

Explanatory Statement

AASB 7 Financial Instruments: Disclosures

August 2005



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Adoption of Australian equivalents to IFRSs

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Urgent Issues Group (UIG) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

In implementing the FRC's directive, the AASB is replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the Board made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

AASB 7 *Financial Instruments: Disclosures* was issued in August 2005 and is based on IFRS 7 *Financial Instruments: Disclosures*.

Reasons for Issuing AASB 7

Accounting Standards AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and AASB 132 *Financial Instruments: Disclosure and Presentation* replicate the international standards IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and IAS 32 *Financial Instruments: Disclosure and Presentation*. The IASB concluded that there was a need to revise and enhance the disclosures in IAS 30 and IAS 32. As part of that revision, in August 2005 the IASB issued IFRS 7 to supersede IAS 30 and the disclosure requirements of IAS 32. Retention of AASB 130 and AASB 132 by the AASB would be inconsistent with the FRC's directive on IASB Standards. In addition, AASB 130 and AASB 132 provide relief for parent entities from making certain disclosures when the parent's financial statements are presented with the group financial statements and the group complies with all of the disclosures.

Main Features of this Standard

This Standard was made by the AASB on 31 August 2005 under section 334 of the *Corporations Act 2001*.

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2007 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Changes

AASB 7:

1. incorporates many of the requirements previously in AASB 132;
2. requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create; and
3. applies to both parent and group financial statements.

Consultation prior to Issuing this Standard

In August 2004, the AASB issued Exposure Draft ED 137 Request for Comment on IASB ED 7 *Financial Instruments: Disclosures*, the Australian equivalent to the IASB ED 7 *Financial Instruments: Disclosures*. ED 137 proposed the replication of the parent entity relief currently available in AASB 130 and AASB 132 (a proposal not contemplated by ED 7). Seven submissions were received in respect of the proposals in the ED and there was substantial support for adopting an Australian equivalent to IFRS 7. Five constituents agreed that AASB 7 should replicate the parent entity relief in AASB 130 and AASB 132. One constituent commented that the AASB should adopt a more proactive approach to persuade the IASB to replicate the parent entity relief in AASB 130 and AASB 132. The other constituent argued that the use of the parent entity relief represents a departure from the 'convergence' principle that would result in non-compliance with AASB 101 *Presentation of Financial Statements* and incompatibility with the respective equivalent IFRS.

A Regulatory Impact Statement has been prepared in connection with the issuing of this Standard.