be determined and recognised immediately before adjusting the hedging relationship in accordance with paragraph B6.5.8.

- B6.5.14 Rebalancing means that, for hedge accounting purposes, after the start of a hedging relationship an entity adjusts the quantities of the hedging instrument or the hedged item in response to changes in circumstances that affect the hedge ratio of that hedging relationship. Typically, that adjustment should reflect adjustments in the quantities of the hedging instrument and the hedged item that it actually uses. However, an entity must adjust the hedge ratio that results from the quantities of the hedged item or the hedging instrument that it actually uses if:
- (a) the hedge ratio that results from changes to the quantities of the hedging instrument or the hedged item that the entity actually uses would reflect an imbalance that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting; or
 - (b) an entity would retain quantities of the hedging instrument and the hedged item that it actually uses, resulting in a hedge ratio that, in new circumstances, would reflect an imbalance that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting (ie an entity must not create an imbalance by omitting to adjust the hedge ratio).
- B6.5.15 Rebalancing does not apply if the risk management objective for a hedging relationship has changed. Instead, hedge accounting for that hedging relationship shall be discontinued (notwithstanding that an entity might designate a new hedging relationship that involves the hedging instrument or hedged item of the previous hedging relationship as described in paragraph B6.5.28).
- B6.5.16 If a hedging relationship is rebalanced, the adjustment to the hedge ratio can be effected in different ways:
- (a) the weighting of the hedged item can be increased (which at the same time reduces the weighting of the hedging instrument) by:
 - (i) increasing the volume of the hedged item; or
 - (ii) decreasing the volume of the hedging instrument.
 - (b) the weighting of the hedging instrument can be increased (which at the same time reduces the weighting of the hedged item) by:
 - (i) increasing the volume of the hedging instrument; or
 - (ii) decreasing the volume of the hedged item.

Changes in volume refer to the quantities that are part of the hedging relationship. Hence, decreases in volumes do not necessarily mean that the items or transactions no longer exist, or are no longer expected to occur, but that they are not part of the hedging relationship. For example, decreasing the volume of the hedging instrument can result in the entity retaining a derivative, but only part of it might remain a hedging instrument of the hedging relationship. This could occur if the rebalancing could be effected only by reducing the volume of the hedging instrument in the hedging relationship, but with the entity retaining the volume that is no longer needed. In that case, the undesignated part of the derivative would be accounted for at fair value through profit or loss (unless it was designated as a hedging instrument in a different hedging relationship).

- B6.5.17 Adjusting the hedge ratio by increasing the volume of the hedged item does not affect how the changes in the fair value of the hedging instrument are measured. The measurement of the changes in the value of the hedged item related to the previously designated volume also remains unaffected. However, from the date of rebalancing, the changes in the value of the hedged item also include the change in the value of the additional volume of the hedged item. These changes are measured starting from, and by reference to, the date of rebalancing instead of the date on which the hedging relationship was designated. For example, if an entity originally hedged a volume of 100 tonnes of a commodity at a forward price of CU80 (the forward price at inception of the hedging relationship) and added a volume of 10 tonnes on rebalancing when the forward price was CU90, the hedged item after rebalancing would comprise two layers: 100 tonnes hedged at CU80 and 10 tonnes hedged at CU90.
- B6.5.18 Adjusting the hedge ratio by decreasing the volume of the hedging instrument does not affect how the changes in the value of the hedged item are measured. The measurement of the changes in the fair value of the hedging instrument related to the volume that continues to be designated also remains unaffected. However, from the date of rebalancing, the volume by which the hedging instrument was decreased is no longer part of the hedging relationship. For example, if an entity originally hedged the price risk of a commodity using a derivative volume of 100 tonnes as the hedging instrument and reduces that volume by 10 tonnes on rebalancing, a nominal amount of 90 tonnes of the hedging instrument volume would remain

(see paragraph B6.5.16 for the consequences for the derivative volume (ie the 10 tonnes) that is no longer a part of the hedging relationship).

B6.5.19 Adjusting the hedge ratio by increasing the volume of the hedging instrument does not affect how the changes in the value of the hedged item are measured. The measurement of the changes in the fair value of the hedging instrument related to the previously designated volume also remains unaffected. However, from the date of rebalancing, the changes in the fair value of the hedging instrument also include the changes in the value of the additional volume of the hedging instrument. The changes are measured starting from, and by reference to, the date of rebalancing instead of the date on which the hedging relationship was designated. For example, if an entity originally hedged the price risk of a commodity using a derivative volume of 100 tonnes as the hedging instrument and added a volume of 10 tonnes on rebalancing, the hedging instrument after rebalancing would comprise a total derivative volume of 110 tonnes. The change in the fair value of the hedging instrument is the total change in the fair value of the derivatives that make up the total volume of 110 tonnes. These derivatives could (and probably would) have different critical terms, such as their forward rates, because they were entered into at different points in time (including the possibility of designating derivatives into hedging relationships after their initial recognition).

B6.5.20 Adjusting the hedge ratio by decreasing the volume of the hedged item does not affect how the changes in the fair value of the hedging instrument are measured. The measurement of the changes in the value of the hedged item related to the volume that continues to be designated also remains unaffected. However, from the date of rebalancing, the volume by which the hedged item was decreased is no longer part of the hedging relationship. For example, if an entity originally hedged a volume of 100 tonnes of a commodity at a forward price of CU80 and reduces that volume by 10 tonnes on rebalancing, the hedged item after rebalancing would be 90 tonnes hedged at CU80. The 10 tonnes of the hedged item that are no longer part of the hedging relationship would be accounted for in accordance with the requirements for the discontinuation of hedge accounting (see paragraphs 6.5.6–6.5.7 and B6.5.22–B6.5.28).

B6.5.21 When rebalancing a hedging relationship, an entity shall update its analysis of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its (remaining) term (see paragraph B6.4.2). The documentation of the hedging relationship shall be updated accordingly.

Discontinuation of hedge accounting

B6.5.22 Discontinuation of hedge accounting applies prospectively from the date on which the qualifying criteria are no longer met.

B6.5.23 An entity shall not de-designate and thereby discontinue a hedging relationship that:

- (a) still meets the risk management objective on the basis of which it qualified for hedge accounting (ie the entity still pursues that risk management objective); and
- (b) continues to meet all other qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable).

B6.5.24 For the purposes of this Standard, an entity's risk management strategy is distinguished from its risk management objectives. The risk management strategy is established at the highest level at which an entity determines how it manages its risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for a longer period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place (for example, different interest rate or commodity price levels that result in a different extent of hedging). This is normally set out in a general document that is cascaded down through an entity through policies containing more specific guidelines. In contrast, the risk management objective for a hedging relationship applies at the level of a particular hedging relationship. It relates to how the particular hedging instrument that has been designated is used to hedge the particular exposure that has been designated as the hedged item. Hence, a risk management strategy can involve many different hedging relationships whose risk management objectives relate to executing that overall risk management strategy. For example:

- (a) an entity has a strategy of managing its interest rate exposure on debt funding that sets ranges for the overall entity for the mix between variable-rate and fixed-rate funding. The strategy is to maintain between 20 per cent and 40 per cent of the debt at fixed-rates. The entity decides from time to time how to execute this strategy (ie where it positions itself within the 20 per cent to 40 per cent range for fixed-rate interest exposure) depending on the level of interest rates. If interest rates are low the entity fixes the interest for more debt than when interest rates are high. The entity's debt is CU100 of variable-rate debt of which CU30 is swapped into a fixed-rate exposure. The entity takes advantage of low interest rates to issue an additional CU50 of debt to finance a major investment, which the entity does by issuing a fixed-rate bond. In the light of the low interest rates, the entity decides to set its fixed interest-rate exposure to 40 per cent of the total debt by reducing by CU20 the extent to which it previously hedged its variable-rate exposure, resulting in CU60 of fixed-rate exposure. In this situation the risk management strategy itself remains unchanged. However, in contrast the entity's execution of that strategy has changed and this means that, for CU20 of variable-rate exposure that was previously hedged, the risk management objective has changed (ie at the hedging

relationship level). Consequently, in this situation hedge accounting must be discontinued for CU20 of the previously hedged variable-rate exposure. This could involve reducing the swap position by a CU20 nominal amount but, depending on the circumstances, an entity might retain that swap volume and, for example, use it for hedging a different exposure or it might become part of a trading book. Conversely, if an entity instead swapped a part of its new fixed-rate debt into a variable-rate exposure, hedge accounting would have to be continued for its previously hedged variable-rate exposure.

- (b) some exposures result from positions that frequently change, for example, the interest rate risk of an open portfolio of debt instruments. The addition of new debt instruments and the derecognition of debt instruments continuously change that exposure (ie it is different from simply running off a position that matures). This is a dynamic process in which both the exposure and the hedging instruments used to manage it do not remain the same for long. Consequently, an entity with such an exposure frequently adjusts the hedging instruments used to manage the interest rate risk as the exposure changes. For example, debt instruments with 24 months' remaining maturity are designated as the hedged item for interest rate risk for 24 months. The same procedure is applied to other time buckets or maturity periods. After a short period of time, the entity discontinues all, some or a part of the previously designated hedging relationships for maturity periods and designates new hedging relationships for maturity periods on the basis of their size and the hedging instruments that exist at that time. The discontinuation of hedge accounting in this situation reflects that those hedging relationships are established in such a way that the entity looks at a new hedging instrument and a new hedged item instead of the hedging instrument and the hedged item that were designated previously. The risk management strategy remains the same, but there is no risk management objective that continues for those previously designated hedging relationships, which as such no longer exist. In such a situation, the discontinuation of hedge accounting applies to the extent to which the risk management objective has changed. This depends on the situation of an entity and could, for example, affect all or only some hedging relationships of a maturity periods, or only part of a hedging relationship.
- (c) an entity has a risk management strategy whereby it manages the foreign currency risk of forecast sales and the resulting receivables. Within that strategy the entity manages the foreign currency risk as a particular hedging relationship only up to the point of the recognition of the receivable. Thereafter, the entity no longer manages the foreign currency risk on the basis of that particular hedging relationship. Instead, it manages together the foreign currency risk from receivables, payables and derivatives (that do not relate to forecast transactions that are still pending) denominated in the same foreign currency. For accounting purposes, this works as a 'natural' hedge because the gains and losses from the foreign currency risk on all of those items are immediately recognised in profit or loss. Consequently, for accounting purposes, if the hedging relationship is designated for the period up to the payment date, it must be discontinued when the receivable is recognised, because the risk management objective of the original hedging relationship no longer applies. The foreign currency risk is now managed within the same strategy but on a different basis. Conversely, if an entity had a different risk management objective and managed the foreign currency risk as one continuous hedging relationship specifically for that forecast sales amount and the resulting receivable until the settlement date, hedge accounting would continue until that date.

B6.5.25 The discontinuation of hedge accounting can affect:

- (a) a hedging relationship in its entirety; or
- (b) a part of a hedging relationship (which means that hedge accounting continues for the remainder of the hedging relationship).

B6.5.26 A hedging relationship is discontinued in its entirety when, as a whole, it ceases to meet the qualifying criteria. For example:

- (a) the hedging relationship no longer meets the risk management objective on the basis of which it qualified for hedge accounting (ie the entity no longer pursues that risk management objective);
- (b) the hedging instrument or instruments have been sold or terminated (in relation to the entire volume that was part of the hedging relationship); or
- (c) there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk starts to dominate the value changes that result from that economic relationship.

B6.5.27 A part of a hedging relationship is discontinued (and hedge accounting continues for its remainder) when only a part of the hedging relationship ceases to meet the qualifying criteria. For example:

- (a) on rebalancing of the hedging relationship, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of the hedging relationship (see paragraph B6.5.20); hence, hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship; or

- (b) when the occurrence of some of the volume of the hedged item that is (or is a component of) a forecast transaction is no longer highly probable, hedge accounting is discontinued only for the volume of the hedged item whose occurrence is no longer highly probable. However, if an entity has a history of having designated hedges of forecast transactions and having subsequently determined that the forecast transactions are no longer expected to occur, the entity's ability to predict forecast transactions accurately is called into question when predicting similar forecast transactions. This affects the assessment of whether similar forecast transactions are highly probable (see paragraph 6.3.3) and hence whether they are eligible as hedged items.

B6.5.28 An entity can designate a new hedging relationship that involves the hedging instrument or hedged item of a previous hedging relationship for which hedge accounting was (in part or in its entirety) discontinued. This does not constitute a continuation of a hedging relationship but is a restart. For example:

- (a) a hedging instrument experiences such a severe credit deterioration that the entity replaces it with a new hedging instrument. This means that the original hedging relationship failed to achieve the risk management objective and is hence discontinued in its entirety. The new hedging instrument is designated as the hedge of the same exposure that was hedged previously and forms a new hedging relationship. Hence, the changes in the fair value or the cash flows of the hedged item are measured starting from, and by reference to, the date of designation of the new hedging relationship instead of the date on which the original hedging relationship was designated.
- (b) a hedging relationship is discontinued before the end of its term. The hedging instrument in that hedging relationship can be designated as the hedging instrument in another hedging relationship (for example, when adjusting the hedge ratio on rebalancing by increasing the volume of the hedging instrument or when designating a whole new hedging relationship).

Accounting for the time value of options

B6.5.29 An option can be considered as being related to a time period because its time value represents a charge for providing protection for the option holder over a period of time. However, the relevant aspect for the purpose of assessing whether an option hedges a transaction or time-period related hedged item are the characteristics of that hedged item, including how and when it affects profit or loss. Hence, an entity shall assess the type of hedged item (see paragraph 6.5.15(a)) on the basis of the nature of the hedged item (regardless of whether the hedging relationship is a cash flow hedge or a fair value hedge):

- (a) the time value of an option relates to a transaction related hedged item if the nature of the hedged item is a transaction for which the time value has the character of costs of that transaction. An example is when the time value of an option relates to a hedged item that results in the recognition of an item whose initial measurement includes transaction costs (for example, an entity hedges a commodity purchase, whether it is a forecast transaction or a firm commitment, against the commodity price risk and includes the transaction costs in the initial measurement of the inventory). As a consequence of including the time value of the option in the initial measurement of the particular hedged item, the time value affects profit or loss at the same time as that hedged item. Similarly, an entity that hedges a sale of a commodity, whether it is a forecast transaction or a firm commitment, would include the time value of the option as part of the cost related to that sale (hence, the time value would be recognised in profit or loss in the same period as the revenue from the hedged sale).
- (b) the time value of an option relates to a time-period related hedged item if the nature of the hedged item is such that the time value has the character of a cost for obtaining protection against a risk over a particular period of time (but the hedged item does not result in a transaction that involves the notion of a transaction cost in accordance with (a)). For example, if commodity inventory is hedged against a fair value decrease for six months using a commodity option with a corresponding life, the time value of the option would be allocated to profit or loss (ie amortised on a systematic and rational basis) over that six-month period. Another example is a hedge of a net investment in a foreign operation that is hedged for 18 months using a foreign-exchange option, which would result in allocating the time value of the option over that 18-month period.

B6.5.30 The characteristics of the hedged item, including how and when the hedged item affects profit or loss, also affect the period over which the time value of an option that hedges a time-period related hedged item is amortised, which is consistent with the period over which the option's intrinsic value can affect profit or loss in accordance with hedge accounting. For example, if an interest rate option (a cap) is used to provide protection against increases in the interest expense on a floating rate bond, the time value of that cap is amortised to profit or loss over the same period over which any intrinsic value of the cap would affect profit or loss:

- (a) if the cap hedges increases in interest rates for the first three years out of a total life of the floating rate bond of five years, the time value of that cap is amortised over the first three years; or
- (b) if the cap is a forward start option that hedges increases in interest rates for years two and three out of a total life of the floating rate bond of five years, the time value of that cap is amortised during years two and three.

B6.5.31 The accounting for the time value of options in accordance with paragraph 6.5.15 also applies to a combination of a purchased and a written option (one being a put option and one being a call option) that at the date of designation as a hedging instrument has a net nil time value (commonly referred to as a 'zero-cost collar'). In that case, an entity shall recognise any changes in time value in other comprehensive income, even though the cumulative change in time value over the total period of the hedging relationship is nil. Hence, if the time value of the option relates to:

- (a) a transaction related hedged item, the amount of time value at the end of the hedging relationship that adjusts the hedged item or that is reclassified to profit or loss (see paragraph 6.5.15(b)) would be nil.
- (b) a time-period related hedged item, the amortisation expense related to the time value is nil.

B6.5.32 The accounting for the time value of options in accordance with paragraph 6.5.15 applies only to the extent that the time value relates to the hedged item (aligned time value). The time value of an option relates to the hedged item if the critical terms of the option (such as the nominal amount, life and underlying) are aligned with the hedged item. Hence, if the critical terms of the option and the hedged item are not fully aligned, an entity shall determine the aligned time value, ie how much of the time value included in the premium (actual time value) relates to the hedged item (and therefore should be treated in accordance with paragraph 6.5.15). An entity determines the aligned time value using the valuation of the option that would have critical terms that perfectly match the hedged item.

B6.5.33 If the actual time value and the aligned time value differ, an entity shall determine the amount that is accumulated in a separate component of equity in accordance with paragraph 6.5.15 as follows:

- (a) if, at inception of the hedging relationship, the actual time value is higher than the aligned time value, the entity shall:
 - (i) determine the amount that is accumulated in a separate component of equity on the basis of the aligned time value; and
 - (ii) account for the differences in the fair value changes between the two time values in profit or loss.
- (b) if, at inception of the hedging relationship, the actual time value is lower than the aligned time value, the entity shall determine the amount that is accumulated in a separate component of equity by reference to the lower of the cumulative change in fair value of:
 - (i) the actual time value; and
 - (ii) the aligned time value.

Any remainder of the change in fair value of the actual time value shall be recognised in profit or loss.

Accounting for the forward element of forward contracts and foreign currency basis spreads of financial instruments

B6.5.34 A forward contract can be considered as being related to a time period because its forward element represents charges for a period of time (which is the tenor for which it is determined). However, the relevant aspect for the purpose of assessing whether a hedging instrument hedges a transaction or time-period related hedged item are the characteristics of that hedged item, including how and when it affects profit or loss. Hence, an entity shall assess the type of hedged item (see paragraphs 6.5.16 and 6.5.15(a)) on the basis of the nature of the hedged item (regardless of whether the hedging relationship is a cash flow hedge or a fair value hedge):

- (a) the forward element of a forward contract relates to a transaction related hedged item if the nature of the hedged item is a transaction for which the forward element has the character of costs of that transaction. An example is when the forward element relates to a hedged item that results in the recognition of an item whose initial measurement includes transaction costs (for example, an entity hedges an inventory purchase denominated in a foreign currency, whether it is a forecast transaction or a firm commitment, against foreign currency risk and includes the transaction costs in the initial measurement of the inventory). As a consequence of including the forward element in the initial measurement of the particular hedged item, the forward element affects profit or loss at the same time as that hedged item. Similarly, an entity that hedges a sale of a commodity denominated in a foreign currency against foreign currency risk, whether it is a forecast transaction or a firm commitment, would include the forward element as part of the cost that is related to that sale (hence, the forward element would be recognised in profit or loss in the same period as the revenue from the hedged sale).
- (b) the forward element of a forward contract relates to a time-period related hedged item if the nature of the hedged item is such that the forward element has the character of a cost for obtaining protection

against a risk over a particular period of time (but the hedged item does not result in a transaction that involves the notion of a transaction cost in accordance with (a)). For example, if commodity inventory is hedged against changes in fair value for six months using a commodity forward contract with a corresponding life, the forward element of the forward contract would be allocated to profit or loss (ie amortised on a systematic and rational basis) over that six-month period. Another example is a hedge of a net investment in a foreign operation that is hedged for 18 months using a foreign-exchange forward contract, which would result in allocating the forward element of the forward contract over that 18-month period.

B6.5.35 The characteristics of the hedged item, including how and when the hedged item affects profit or loss, also affect the period over which the forward element of a forward contract that hedges a time-period related hedged item is amortised, which is over the period to which the forward element relates. For example, if a forward contract hedges the exposure to variability in three-month interest rates for a three-month period that starts in six months' time, the forward element is amortised during the period that spans months seven to nine.

B6.5.36 The accounting for the forward element of a forward contract in accordance with paragraph 6.5.16 also applies if, at the date on which the forward contract is designated as a hedging instrument, the forward element is nil. In that case, an entity shall recognise any fair value changes attributable to the forward element in other comprehensive income, even though the cumulative fair value change attributable to the forward element over the total period of the hedging relationship is nil. Hence, if the forward element of a forward contract relates to:

- (a) a transaction related hedged item, the amount in respect of the forward element at the end of the hedging relationship that adjusts the hedged item or that is reclassified to profit or loss (see paragraphs 6.5.16 and 6.5.15(b)) would be nil.
- (b) a time-period related hedged item, the amortisation amount related to the forward element is nil.

B6.5.37 The accounting for the forward element of forward contracts in accordance with paragraph 6.5.16 applies only to the extent that the forward element relates to the hedged item (aligned forward element). The forward element of a forward contract relates to the hedged item if the critical terms of the forward contract (such as the nominal amount, life and underlying) are aligned with the hedged item. Hence, if the critical terms of the forward contract and the hedged item are not fully aligned, an entity shall determine the aligned forward element, ie how much of the forward element included in the forward contract (actual forward element) relates to the hedged item (and therefore should be treated in accordance with paragraph 6.5.16). An entity determines the aligned forward element using the valuation of the forward contract that would have critical terms that perfectly match the hedged item.

B6.5.38 If the actual forward element and the aligned forward element differ, an entity shall determine the amount that is accumulated in a separate component of equity in accordance with paragraph 6.5.16 as follows:

- (a) if, at inception of the hedging relationship, the absolute amount of the actual forward element is higher than that of the aligned forward element the entity shall:
 - (i) determine the amount that is accumulated in a separate component of equity on the basis of the aligned forward element; and
 - (ii) account for the differences in the fair value changes between the two forward elements in profit or loss.
- (b) if, at inception of the hedging relationship, the absolute amount of the actual forward element is lower than that of the aligned forward element, the entity shall determine the amount that is accumulated in a separate component of equity by reference to the lower of the cumulative change in fair value of:
 - (i) the absolute amount of the actual forward element; and
 - (ii) the absolute amount of the aligned forward element.

Any remainder of the change in fair value of the actual forward element shall be recognised in profit or loss.

B6.5.39 When an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument (see paragraph 6.2.4(b)), the application guidance in paragraphs B6.5.34–B6.5.38 applies to the foreign currency basis spread in the same manner as it is applied to the forward element of a forward contract.

Hedge of a group of items (section 6.6)

Hedge of a net position

Eligibility for hedge accounting and designation of a net position

- B6.6.1 A net position is eligible for hedge accounting only if an entity hedges on a net basis for risk management purposes. Whether an entity hedges in this way is a matter of fact (not merely of assertion or documentation). Hence, an entity cannot apply hedge accounting on a net basis solely to achieve a particular accounting outcome if that would not reflect its risk management approach. Net position hedging must form part of an established risk management strategy. Normally this would be approved by key management personnel as defined in AASB 124 *Related Party Disclosures*.
- B6.6.2 For example, Entity A, whose functional currency is its local currency, has a firm commitment to pay FC150,000 for advertising expenses in nine months' time and a firm commitment to sell finished goods for FC150,000 in 15 months' time. Entity A enters into a foreign currency derivative that settles in nine months' time under which it receives FC100 and pays CU70. Entity A has no other exposures to FC. Entity A does not manage foreign currency risk on a net basis. Hence, Entity A cannot apply hedge accounting for a hedging relationship between the foreign currency derivative and a net position of FC100 (consisting of FC150,000 of the firm purchase commitment—ie advertising services—and FC149,900 (of the FC150,000) of the firm sale commitment) for a nine-month period.
- B6.6.3 If Entity A did manage foreign currency risk on a net basis and did not enter into the foreign currency derivative (because it increases its foreign currency risk exposure instead of reducing it), then the entity would be in a natural hedged position for nine months. Normally, this hedged position would not be reflected in the financial statements because the transactions are recognised in different reporting periods in the future. The nil net position would be eligible for hedge accounting only if the conditions in paragraph 6.6.6 are met.
- B6.6.4 When a group of items that constitute a net position is designated as a hedged item, an entity shall designate the overall group of items that includes the items that can make up the net position. An entity is not permitted to designate a non-specific abstract amount of a net position. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. The entity cannot designate an abstract amount of a net position up to FC20. Instead, it must designate a gross amount of purchases and a gross amount of sales that together give rise to the hedged net position. An entity shall designate gross positions that give rise to the net position so that the entity is able to comply with the requirements for the accounting for qualifying hedging relationships.

Application of the hedge effectiveness requirements to a hedge of a net position

- B6.6.5 When an entity determines whether the hedge effectiveness requirements of paragraph 6.4.1(c) are met when it hedges a net position, it shall consider the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. It hedges the foreign currency risk of the net position of FC20 using a forward exchange contract for FC20. When determining whether the hedge effectiveness requirements of paragraph 6.4.1(c) are met, the entity shall consider the relationship between:
- the fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the firm sale commitments; and
 - the foreign currency risk related changes in the value of the firm purchase commitments.
- B6.6.6 Similarly, if in the example in paragraph B6.6.5 the entity had a nil net position it would consider the relationship between the foreign currency risk related changes in the value of the firm sale commitments and the foreign currency risk related changes in the value of the firm purchase commitments when determining whether the hedge effectiveness requirements of paragraph 6.4.1(c) are met.

Cash flow hedges that constitute a net position

- B6.6.7 When an entity hedges a group of items with offsetting risk positions (ie a net position), the eligibility for hedge accounting depends on the type of hedge. If the hedge is a fair value hedge, then the net position may be eligible as a hedged item. If, however, the hedge is a cash flow hedge, then the net position can only be eligible as a hedged item if it is a hedge of foreign currency risk and the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect profit or loss and also specifies their nature and volume.
- B6.6.8 For example, an entity has a net position that consists of a bottom layer of FC100 of sales and a bottom layer of FC150 of purchases. Both sales and purchases are denominated in the same foreign currency. In order to sufficiently specify the designation of the hedged net position, the entity specifies in

the original documentation of the hedging relationship that sales can be of Product A or Product B and purchases can be of Machinery Type A, Machinery Type B and Raw Material A. The entity also specifies the volumes of the transactions by each nature. The entity documents that the bottom layer of sales (FC100) is made up of a forecast sales volume of the first FC70 of Product A and the first FC30 of Product B. If those sales volumes are expected to affect profit or loss in different reporting periods, the entity would include that in the documentation, for example, the first FC70 from sales of Product A that are expected to affect profit or loss in the first reporting period and the first FC30 from sales of Product B that are expected to affect profit or loss in the second reporting period. The entity also documents that the bottom layer of the purchases (FC150) is made up of purchases of the first FC60 of Machinery Type A, the first FC40 of Machinery Type B and the first FC50 of Raw Material A. If those purchase volumes are expected to affect profit or loss in different reporting periods, the entity would include in the documentation a disaggregation of the purchase volumes by the reporting periods in which they are expected to affect profit or loss (similarly to how it documents the sales volumes). For example, the forecast transaction would be specified as:

- (a) the first FC60 of purchases of Machinery Type A that are expected to affect profit or loss from the third reporting period over the next ten reporting periods;
- (b) the first FC40 of purchases of Machinery Type B that are expected to affect profit or loss from the fourth reporting period over the next 20 reporting periods; and
- (c) the first FC50 of purchases of Raw Material A that are expected to be received in the third reporting period and sold, ie affect profit or loss, in that and the next reporting period.

Specifying the nature of the forecast transaction volumes would include aspects such as the depreciation pattern for items of property, plant and equipment of the same kind, if the nature of those items is such that the depreciation pattern could vary depending on how the entity uses those items. For example, if the entity uses items of Machinery Type A in two different production processes that result in straight-line depreciation over ten reporting periods and the units of production method respectively, its documentation of the forecast purchase volume for Machinery Type A would disaggregate that volume by which of those depreciation patterns will apply.

B6.6.9 For a cash flow hedge of a net position, the amounts determined in accordance with paragraph 6.5.11 shall include the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. However, the changes in the value of the items in the net position that have a similar effect as the hedging instrument are recognised only once the transactions that they relate to are recognised, such as when a forecast sale is recognised as revenue. For example, an entity has a group of highly probable forecast sales in nine months' time for FC100 and a group of highly probable forecast purchases in 18 months' time for FC120. It hedges the foreign currency risk of the net position of FC20 using a forward exchange contract for FC20. When determining the amounts that are recognised in the cash flow hedge reserve in accordance with paragraph 6.5.11(a)–6.5.11(b), the entity compares:

- (a) the fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the highly probable forecast sales; with
- (b) the foreign currency risk related changes in the value of the highly probable forecast purchases.

However, the entity recognises only amounts related to the forward exchange contract until the highly probable forecast sales transactions are recognised in the financial statements, at which time the gains or losses on those forecast transactions are recognised (ie the change in the value attributable to the change in the foreign exchange rate between the designation of the hedging relationship and the recognition of revenue).

B6.6.10 Similarly, if in the example the entity had a nil net position it would compare the foreign currency risk related changes in the value of the highly probable forecast sales with the foreign currency risk related changes in the value of the highly probable forecast purchases. However, those amounts are recognised only once the related forecast transactions are recognised in the financial statements.

Layers of groups of items designated as the hedged item

B6.6.11 For the same reasons noted in paragraph B6.3.19, designating layer components of groups of existing items requires the specific identification of the nominal amount of the group of items from which the hedged layer component is defined.

B6.6.12 A hedging relationship can include layers from several different groups of items. For example, in a hedge of a net position of a group of assets and a group of liabilities, the hedging relationship can comprise, in combination, a layer component of the group of assets and a layer component of the group of liabilities.

Presentation of hedging instrument gains or losses

- B6.6.13 If items are hedged together as a group in a cash flow hedge, they might affect different line items in the statement of profit or loss and other comprehensive income. The presentation of hedging gains or losses in that statement depends on the group of items.
- B6.6.14 If the group of items does not have any offsetting risk positions (for example, a group of foreign currency expenses that affect different line items in the statement of profit or loss and other comprehensive income that are hedged for foreign currency risk) then the reclassified hedging instrument gains or losses shall be apportioned to the line items affected by the hedged items. This apportionment shall be done on a systematic and rational basis and shall not result in the grossing up of the net gains or losses arising from a single hedging instrument.
- B6.6.15 If the group of items does have offsetting risk positions (for example, a group of sales and expenses denominated in a foreign currency hedged together for foreign currency risk) then an entity shall present the hedging gains or losses in a separate line item in the statement of profit or loss and other comprehensive income. Consider, for example, a hedge of the foreign currency risk of a net position of foreign currency sales of FC100 and foreign currency expenses of FC80 using a forward exchange contract for FC20. The gain or loss on the forward exchange contract that is reclassified from the cash flow hedge reserve to profit or loss (when the net position affects profit or loss) shall be presented in a separate line item from the hedged sales and expenses. Moreover, if the sales occur in an earlier period than the expenses, the sales revenue is still measured at the spot exchange rate in accordance with AASB 121. The related hedging gain or loss is presented in a separate line item, so that profit or loss reflects the effect of hedging the net position, with a corresponding adjustment to the cash flow hedge reserve. When the hedged expenses affect profit or loss in a later period, the hedging gain or loss previously recognised in the cash flow hedge reserve on the sales is reclassified to profit or loss and presented as a separate line item from those that include the hedged expenses, which are measured at the spot exchange rate in accordance with AASB 121.
- B6.6.16 For some types of fair value hedges, the objective of the hedge is not primarily to offset the fair value change of the hedged item but instead to transform the cash flows of the hedged item. For example, an entity hedges the fair value interest rate risk of a fixed-rate debt instrument using an interest rate swap. The entity's hedge objective is to transform the fixed-interest cash flows into floating interest cash flows. This objective is reflected in the accounting for the hedging relationship by accruing the net interest accrual on the interest rate swap in profit or loss. In the case of a hedge of a net position (for example, a net position of a fixed-rate asset and a fixed-rate liability), this net interest accrual must be presented in a separate line item in the statement of profit or loss and other comprehensive income. This is to avoid the grossing up of a single instrument's net gains or losses into offsetting gross amounts and recognising them in different line items (for example, this avoids grossing up a net interest receipt on a single interest rate swap into gross interest revenue and gross interest expense).

Amendments to AASB 2010-7

This section makes amendments to AASB 2010-7 to add disclosures that it does not already specify. In most instances the amendments below add disclosure requirements that are directly related to the addition of Chapter 6 Hedge Accounting to AASB 9. The sub-headings below referring to particular Standards are included for information purposes only, to aid in the identification of the Standard that the amendments relate to. However, the amendments do not directly amend those Standards; rather, they are amended via the amendments Part C of this Standard makes to AASB 2010-7.

Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended by Part C of this Standard.

Some amendments are made to include notes regarding paragraphs that are deleted by the IASB. These notes are only added in instances where the deleted paragraph was to be added to the relevant Standard by AASB 2010-7 but did not ultimately exist in the relevant Standard by virtue of the deferral of AASB 2010-7. To maintain consistency with materials published by the IASB these notes are added.

71 Paragraphs 5, 6 and 7 are amended to read as follows:

5 This Standard applies to annual reporting periods beginning on or after 1 January 2017.

6 Early application is permitted from:

- (a) any date between the issue of this Standard and 31 December 2010, for entities initially applying this Standard before 1 January 2011; or
- (b) the beginning of the first reporting period in which the entity adopts this Standard, for entities initially applying this Standard on or after 1 January 2011.

However, if an entity elects to apply this Standard early and has not already applied AASB 9 and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 issued in December 2009 (as amended), it must apply all of the requirements in AASB 9 (December 2010) at the same time. If an entity applies this Standard in its financial statements for a period beginning before 1 January 2017, it shall disclose that fact.

7 When applied or operative, this Standard supersedes AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*. However, for annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2017, an entity may elect to apply AASB 9 (December 2009) instead of applying AASB 9 (December 2010) and therefore will apply the amendments to other Australian Accounting Standards in AASB 2009-11 instead of this Standard. If an entity elects to apply AASB 9 (December 2010) as amended to September 2012, it will also apply amendments to other Australian Accounting Standards in this Standard as amended to September 2012 instead of this Standard.

Amendments to AASB 1

72 The amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* in paragraphs 9-11 of AASB 2010-7 are amended to read as follows:

9 Paragraph 29 is amended to read as follows, paragraph 39B is deleted, paragraphs 29A and 39U are added and a note regarding paragraph 39G is added:

29 ...

...

39G [Deleted by the IASB]

39U AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 29, B1-B6, D1, D14, D15, D19 and D20, deleted paragraph 39B, added paragraphs 29A, B8, B9, D19A-D19D, D33, E1 and E2 and added a note regarding paragraph 39G. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

10 In Appendix B, paragraphs B1-B6 are amended to read as follows, and a heading and paragraph B8, and a heading and paragraph B9 are added:

B1 ...

...

- B5 An entity shall not reflect in its opening Australian-Accounting-Standards statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with AASB 9 (for example, many hedging relationships where the hedging instrument is a stand-alone written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with Australian Accounting Standards an individual item within that net position, or a net position if that meets the requirements in paragraph 6.6.1 of AASB 9, provided that it does so no later than the date of transition to Australian Accounting Standards.
- B6 If, before the date of transition to Australian Accounting Standards, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in AASB 9, the entity shall apply paragraphs 6.5.6 and 6.5.7 of AASB 9 to discontinue hedge accounting. Transactions entered into before the date of transition to Australian Accounting Standards shall not be retrospectively designated as hedges.

...

- 11 In Appendix D, paragraphs D1, D14, D15, D19 and D20 are amended to read as follows and paragraphs D19A-D19D, and after paragraph D32 a heading and paragraph D33 are added:

D1 ...

(a) ...

...

(r) joint arrangements (paragraph D31);

(s) stripping costs in the production phase of a surface mine (paragraph D32); and

(t) designation of contracts to buy or sell a non-financial item (paragraph D33).

An entity shall not apply these exemptions by analogy to other items.

- D15 If a first-time adopter measures such an investment at cost in accordance with AASB 127, it shall measure that investment at one of the following amounts in its separate opening Australian-Accounting-Standards statement of financial position:

(a) cost determined in accordance with AASB 127; or

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to Australian Accounting Standards in its separate financial statements; or

(ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost.

...

Designation of contracts to buy or sell a non-financial item

- D33 AASB 139 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through profit or loss (see paragraph 5A of AASB 139). Despite this requirement an entity is permitted to designate, at the date of transition to Australian Accounting Standards, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 5A of AASB 139 at that date and the entity designates all similar contracts.

Amendments to AASB 3

- 73 Amendments to AASB 3 *Business Combinations* in paragraph 13 of AASB 2010-7 are amended to read as follows:

- 13 Paragraphs 16, 42, 53, 56 and 58(b) are amended to read as follows, paragraph 64A is deleted, paragraph 64H is added and a note regarding paragraph 64D is added:

16 ...

...

64D [Deleted by the IASB]

64H AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 16, 42, 53, 56 and 58(b), deleted paragraph 64A and added a note regarding paragraph 64D. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 4

74 Amendments to AASB 4 *Insurance Contracts* in paragraph 14 of AASB 2010-7 are amended to read as follows:

14 Paragraphs 3, 4(d), 7, 8, 12, 34(d), 35 and 45 are amended to read as follows, paragraph 41C is deleted, paragraph 41F is added and a note regarding paragraph 41D is added:

3 ...

...

41D [Deleted by the IASB]

41F AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 3, 4(d), 7, 8, 12, 34(d), 35, 45 and B18–B20 and Appendix A, deleted paragraph 41D and added a note regarding paragraph 41D. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

...

Amendments to AASB 5

75 Amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in paragraph 17 of AASB 2010-7 are amended to read as follows:

17 Paragraph 5 is amended to read as follows, paragraph 44J is added and a note regarding paragraph 44F is added:

5 ...

...

44F [Deleted by the IASB]

44J AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 5 and added a note regarding paragraph 44F. An entity shall apply that amendment when it applies AASB 9 as amended in December 2013.

Amendments to AASB 7

76 Amendments to AASB 7 *Financial Instruments: Disclosures* in paragraph 18 of AASB 2010-7 are amended to read as follows:

18 Paragraphs 2, Aus2.9, 3–5, 8–10, 11, 14, 20, 28 and 30 are amended to read as follows, paragraphs 12, 12A, 22–24, 29(b), 44E, 44F and 44H are deleted, several headings and paragraphs 10A, 11A, 11B, 12B–12D, 20A, 21A–21D, 22A–22C, 23A–23F, 24A–24G, 44I, 44J and 44Y are added and a note regarding paragraph 44N is added:

2 ...

Aus2.9 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

(a) paragraphs 6, 9, 10(a)-(c), 10A, 11-11B, 12A(b), 12A(e), 12C, 13A-13F, 15, 18, 19, 20(c), 20(d), 20A, 21B, 21C, 23A, 23B, 23C(a), 23D, 23E, 24A(b), 24A(d), 24B(a)(ii), 24B(a)(iii), 24B(a)(v), 24B(b)(ii), 24B(b)(iii), 24C(a)(ii), 24C(b)(iii), 24C(b)(v), 24D-24F, 24G(a), 24G(b), 25-42, 42C, 42D(d), 42D(e), 42E(a), 42E(b), 42E(d)-(f), 42F-42H, B1-B4, B7-B29 and B33-B53;

(b) in paragraph 8(a), the text “, showing separately ... AASB 9”;

- (c) in paragraph 8(e), the text “, showing separately ... AASB 9”;
- (d) [Deleted by the AASB]
- (e) [Deleted by the AASB]
- (f) [Deleted by the AASB]
- (g) in paragraph 24C(b)(iv), the words following the text “... reclassification adjustment”;
- (h) in paragraphs 24A-24C, the text “, in a tabular format,”; and
- (i) in paragraph 42D(f), the text “the total carrying amount of the original assets before the transfer,”.

...

- 3 This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*. However, in some cases, AASB 10, AASB 127 or AASB 128 require or permit an entity to account for an interest in a subsidiary, associate or joint venture using AASB 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in AASB 132;
 - (b) ...

...

- 8 The carrying amounts of each of the following categories, as specified in AASB 9, shall be disclosed either in the statement of financial position or in the notes:
- (a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of AASB 9 and (ii) those mandatorily measured at fair value in accordance with AASB 9;
 - ...
 - (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of AASB 9 and (ii) those that meet the definition of held for trading in AASB 9;
 - (f) ...

...

- 20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
 - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of AASB 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with AASB 9 (eg financial liabilities that meet the definition of held for trading in AASB 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss;

...

20A ...

Hedge accounting

- 21A An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

- (a) an entity's risk management strategy and how it is applied to manage risk;
 - (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
 - (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.
- 21B An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.
- 21C When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.
- 21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard and AASB 13 *Fair Value Measurement*.

The risk management strategy

- 22 [Deleted by the IASB]
- 22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):
- (a) how each risk arises.
 - (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.
 - (c) the extent of risk exposures that the entity manages.
- 22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:
- (a) the hedging instruments that are used (and how they are used) to hedge risk exposures;
 - (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and
 - (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.
- 22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of AASB 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:
- (a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and
 - (b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

The amount, timing and uncertainty of future cash flows

- 23 [Deleted by the IASB]
- 23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

- 23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:
- (a) a profile of the timing of the nominal amount of the hedging instrument; and
 - (b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.
- 23C In situations in which an entity frequently resets (ie discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph B6.5.24(b) of AASB 9) the entity:
- (a) is exempt from providing the disclosures required by paragraphs 23A and 23B.
 - (b) shall disclose:
 - (i) information about what the ultimate risk management strategy is in relation to those hedging relationships;
 - (ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and
 - (iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.
- 23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.
- 23E If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.
- 23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The effects of hedge accounting on financial position and performance

24 [Deleted by the IASB]

- 24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):
- (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);
 - (b) the line item in the statement of financial position that includes the hedging instrument;
 - (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and
 - (d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.
- 24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:
- (a) for fair value hedges:
 - (i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
 - (ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
 - (iii) the line item in the statement of financial position that includes the hedged item;
 - (iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

- (v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of AASB 9.
- (b) for cash flow hedges and hedges of a net investment in a foreign operation:
- (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of AASB 9);
 - (ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of AASB 9; and
 - (iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.
- 24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:
- (a) for fair value hedges:
- (i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5);
 - (ii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness.
- (b) for cash flow hedges and hedges of a net investment in a foreign operation:
- (i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;
 - (ii) hedge ineffectiveness recognised in profit or loss;
 - (iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;
 - (iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see AASB 101) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);
 - (v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see AASB 101); and
 - (vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of AASB 9).
- 24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (ie the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.
- 24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with AASB 101 that, taken together:
- (a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 6.5.11(d)(i) and (d)(iii) of AASB 9;
 - (b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 6.5.15 of AASB 9; and

- (c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 6.5.16 of AASB 9.

24F An entity shall disclose the information required in paragraph 24E separately by risk category. This disaggregation by risk may be provided in the notes to the financial statements.

Option to designate a credit exposure as measured at fair value through profit or loss

24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

- (a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of AASB 9, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;
- (b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of AASB 9; and
- (c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument’s fair value that has become the new carrying amount in accordance with paragraph 6.7.4(b) of AASB 9 and the related nominal or principal amount (except for providing comparative information in accordance with AASB 101, an entity does not need to continue this disclosure in subsequent periods).

...

44N [Deleted by the IASB]

...

44Y AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 2–5, 8–10, 11, 14, 20, 28, 30, Appendix A, and paragraphs B1, B5, B10(a), B22 and B27, deleted paragraphs 12, 12A, 22–24, 29(b), 44E, 44F, 44H, B4 and Appendix D, added paragraphs 10A, 11A, 11B, 12B–12D, 20A, 21A–21D, 22A–22C, 23A–23F, 24A–24G, 44I and 44J and added a note regarding paragraph 44N. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013. Those amendments need not be applied to comparative information provided for periods before the date of initial application of AASB 9 as amended in December 2013.

20 In Appendix B, the heading above paragraph B4 and paragraph B4 are deleted and paragraphs B1, B5, B10(a), B22 and B27 are amended to read as follows:

...

Amendments to AASB 101

77 Amendments to AASB 101 *Presentation of Financial Statements* in paragraph 22 of AASB 2010-7 are amended to read as follows:

22 Paragraph Aus1.8, the definition of ‘other comprehensive income’ in paragraph 7, paragraphs 68, 71, 82, 93, 95, 96, 106 and 123 are amended to read as follows, paragraph 139E is deleted, paragraph 139M is added and a note regarding paragraph 139G is added:

Aus1.8 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

- (a) paragraphs 10(f), 15, 16, Aus16.3, 40A-40D, 42(b), 61, 65, 80A, 82(aa), 90, 92, 94, 104, 131 and 134-138; and
- (b) in paragraph 107, the text “, and the related amount of dividends per share”.

...

7

...

The components of other comprehensive income include:

- (a) ...
- ...
- (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of AASB 9 (see Chapter 6 of AASB 9);
- (f) ...
- (g) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of AASB 9);
- (h) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of AASB 9);

- ...
- 95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see AASB 121) and when some hedged forecast cash flow affect profit or loss (see paragraph 6.5.11(d) of AASB 9 in relation to cash flow hedges).
- 96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with AASB 116 or AASB 138 or on remeasurements of defined benefit plans recognised in accordance with AASB 119. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see AASB 116 and AASB 138). In accordance with AASB 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.
- 106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:
 - (a) ...
 - (c) [Deleted by the IASB]
 - (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

...

139G [Deleted by the IASB]

139M AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 7, 68, 71, 82, 93, 95, 96, 106 and 123, deleted paragraph 139E and added a note regarding paragraph 139G. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 102

78 Amendments to AASB 102 *Inventories* in paragraph 23 of AASB 2010-7 are amended to read as follows:

- 23 Paragraph 2(b) is amended to read as follows, paragraph 40A is deleted, paragraph 40D is added and a note regarding paragraph 40B is added:

2 ...

...

40B [Deleted by the IASB]

40D AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 2(b), deleted paragraph 40A and added a note regarding paragraph 40B. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 108

- 79 Amendments to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in paragraph 24 of AASB 2010-7 are amended to read as follows:

- 24 Paragraph 53 is amended to read as follows, paragraph 54A is deleted, paragraph 54D is added, and a note regarding paragraph 54B is added:

53 ...

...

54B [Deleted by the IASB]

54D AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 53, deleted paragraph 54A and added a note regarding paragraph 54B. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 112

- 80 Amendments to AASB 112 *Income Taxes* in paragraph 25 of AASB 2010-7 are amended to read as follows:

- 25 Paragraph 20 is amended to read as follows, paragraph 96 is deleted, paragraph 98D is added and a note regarding paragraph 97 is added:

20 ...

...

97 [Deleted by the IASB]

98D AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 20, deleted paragraph 96 and added a note regarding paragraph 97. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 118

- 81 Amendments to AASB 118 *Revenue* in paragraph 26 of AASB 2010-7 are amended to read as follows:

- 26 Paragraphs 6(d) and 11 are amended to read as follows, paragraph 39 is deleted, paragraph 43 is added and a note regarding paragraph 40 is added:

6 ...

...

40 [Deleted by the IASB]

43 AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 6(d) and 11, deleted paragraph 39 and added a note regarding paragraph 40. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 120

- 82 Amendments to AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* in paragraph 28 of AASB 2010-7 are amended to read as follows:
- 28 Paragraph 10A is amended to read as follows, paragraph 47 is added and a note regarding paragraph 44 is added:
- 10A ...
- 44 [Deleted by the IASB]
- 47 AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 10A and added a note regarding paragraph 44. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 121

- 83 Amendments to AASB 121 *The Effects of Changes in Foreign Exchange Rates* in paragraph 29 of AASB 2010-7 are amended to read as follows:
- 29 Paragraphs 3(a), 3(b), 4, 5, 27 and 52(a) are amended to read as follows, paragraph 60C is deleted, paragraph 60I is added and a note regarding paragraph 60E is added:
- 3 ...
- (a) ...
- (b) **in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method; and**
- (c) ...
- 5 This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. AASB 9 applies to hedge accounting.
- 27 As noted in paragraphs 3(a) and 5, AASB 9 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences differently from the treatment of exchange differences required by this Standard. For example, AASB 9 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are recognised initially in other comprehensive income to the extent that the hedge is effective.
- 60E [Deleted by the IASB]
- 60I AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 3(a), 3(b), 4, 5, 27 and 52(a), deleted paragraph 60C and added a note regarding paragraph 60E. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 132

- 84 Amendments to AASB 132 *Financial Instruments: Presentation* in paragraph 34 of AASB 2010-7 are amended to read as follows:
- 34 Paragraphs 3, 4, 8, 12, 23, 31, 42 and 96C are amended to read as follows, paragraph 97F is deleted, paragraph 97P is added and a note regarding paragraph 97H is added:
- 3 ...
- ...
- 8 **This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 5A of AASB 139 *Financial Instruments: Recognition and Measurement*.**

...

97H [Deleted by the IASB]

97P AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 3, 4, 8, 12, 23, 31, 42, 96C, AG2 and AG30, deleted paragraph 97F and added a note regarding paragraph 97H. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 136

85 Amendments to AASB 136 *Impairment of Assets* in paragraph 38 of AASB 2010-7 are amended to read as follows:

38 Paragraphs 2 and 5 are amended to read as follows, paragraph 140F is deleted, paragraph 140K is added and a note regarding paragraph 140G is added:

2 ...

...

140G [Deleted by the IASB]

140K AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 2(e) and 5, deleted paragraph 140F and added a note regarding paragraph 140G. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 137

86 Amendments to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in paragraph 39 of AASB 2010-7 are amended to read as follows:

39 Paragraph 2 is amended to read as follows, paragraph 98 is added and a note regarding paragraph 97 is added:

2 ...

97 [Deleted by the IASB]

98 AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 2 and added a note regarding paragraph 97. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to AASB 139

87 Amendments to AASB 139 *Financial Instruments: Recognition and Measurement* in paragraphs 41, 42, 48 and 49 of AASB 2010-7 are amended to read as follows:

41 The heading above paragraph 1 and paragraph 1 is deleted.

42 Paragraph 5A is added and paragraphs 2, 4 and 5 are amended to read as follows:

2 This Standard shall be applied by all entities to all types of financial instruments except:

(a) ...

(b) rights and obligations under leases to which AASB 117 *Leases* applies. However:

(i) lease receivables recognised by a lessor are subject to the derecognition provisions of AASB 9 *Financial Instruments* and impairment provisions of this Standard;

(ii) finance lease payables recognised by a lessee are subject to the derecognition provisions of AASB 9; and

(iii) derivatives that are embedded in leases are subject to the embedded derivatives provisions of AASB 9.

(c) ...

...

5 This standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 5A.

5A A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard (see paragraph 5).

48 Paragraph 79 is deleted and paragraphs 71, 88(d), 89(b), 90 and 96(c) are amended to read as follows:

71 If an entity applies AASB 9 (as amended in December 2013) and has not chosen as its accounting policy to continue to apply the hedge accounting requirements of this Standard (see paragraph 7.2.1 of AASB 9), it shall apply the hedge accounting requirements in Chapter 6 of AASB 9. However, for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities, an entity may, in accordance with paragraph 6.1.3 of AASB 9, apply the hedge accounting requirements in this Standard instead of those in AASB 9. In that case the entity must also apply the specific requirements for fair value hedge accounting for a portfolio hedge of interest rate risk (see paragraphs 81A, 89A and AG114–AG132).

...

49 Paragraphs 103B, 103C, 103K, 104 and 108C are amended to read as follows, paragraphs 103H–103J, 103L, 103M and 105–107A are deleted, paragraphs 103S and 108E are added and a note regarding paragraph 103O is added:

103B AASB 2005-9 *Amendments to Australian Accounting Standards* (Amendments to AASB 139 and AASB 4), issued in September 2005, amended paragraphs 2(e) and (h), 4 and AG4, added paragraph AG4A, added a new definition of financial guarantee contracts and deleted paragraph 3. An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these changes for an earlier period, it shall disclose that fact and apply the related amendments to AASB 132 [footnote omitted] and AASB 4 at the same time.

103C AASB 101 (as revised in 2007) amended the terminology used throughout Australian Accounting Standards. In addition it amended paragraphs 95(a), 97, 98, 100, 102, 108 and AG99B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies AASB 101 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

...

103O [Deleted by the IASB]

103S AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, added paragraph 5A, amended paragraphs 2, 4, 5, 8, 9, 58, 63, 71, 88(d), 89(b), 90, 96(c), 103B, 103C, 103K, 104, 108C, AG3–AG4, AG8, AG84, AG95, AG114(a) and AG118(b), deleted paragraphs 1, 10–57, 61, 66–70, 79, 103H–103J, 103L, 103M, 105–107A, AG4B–AG4K, AG9–AG12A, AG14–AG15, AG27–AG83 and AG96 and added a note regarding paragraph 103O. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

108E Paragraph 5A was added by AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013. When that paragraph is first applied, an entity is permitted to make the designation introduced by that paragraph for contracts that already exist on that date but only if it designates all similar contracts. The change in the net assets resulting from such designations on transition shall be recognised as an adjustment of retained earnings.

Amendments to Interpretation 2

88 Amendments to Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments* in paragraphs 61 and 62 of AASB 2010-7 are amended to read as follows:

61 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added. Paragraph 18 is added and a note regarding paragraph 15 is added:

15 [Deleted by the IASB]

18 AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs A8 and A10 and added a note regarding paragraph 15. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

62 In the Appendix, paragraphs A8 and A10 are amended to read as follows:

A8 Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities in accordance with paragraph 47 of AASB 13: 'The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand ...'. Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.

...

Amendments to Interpretation 5

89 Amendments to Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* in paragraph 64 of AASB 2010-7 are amended to read as follows:

64 Below the heading 'References', the reference to AASB 139 is deleted and a reference to AASB 9 *Financial Instruments* is added. Paragraph 5 is amended to read as follows, paragraph 14C is added and a note regarding paragraph 14A is added:

14A [Deleted by the IASB]

14C AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraph 5 and added a note regarding paragraph 14A. An entity shall apply that amendment when it applies AASB 9 as amended in December 2013.

Amendments to Interpretation 10

90 Amendments to Interpretation 10 *Interim Financial Reporting and Impairment* in paragraph 66 of AASB 2010-7 are amended to read as follows:

66 Paragraphs 5, 6 and 11 are deleted, paragraphs 1, 2, 7 and 8 are amended to read as follows, paragraph 13 is added and a note regarding paragraph 12 is added:

1 ...

...

12 [Deleted by the IASB]

13 AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 1, 2, 7 and 8, deleted paragraphs 5, 6 and 11 and added a note regarding paragraph 12. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to Interpretation 12

91 Amendments to Interpretation 12 *Service Concession Arrangements* in paragraph 68 of AASB 2010-7 are amended to read as follows:

68 Paragraphs 23–25 are amended to read as follows, paragraph 28A is deleted, paragraph 28C is added and a note regarding paragraph 28B is added:

23 ...

...

28B [Deleted by the IASB]

28C AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 23–25, deleted paragraph 28A and added a note regarding paragraph 28B. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to Interpretation 16

92 The heading ‘Amendments to Interpretation 16’ is added immediately below paragraph 69 of AASB 2010-7.

93 Paragraphs 69A-69C are added immediately below the heading inserted above into AASB 2010-7:

69A A reference to AASB 9 *Financial Instruments* is added under the heading ‘References’.

69B Paragraphs 3, 5, 6, 7, 14 and 16 are amended to read as follows and paragraph 18A is added:

- 3 AASB 9 requires the designation of an eligible hedged item and eligible hedging instruments in a hedge accounting relationship. If there is a designated hedging relationship, in the case of a net investment hedge, the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment is recognised in other comprehensive income and is included with the foreign exchange differences arising on translation of the results and financial position of the foreign operation.
- 5 AASB 9 allows an entity to designate either a derivative or a non-derivative financial instrument (or a combination of derivative and non-derivative financial instruments) as hedging instruments for foreign currency risk. This Interpretation provides guidance on where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting.
- 6 AASB 121 and AASB 9 require cumulative amounts recognised in other comprehensive income relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment to be reclassified from equity to profit or loss as a reclassification adjustment when the parent disposes of the foreign operation. This Interpretation provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.
- 7 This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with AASB 9. For convenience this Interpretation refers to such an entity as a parent entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements. All references to a parent entity apply equally to an entity that has a net investment in a foreign operation that is a joint venture, an associate or a branch.
- 14 A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group, as long as the designation, documentation and effectiveness requirements of AASB 9 paragraph 6.4.1 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group.
- 16 When a foreign operation that was hedged is disposed of, the amount reclassified to profit or loss as a reclassification adjustment from the foreign currency translation reserve in the consolidated financial statements of the parent in respect of the hedging instrument is the amount that AASB 9 paragraph 6.5.14 requires to be identified. That amount is the cumulative gain or loss on the hedging instrument that was determined to be an effective hedge.
- 18A AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 3, 5–7, 14, 16, AG1 and AG8(a). An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

69C In the Appendix, paragraphs AG1 and AG8(a) are amended to read as follows:

AG1 This appendix illustrates the application of the Interpretation using the corporate structure illustrated below. In all cases the hedging relationships described would be tested for effectiveness in accordance with AASB 9, although this testing is not discussed in this appendix. Parent, being the ultimate parent entity, presents its consolidated financial statements in its functional currency of euro

(EUR). Each of the subsidiaries is wholly owned. Parent's £500 million net investment in Subsidiary B (functional currency pounds sterling (GBP)) includes the £159 million equivalent of Subsidiary B's US\$300 million net investment in Subsidiary C (functional currency US dollars (USD)). In other words, Subsidiary B's net assets other than its investment in Subsidiary C are £341 million.

AG8 When Subsidiary C is disposed of, the amounts reclassified to profit or loss in Parent's consolidated financial statements from its foreign currency translation reserve (FCTR) are:

- (a) in respect of the US\$300 million external borrowing of Subsidiary A, the amount that AASB 9 requires to be identified, ie the total change in value in respect of foreign exchange risk that was recognised in other comprehensive income as the effective portion of the hedge; and
- (b) ...

Amendments to Interpretation 19

94 Amendments to Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* in paragraph 71 of AASB 2010-7 are amended to read as follows:

71 Paragraphs 4(a), 5, 7, 9 and 10 are amended to read as follows, paragraph 16 is added and a note regarding paragraph 14 is added:

4 ...

7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 47 of AASB 13 is not applied.

14 [Deleted by the IASB]

16 AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*, issued in December 2013, amended paragraphs 4(a), 5, 7, 9 and 10 and added a note regarding paragraph 14. An entity shall apply those amendments when it applies AASB 9 as amended in December 2013.

Amendments to Interpretation 107

95 The heading 'Amendments to Interpretation 107' is added immediately below paragraph 71 of AASB 2010-7.

96 Paragraph 71A is added immediately below the heading inserted by the paragraph above:

71A Footnote 1 to the third sentence of paragraph 6 is amended to read as follows:

- 1 The accounting for hedges is now covered under AASB 139 *Financial Instruments: Recognition and Measurement*. In December 2013 the AASB replaced the hedge accounting requirements in AASB 139 and relocated them to AASB 9 *Financial Instruments*.

APPENDIX

LIST OF AMENDED AUSTRALIAN ACCOUNTING STANDARDS (INCLUDING INTERPRETATIONS)

This appendix is an integral part of AASB 2013-9.

AASB 2013-9 makes amendments to:

AASB 1 *First-time Adoption of Australian Accounting Standards*;

AASB 3 *Business Combinations*;

AASB 4 *Insurance Contracts*;

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;

AASB 7 *Financial Instruments: Disclosures*;

AASB 9 *Financial Instruments* (December 2009);

AASB 9 *Financial Instruments* (December 2010);

AASB 101 *Presentation of Financial Statements*;

AASB 102 *Inventories*;

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

AASB 112 *Income Taxes*;

AASB 118 *Revenue*;

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*;

AASB 121 *The Effects of Changes in Foreign Exchange Rates*;

AASB 132 *Financial Instruments: Presentation*;

AASB 134 *Interim Financial Reporting*;

AASB 136 *Impairment of Assets*;

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;

AASB 139 *Financial Instruments: Recognition and Measurement*;

AASB 1023 *General Insurance Contracts*;

AASB 1038 *Life Insurance Contracts*;

AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;

AASB 1050 *Administered Items*;

AASB 1051 *Land Under Roads*;

AASB 1052 *Disaggregated Disclosures*;

AASB 1055 *Budgetary Reporting*;

AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*;

AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*;

AAS 25 *Financial Reporting by Superannuation Plans*;

Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*;

Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*;

Interpretation 4 *Determining whether an Arrangement contains a Lease*;

Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;

Interpretation 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*;

Interpretation 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*;

Interpretation 9 *Reassessment of Embedded Derivatives*;

Interpretation 10 *Interim Financial Reporting and Impairment*;

Interpretation 12 *Service Concession Arrangements*;

Interpretation 13 *Customer Loyalty Programmes*;

Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*;

Interpretation 15 *Agreements for the Construction of Real Estate*;

Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*;

Interpretation 17 *Distributions of Non-cash Assets to Owners*;

Interpretation 18 *Transfers of Assets from Customers*;

Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*;

Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*;

Interpretation 21 *Levies*;

Interpretation 107 *Introduction of the Euro*;

Interpretation 110 *Government Assistance – No Specific Relation to Operating Activities*;

Interpretation 115 *Operating Leases – Incentives*;

Interpretation 125 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*;

Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*;

Interpretation 129 *Service Concession Arrangements: Disclosures*;

Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*;

Interpretation 132 *Intangible Assets – Web Site Costs*;

Interpretation 1003 *Australian Petroleum Resource Rent Tax*;

Interpretation 1019 *The Superannuation Contributions Surcharge*;

Interpretation 1030 *Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods*;

Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*;

Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*;

Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*;

Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations*;

Interpretation 1052 *Tax Consolidation Accounting*; and

Interpretation 1055 *Accounting for Road Earthworks*.

BASIS FOR CONCLUSIONS (PART B)

This Basis for Conclusions accompanies, but is not part of, Part B of AASB 2013-9.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the decision to ultimately withdraw AASB 1031 *Materiality* with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which gave rise to paragraphs 37-44 of Part B of this Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 In adopting International Financial Reporting Standards (IFRSs) in 2005, the AASB issued AASB 1031 (July 2004). At the time IFRSs were first incorporated into the Australian Accounting Standards (including Interpretations), the Board decided to retain a revised version of AASB 1031 to help ensure that the meaning of materiality remained well explained, as the *Framework for the Preparation and Presentation of Financial Statements* on issue at that time included only limited guidance on materiality in comparison to AASB 1031.
- BC3 In September 2010, the IASB issued a revised *Conceptual Framework on Financial Reporting* (IASB *Conceptual Framework*). The revised IASB *Conceptual Framework* contains updated guidance on materiality in Chapter 3 Qualitative Characteristics of Useful Financial Information.
- BC4 At its February 2012 meeting, the Board considered whether AASB 1031 remained necessary in light of the guidance on materiality available in existing Accounting Standards and in the revised IASB *Conceptual Framework*.¹ The Board also considered whether retaining AASB 1031 was consistent with the AASB's strategies and policies, including the AASB's policy of not providing unnecessary local guidance on matters covered by IFRSs.
- BC5 In June 2013, Exposure Draft ED 243 *Withdrawal of AASB 1031 Materiality* was issued for comment. This Exposure Draft proposed to withdraw AASB 1031 and delete references to that Standard from Australian Accounting Standards, including Interpretations. Following the consultation period and after reviewing constituent comments, at its October 2013 meeting the Board decided to proceed with the withdrawal of AASB 1031. This decision is consistent with the Board's view that the principle-based guidance on materiality in Australian Accounting Standards (that incorporate IFRSs) and the IASB *Conceptual Framework* is adequate.
- BC6 In making its decision to ultimately withdraw AASB 1031, the Board noted that it would not expect the withdrawal to change practice regarding the application of materiality in financial reporting. In particular, amendments would not change the level of disclosure presently specified by other accounting standards.
- BC7 At its December 2013 meeting, the Board decided to effect the withdrawal of AASB 1031 by first reissuing AASB 1031 as an interim Standard that cross-references to other Australian Accounting Standards and the *Framework* (December 2013) that contain guidance on materiality. Once all the references to AASB 1031 have been deleted from Australian Accounting Standards AASB 1031 will be withdrawn.

Scope of paragraphs 37-44 of Part B of this Standard

- BC8 Part B of this Standard makes amendments, including the deletion of references to AASB 1031, to Australian Accounting Standards. These amendments:
- (a) do not include a broader consideration of terminology associated with 'materiality' used in Australian Accounting Standards; and
 - (b) retain much of the existing guidance on materiality included in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.
- BC9 In relation to paragraph BC8(a), paragraph BC26 of AASB 1055 *Budgetary Reporting* notes that the Board decided it would reconsider the suitability of referring to 'major' variances, given the role materiality plays in Standards, in due course as part of a broader consideration of terminology associated with 'materiality' used in a range of Standards. The term 'major' is used in various Australian Accounting Standards, including those that incorporate IFRSs, along with other related terms such as 'significant', 'key' and 'main'. The Board noted that the use of synonyms appears to have contributed to the confusion around the application of materiality. However, the Board decided not to reassess terminology associated with materiality as part of the proposal to supersede AASB 1031 so as not to further delay the withdrawal and noting that concerns about terminology are not restricted to Australian specific issues in Australian Accounting Standards as similar terms are used in IFRSs.
- BC10 In relation to paragraph BC8(b), AASB 4 *Insurance Contracts* (which incorporates IFRS 4 of the same name) requires limited improvements to accounting by insurers for insurance contracts and disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and that helps

¹ An amended AASB *Framework for the Preparation and Presentation of Financial Statements*, incorporating Chapters 1 and 3 of the revised IASB *Conceptual Framework for Financial Reporting* was issued in December 2013.

users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts. AASB 4 is acknowledged by the AASB to be an interim standard (as IFRS 4 is by the IASB) and is not comprehensive. AASB 4 permits existing accounting policies for insurance contracts to be changed only where the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and less relevant to those needs.

- BC11 The Board's policy is to limit amendments to AASB 1023 and AASB 1038 until Phase 2 of the IASB's insurance contracts project is complete. Because references to materiality in paragraphs 5.1.2 and 17.1.2 of AASB 1023 and in paragraphs 8.1.4 and 14.1.4 of AASB 1038 are similar to references occasionally made in IFRSs² as to what might or might not be material, the Board concluded that these references should be retained unrevised at present.

Amendments to Other Australian Accounting Standards

Amendments to AASB 134 *Interim Financial Reporting*

- BC12 AASB 1031 identified quantitative thresholds and noted the context within which those thresholds may be used as guidance in considering the materiality of items in the financial statements. For consistency, at the time of making AASB 134, the AASB deleted the sentence in paragraph 24 of the corresponding IFRS that referred to the exclusion of quantitative guidance as to materiality. The deletion of that sentence is no longer necessary, and consequently, the paragraph is reinstated as part of the amendments arising from the withdrawal of AASB 1031.

Amendments to AASB 1023 and AASB 1038

- BC13 As noted in paragraph BC11 above, the Board's policy is to limit amendments to AASB 1023 and AASB 1038 until Phase 2 of the IASB's insurance contracts project is complete. However, the applicability of the disclosure requirements of these Standards to a group with a general insurance business or a life insurance business can be deduced from the definition of materiality in AASB 101 and AASB 108 and the requirement in paragraph 31 of AASB 101 that an entity need not provide a specific disclosure required by an Australian Accounting Standard if the information is not material. Accordingly, Part B of this Standard deletes paragraph 1.4.1 from both AASB 1023 and AASB 1038 to remove the examples of the application of materiality in the context of AASB 1031.

Interaction with the amended AASB *Framework for the Preparation and Presentation of Financial Statements*

- BC14 As noted in the footnote to paragraph BC4 above, the revised IASB *Conceptual Framework* has been incorporated into an amended AASB *Framework for the Preparation and Presentation of Financial Statements (Framework)*. The Board decided that the application date of Part B of this Standard and the reissued AASB 1031 should be later than the application date of the amendments to the *Framework*, to ensure that the guidance on materiality available to Australian entities is consistent with that in IFRSs. For this reason, the Board also decided that early adoption of Part B of this Standard would not be allowed, because the amendments to the AASB *Framework* only became effective on 20 December 2013.
- BC15 The IASB has made amendments to IFRSs to acknowledge the revised IASB *Conceptual Framework* guidance pertaining to materiality. For example, a footnote has been added to the relevant paragraph in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to note that Chapter 3 of the IASB *Conceptual Framework* has superseded paragraph 25 of the former IASB *Framework for the Preparation and Presentation of Financial Statements*. The AASB has made similar amendments to the Australian Accounting Standards (including Interpretations), through Part A of this Standard.

² For example, paragraph 17 of IAS 19 *Employee Benefits* explains when a sick leave obligation is likely to be material and paragraph 138 requires an entity to assess whether disclosures should be disaggregated to distinguish plans with materially different risks. AASB 119 *Employee Benefits* incorporates IAS 19.