

## Accounting Alert

*Analysis of the latest accounting  
developments delivered to you via e-mail  
Alert # 2003/10  
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### Recent International Convergence Releases

This *Accounting Alert* provides an update of recent releases issued by the Australian Accounting Standards Board (AASB) as part of the convergence process with International Financial Reporting Standards (IFRS) namely:

- ED 121 'Request for Comment on IAS 31 Financial Reporting of Interests in Joint Ventures'
- ED 122 'Request for Comment on IASB ED 5 Insurance Contracts'
- ED 123 'Request for Comment on IASB ED of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk'

### AASB's New Approach to Convergence

In an AASB Media Release issued on 4 September 2003, the AASB indicated that the final IFRS converged AASB Standards to be issued as a result of the many Exposure Drafts (EDs) currently on release will now not occur until April 2004, after the IASB finalise all IFRS to be effective for financial years beginning on or after 1 January 2005. Due to the legal environment in Australia, all Standards must be issued concurrently to ensure they are not invalidated. In the interim, the AASB intends to release 'Proposed Standards', but until they are formally enacted, early adoption will not be possible. The AASB are still deciding whether piecemeal early adoption of some, but not all, the IFRS converged AASB Standards will be permitted.

*IFRS converged AASB Standards  
to all be issued at the same time  
in April 2004*

*Option to proportionately consolidate jointly controlled entities*

## **ED 121 'Request for Comment on IAS 31 Financial Reporting of Interests in Joint Ventures'**

### **Australian Standard Affected**

- AASB 1006 'Interests in Joint Ventures'.

### **Major Changes to Existing Practice**

- Jointly controlled entities may be proportionately consolidated, rather than equity accounted.
- Proposed scope exclusion for interests in jointly controlled entities held by venture capitalists, mutual funds, unit trusts and similar entities, with such investments carried at fair value and change in fair value recognised in net profit or loss.

## **ED 122 'Request for Comment on IASB ED 5 Insurance Contracts'**

### **Australian Standards Affected**

- AASB 1023 'Financial Reporting of General Insurance Activities'.
- AASB 1038 'Life Insurance Business'.

### **Major Changes to Existing Practice**

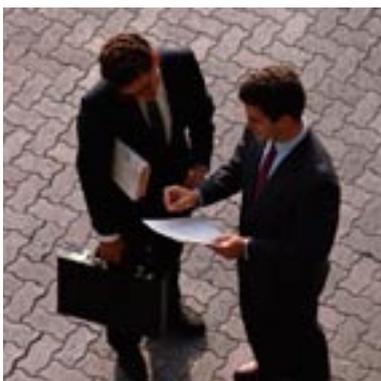
- Standard relates only to insurance contracts, therefore insurance companies will be required to comply with all other existing IFRS. Scope of AASB 1023 to be extended to include general insurance and reinsurance contracts, as such Health Benefit Organisations will now fall within its scope.
- Insurance contracts to be accounted for under existing AASB Standards. 'Insurance contracts' is defined such that contracts must include significant insurance risk – risk other than financial risk. However, in certain circumstances, embedded derivatives must be separated and accounted for under IAS 39 'Financial Instruments: Recognition and Measurement'.
- Contracts that do not include an insurance risk must be accounted for in accordance with IAS 39, for example unit-linked business. This may require the unbundling of some contracts into insurance and investment components.
- Assets to be accounted for under Australian equivalents of IAS 39, IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 40 'Investment Properties' and IAS 16 'Property, Plant and Equipment', subject to AASB proposed amendments below.

*ED deals only with insurance contracts, not insurance companies*



*Excess of net market value will no longer be recognised*

*Fair value option will be required for certain assets and liabilities to create consistency*



*Macro hedging will be possible in certain circumstances*

- The portion of the 'excess of market value over net assets of controlled entities' that does not constitute acquired goodwill will be written off.
- Insurance liabilities will be subject to a loss recognition test.

#### **AASB Proposed Amendments to Other IFRS Requirements**

- Contracts that do not include an insurance risk must be classified as held-for-trading under IAS 39 and therefore be measured at fair value with changes in fair value recognised in net profit or loss.
- Entities subject to AASB 1023 and AASB 1038 will be required to adopt the fair value measurement option in other IFRS Standards for certain assets and liabilities, including classification of financial assets as held-for-trading under IAS 39, with changes in fair value recognised in net profit or loss.
- Disclosure requirements with respect to the fair value of insurance assets and liabilities delayed until 31 December 2006.

#### **Other Matters**

- AASB 1023 and AASB 1038 will be amended and retained.
- HIH Royal Commission made several recommendations in relation to AASB 1023. Most of these recommendations are addressed by the ED. Additional amendments will be made to AASB 1023 in relation to discount rates and risk margins.

### **ED 123 'Request for Comment on IASB ED of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk'**

#### **Australian Standard Affected**

- No equivalent AASB Standard.

#### **Major Changes to IAS 39**

- Permit an entity to use fair value hedge accounting for a portfolio hedge of interest rate risk, often referred to as 'macro hedging', under certain circumstances.
- However, demand deposits and similar items with a demand feature cannot be designated as the hedge item in a fair value hedge for any period beyond the shortest period in which the counterparty can demand repayment.

This ED is the second ED released with respect to IAS 39. For further details on the proposed requirements of IAS 39 refer *Accounting Alert* 2002/08.

## Feedback and Assistance

We welcome your feedback on the matters covered in this *Accounting Alert* – please email your comments to [accounting\\_alerts@deloitte.com.au](mailto:accounting_alerts@deloitte.com.au).

For assistance in applying the requirements outlined in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to [bruporter@deloitte.com.au](mailto:bruporter@deloitte.com.au).



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