

Explanatory Statement

Accounting Standard AASB 2014-1 *Amendments to Australian Accounting Standards*

June 2014



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 2014-1

AASB 2014-1 *Amendments to Australian Accounting Standards* makes amendments to the Australian Accounting Standards (including Interpretations) listed in the Appendix to AASB 2014-1.

The Standard comprises Parts A–E, each of which is addressed below.

Main Features of AASB 2014-1 and Application Dates

Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles

Main Requirements

Part A of AASB 2014-1 makes various amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) *Annual Improvements to IFRSs 2010–2012 Cycle* and *Annual Improvements to IFRSs 2011–2013 Cycle*.

It also makes various editorial corrections to Australian Accounting Standards (including an Interpretation).

Application Date

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014, except that the amendments to AASB 9 *Financial Instruments* apply only when that Standard is applied or operative. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2014, except that the amendments to AASB 9 may be applied early only as set out in that Standard.

The insertion of early application conditions in the individual Standards and Interpretations means that the amendments (or sets of amendments) to each of those Standards and Interpretations can be applied separately.

Part B – Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)

Main Requirements

Part B of AASB 2014-1 makes amendments to AASB 119 *Employee Benefits* in relation to the requirements for contributions from employees or third parties that are linked to service.

The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 (which is unamended by AASB 2014-1) for the gross benefit (i.e. either using the plan's contribution formula or on a straight-line basis).

Application Date

Part B of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014.

Part C – Materiality

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 initial implementation of the Financial Reporting Council's policy of adopting the Standards of the 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 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* (June 2013). Accordingly, in December 2013 the AASB re-issued AASB 1031 as an interim Standard that cross-references to other pronouncements that contain guidance on materiality. AASB 2013-9

Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments deleted certain references to AASB 1031 in a range of other Standards, as listed in that Standard. Once all references to AASB 1031 have been deleted from all Australian Accounting Standards, AASB 1031 will be withdrawn.

Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031.

Application Date

Part C of AASB 2014-1 applies to annual reporting periods beginning on or after 1 July 2014. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2014 but before 1 July 2014.

Part D – Consequential amendments arising from AASB 14 *Regulatory Deferral Accounts*

Main Requirements

Part D of AASB 2014-1 makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards*, which arise from the issuance of AASB 14 *Regulatory Deferral Accounts* in June 2014.

AASB 14 permits first-time adopters to continue to account for amounts related to rate regulation in accordance with their previous GAAP when they adopt Australian Accounting Standards. However, to enhance comparability with entities that already apply Australian Accounting Standards and do not recognise such amounts, AASB 14 requires that the effect of rate regulation must be presented separately from other items. An entity that is not a first-time adopter of Australian Accounting Standards will not be able to apply AASB 14.

Application Date

Part D of AASB 2014-1 (and AASB 14) is applicable to annual reporting periods beginning on or after 1 January 2016. If AASB 14 is early applied, AASB 2014-1 shall be applied for that earlier period. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2016.

Part E – Financial Instruments

Main Requirements

Part E of AASB 2014-1 defers the application date of AASB 9 *Financial Instruments* (December 2009), AASB 9 *Financial Instruments* (December 2010) and the related consequential amendments in AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* so that AASB 9 and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018.

It also makes further consequential amendments to numerous other Standards as a consequence of the introduction of hedge accounting requirements into AASB 9 (December 2010) in December 2013 and amends the Australian Accounting Standards – Reduced Disclosure Requirements for AASB 7 *Financial Instruments: Disclosures* and AASB 101 *Presentation of Financial Statements*.

Part E of AASB 2014-1 also makes various editorial corrections to Australian Accounting Standards.

Mandatory Application Date

Part E of AASB 2014-1 amends the mandatory effective date of AASB 9 and its consequential amendments to other Australian Accounting Standards so that AASB 9 is required to be applied to annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017.

International Financial Reporting Standard *IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* withdrew the mandatory application date of IFRS 9, whilst allowing early adoption of the IFRS. Accordingly, in order to avoid the requirements of AASB 9 becoming immediately applicable for periods ending after the commencement of the Standard under s.334(4) of the *Corporations Act 2001*, the AASB previously included a mandatory application date of 1 January 2017 as part of its amendments to AASB 9 made in Part C of AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (issued in December 2013). Consistent with the IASB's tentative decision at its February 2014 meeting to make IFRS 9 applicable to periods beginning on or after 1 January 2018, the AASB decided to amend the application date of AASB 9 and its related consequential amendments to also be applicable from 1 January 2018.

Consequential Amendments to other Australian Accounting Standards

Part C of AASB 2013-9 amended AASB 9 to add Chapter 6 *Hedge accounting*, which includes significant changes to the general hedge accounting requirements in AASB 139, including more closely aligning hedge accounting with an entity's risk management activities and introducing an objective-based hedge effectiveness assessment.

Part E of AASB 2014-1 amends AASB 7, AASB 139 and a number of other Accounting Standards and Interpretations as a consequence of the introduction of hedge accounting requirements into AASB 9 in December 2013, made in Part C of AASB 2013-9.

These consequential amendments include consequential amendments that had been made by Part C of AASB 2013-9, but which need to be remade in order to be effective, in view of procedural issues with repealed Accounting Standards. These consequential amendments also include amendments to the hedge accounting disclosures set out in AASB 7 and to AASB 132 *Financial Instruments: Presentation* to permit irrevocable designation of ‘own use contracts’ as measured at fair value through profit or loss if the designation eliminates or significantly reduces an accounting mismatch.

AASB 7 and AASB 101 Reduced Disclosure Requirements

Part E of AASB 2014-1 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.

The Reduced Disclosure Requirements amendments include amendments that had been made by Part C of AASB 2013-9, but which need to be remade in order to be effective, in view of procedural issues with repealed Accounting Standards.

Application Date

Part E of AASB 2014-1 applies to annual reporting periods beginning on or after 1 January 2015 and when AASB 9 *Financial Instruments* as amended by AASB 2013-9 is applied, except that the amendments to AASB 9 apply to annual reporting periods beginning on or after 1 January 2017, and the consequential amendments arising as a result of the revised hedge accounting requirements introduced by AASB 2013-9 apply to annual reporting periods beginning on or after 1 January 2018. The application date of the consequential amendments arising as a result of the revised hedge accounting requirements aligns with the mandatory application date of those revised requirements.

Part E of AASB 2014-1 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) may be applied early only as set out in that Standard. An entity that applies AASB 9 (December 2009) or AASB 9 (December 2010), as amended by AASB 2013-9 to an annual reporting period beginning before 1 January 2015 shall apply Part E of AASB 2014-1 at the same time.

Consultation Prior to Issuing this Standard

Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles

The AASB issued Exposure Draft ED 225 *Annual Improvements to IFRSs 2010–2012 Cycle* in May 2012 and ED 229 *Annual Improvements to IFRSs 2011–2013 Cycle* in November 2012, which incorporated IASB Exposure Drafts ED/2012/1 *Annual Improvements to IFRSs 2010–2012 Cycle* and ED/2012/2 *Annual Improvements to IFRSs 2011–2013 Cycle* respectively.

Four submissions were received by the AASB in respect of the proposals in ED 225 and there was general support for adopting the proposals in Australian Accounting Standards. Four submissions were received by the AASB in respect of the proposals in ED 229 and there was general support for adopting the proposals in Australian Accounting Standards. The AASB considered the comments it received in developing its submissions to the IASB and in finalising Part A of AASB 2014-1.

A Regulatory Impact Statement (RIS) has not been prepared specifically in connection with the issuance of Part A of AASB 2014-1 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.

Part B – Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)

The AASB issued Exposure Draft ED 239 *Defined Benefit Plans: Employee Contributions* in March 2013, which incorporated the IASB Exposure Draft ED/2013/4 (of the same title).

Four submissions were received by the AASB in respect of the proposals in ED 239 and there was general support for adopting the proposals in Australian Accounting Standards. The AASB considered the comments it received in making its submission to the IASB on ED/2013/4 and in finalising Part B of AASB 2014-1.

A RIS has not been prepared specifically in connection with the issuance of Part B of AASB 2014-1 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.

Part C – Materiality

The AASB issued Exposure Draft ED 243 *Withdrawal of AASB 1031 Materiality* in June 2013.

Eight submissions were received by the AASB in respect of the proposals in ED 243 and there was general support for the proposal to withdraw AASB 1031. The AASB considered comments made in the submissions in developing AASB 1031 as an interim Standard, pending removal of references to AASB 1031 from all other Standards – at which time AASB 1031 will be formally withdrawn.

A RIS has not been prepared specifically in connection with the issuance of Part C of AASB 2014-1 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.

Part D – Consequential amendments arising from AASB 14 Regulatory Deferral Accounts

The AASB issued Exposure Draft ED 240 *Regulatory Deferral Accounts* in May 2013, which incorporated the IASB Exposure Draft ED/2013/5 (of the same title).

Two submissions were received by the AASB in respect of the proposals in ED 240 and there was general support for adopting the proposals in Australian Accounting Standards. The AASB considered the comments it received in making its submission to the IASB on ED/2013/5 and in finalising Part D of AASB 2014-1.

A RIS has not been prepared specifically in connection with the issuance of Part D of AASB 2014-1 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.

Part E – Financial Instruments

Consequential Amendments to other Australian Accounting Standards

The consequential amendments to AASB 7, AASB 139 and other Australian Accounting Standards made in Part E of AASB 2014-1 were included in Part C of AASB 2013-9, but, in view of procedural issues with repealed Accounting Standards, needed to be remade in order to be effective. As noted in the Explanatory Statement to AASB 2013-9, the following consultation was carried out in relation to these consequential amendments.

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

Six submissions were received by the AASB in respect of the proposals in ED 208 and there was general support for adopting the proposals in Australian Accounting Standards, whilst raising various issues for consideration. The AASB considered comments it received in making its submission to the IASB on ED/2010/13.

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

The AASB considered comments it received on the Draft Standard in making a submission to the IASB on the Draft Standard and in finalising Part E of AASB 2014-1.

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

AASB 7 and AASB 101 Reduced Disclosure Requirements

The AASB issued ED 207 *Amendments to AASB 7: Tier 2* in December 2010. As noted in the Explanatory Statement to AASB 2013-9, the AASB also issued a Tier 2 Supplement to ED 208 *Hedge Accounting* in March 2011. The comment periods closed on 28 February 2011 and 2 June 2011 respectively.

Six submissions were received by the AASB in relation to the proposals in ED 207 and two comment letters were received in relation to the proposals in the Tier 2 Supplement to ED 208. Submissions received were largely supportive of adopting the proposals in Australian Accounting Standards, whilst raising various issues for consideration. The AASB considered the comments it had received in finalising Part E of AASB 2014-1.

Mandatory Application Date

As noted in the Explanatory Statement to AASB 2013-9, no specific consultation was carried out in relation to the application date. However, the amendment of the application date aligns with the IASB's tentative decision at its February 2014 meeting to make IFRS 9 applicable for periods beginning on or after 1 January 2018.

Statement of Compatibility with Human Rights

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

Accounting Standard AASB 2014-1 *Amendments to Australian Accounting Standards*

Overview of the Accounting Standard

AASB 2014-1 *Amendments to Australian Accounting Standards* consists of Part A, Part B, Part C, Part D and Part E.

Part A of AASB 2014-1 makes amendments to Australian Accounting Standards arising from the International Accounting Standards Board (IASB) annual improvements process and for editorial corrections.

Part B of AASB 2014-1 makes amendments to Australian Accounting Standards in relation to the requirements in AASB 119 *Employee Benefits* for contributions from employees or third parties that are linked to service.

If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 (which is unamended by AASB 2014-1) for the gross benefit (i.e. either using the plan's contribution formula or on a straight-line basis).

Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 *Materiality*.

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

Part D of AASB 2014-1 makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards*, which arise from the issuance of AASB 14 *Regulatory Deferral Accounts* in June 2014.

AASB 14 permits first-time adopters to continue to account for amounts related to rate regulation in accordance with their previous GAAP when they adopt Australian Accounting Standards. However, to enhance comparability with entities that already apply Australian Accounting Standards and do not recognise such amounts, AASB 14 requires that the effect of rate regulation must be presented separately from other items. An entity that is not a first-time adopter of Australian Accounting Standards will not be able to apply AASB 14.

Part E of AASB 2014-1 amends AASB 9 *Financial Instruments*, AASB 7 *Financial Instruments: Disclosures*, AASB 139 *Financial Instruments: Recognition and Measurement* and numerous other Australian Accounting Standards to defer the application date of AASB 9, make consequential amendments to Accounting Standards and Interpretations arising from the amendments to AASB 9 made in December 2013, and to amend Australian Accounting Standards – Reduced Disclosure Requirements in respect of AASB 7 and AASB 101.

Part E of AASB 2014-1 also makes various editorial corrections to Australian Accounting Standards.

Human Rights Implications

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

Conclusion

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