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Value Accounts Investment Funds Supplement

New Requirements for December 2013 half year reports

Interim Reporting 2013

This illustrative publication is a supplement to the VALUE ACCOUNTS Investment Funds publication. It illustrates the new reporting requirements that apply from 1 January 2013 for interim financial reports, including those relating to fair value measurements and application of the investment entity exception. The supplement illustrates an entity that previously prepared consolidated and separate financial statements, now applying the investment entity exception. This differs to the June 2013 Value Accounts Investment Funds publication which presented single entity financial statements only.

Foreword

Welcome to *VALUE ACCOUNTS Investment Funds Supplement – "New Requirements for December 2013 half year reports"*

There are a number of new accounting standards and pronouncements which are applicable for annual reporting periods beginning on or after 1 January 2013 which will have a significant impact on both interim and full annual financial reports for funds.

The purpose of this supplement is to outline the key changes and additional disclosures which are required for interim financial reports prepared as at 31 December 2013.

Changes to Fair Value Measurement

AASB 13 *Fair Value Measurement* is among the most significant changes in terms of the impact it will have on the financial statements for both interim and full year financial reporting. The new standard, and amendments made to AASB 134 *Interim Financial Reporting* require significant additional disclosures relating to fair value in interim financial reports. In addition, changes may be required to the measurement of certain financial instruments.

What are the major changes?

- A requirement for the fair value of financial liabilities to be determined based on the assumption that they will be transferred to another party rather than otherwise settled or extinguished "exit price" concept. As a result own credit risk will be incorporated into the fair value of financial liabilities (including derivative liabilities).
- An explicit requirement for the fair value of both assets and liabilities to incorporate credit risk.
- The removal of the requirement to use bid and ask prices for actively-quoted financial assets and financial liabilities respectively. Instead, the most representative price within the bid-ask spread should be used.
- The introduction of a fair value hierarchy for non-financial assets and liabilities measured at fair value similar to what AASB 7 currently prescribes for financial instrument disclosures.
- The introduction of additional disclosures related to level 3 fair value measurements and significant unobservable inputs.
- The introduction of significant additional disclosure within interim reports in relation to fair value measurements of financial instruments.

What will this mean for you?

- The adoption of the new standard will require specific first time disclosures in the year of adoption.
- When determining the fair value of financial instruments, for both financial assets and liabilities, entities will need to incorporate the impact of credit risk into the valuation.
- Management must establish its accounting policy for valuing actively quoted financial instruments – that is, will management retain the use of bid/ask prices or move towards using another basis which falls within the bid/ask spread.
- Additional information from non-financial reporting systems may need to be collated and summarised for the purpose of preparing the new disclosures relating to unobservable inputs.
- Making significant disclosures in relation to fair value in interim financial reports for the first time.

Changes to consolidation standards and the Investment Entity Exception

AASB 10 *Consolidated Financial Statements* came into effect for reporting periods beginning on or after 1 January 2013.

AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* was issued by the AASB in August 2013. The amendment introduces an exception to the consolidation rules prescribed by AASB 10 for those entities qualifying as “investment entities”. This is mandatory for reporting periods beginning on or after 1 January 2014 but may be adopted early.

What has changed?

- A single definition of control has been introduced focusing on the need to have power, rights or exposure to variable returns and the ability to use its power to affect those returns before control is present.
- An exception has been introduced for those entities qualifying as “investment entities” from consolidating subsidiaries. Rather, subsidiaries are measured at fair value through profit or loss. This exception is mandatory.

What will this mean for you?

- The adoption of AASB10 and the investment entity exception will require specific disclosures in the year of adoption.
- You will need to reassess whether you have control over those entities which you have investments in and assess how to account for these under the new standard.
- You will need to assess the relevant criteria to identify if you qualify for the investment entity exception.

Finally, all the best for the reporting season ahead. I trust that this supplement will help you work through these new requirements with success.

Craig Cummins
Sector Leader, Asset Management Assurance
PwC
10 December 2013

Assumptions made

The following assumptions have been made in preparing the financial statements for the VALUE ACCOUNTS Unit Trust (the Fund):

- The Fund has historically prepared both consolidated and separate financial statements.
- The Fund invests in Australian and International equity and fixed income instruments and employs the use of derivative financial instruments (but does not adopt hedge accounting).
- The Fund employs a long and short investment strategy.
- The Fund has only one class of units, redeemable at the option of the unitholder, however, applications and redemptions may be suspended by the responsible entity if it is in the best interest of the unitholders.
- The Fund has control over a number of other entities.
- The Fund does not have significant influence over any of the entities it invests in.
- The Fund has no reserves that would be classified as equity, and all valuation movements are recognised in profit or loss.
- The Fund is a disclosing entity as it has more than 100 unitholders.
- The Fund is not listed on the Australian Stock Exchange (ASX).
- There is no material difference between the value of net assets attributable to unitholders based on the total number of units on issue multiplied by the redemption price, and the value based on deducting liabilities (excluding net assets attributable to unit holders) from total assets.
- There are no non-financial assets that are carried at fair value.
- The Fund does not have any liabilities other than derivatives and equity securities sold short that are measured at fair value on a recurring basis.
- The adoption of AASB13 did not result in any changes to fair value measurements, except for the fair value of certain derivative liabilities.

VALUE ACCOUNTS Investment Funds

New Requirements for December 2013 half year reports

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1 Summary of significant accounting policies (extract)

(a) Basis of preparation (extract)

AASB134 (16A)(a)
CA 334 (5)

(i) Changes in accounting policy and transition

The Fund had to change some of its accounting policies as the result of new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013. The affected policies are:

- Principles of consolidation – AASB 10 *Consolidated Financial Statements*
- Determining fair value – AASB 13 *Fair Value Measurement*

The Fund has also early adopted amendments made to AASB 10 and AASB 127 (revised 2011) *Separate Financial Statements* by AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities.*

AASB134 (16A)(a)

Investments in controlled entities[1-3]

The objective of AASB 10 is to establish principles for the preparation and presentation of consolidated financial statements. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. The Fund has reviewed its investments in other entities to assess whether the conclusion as to whether the Fund controls an investee or not is different under AASB 10. No differences were identified.

The amendments made by AASB 2013-5 introduce an exception from consolidation requirements for investment entities.

On adoption of the amendments, the Fund has determined that it meets the definition of an investment entity (see note 1(b)) and it has therefore changed its accounting policy with respect to its controlled investments. The investees, which were previously consolidated, are now accounted for at fair value through profit or loss.

Furthermore, since the Fund is now measuring all of its controlled entities at fair value through profit or loss, it is no longer required to prepare consolidated financial statements, but prepares separate financial statements as its only financial statements, as provided by the amendments to AASB 127.

This change in accounting policy has been applied retrospectively in accordance with the transition provisions of AASB 10 and with the amendments to AASB 10. The transition provisions require retrospective application in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The Fund's accounting policy is to measure its investment in controlled entities at fair value through profit or loss in the separate financial statements. As the separate financial statements have been previously disclosed, no further information is presented on the impact of the above change, as the separate financial statements show the financial position of the Fund as required by the investment entities exception.

AASB134 16A (a)

Fair value measurement [13-20]

AASB134 16A (j)
AASB13 (1),(5)

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

AASB13 (9)
AASB13 (34)

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation.

AASB13 (C2)

As required under AASB 13, the change to the fair value of the derivative liabilities is applied prospectively, in the same way as a change in an accounting estimate. As a consequence, the fair value of derivative liabilities decreased by $60,000 as at 1 July 2013. The difference has been recorded as a fair value movement through profit or loss. Comparative amounts have not been restated.

1 Summary of significant accounting policies (extract) (continued)

(b) Investment entity [4-10]

AASB134 16A(a)
AASB134 16A(k)
AASB2013-5 (8)
AASB10 (27)

The Fund has multiple investments which are controlled by it. However, the Fund has determined that it is an investment entity under the definition in AASB 10 as it meets the following criteria:

(a) the Fund has obtained funds from unitholders for the purpose of providing them with investment management services

(b) the Fund's business purpose, which it communicated directly to unitholders, is investing solely for returns from capital appreciation and investment income, and;

(c) the performance of investments made by the Fund are measured and evaluated on a fair value basis.

The Fund also meets all of the typical characteristics of an investment entity.

As a consequence, the Fund does not consolidate these investments, but accounts for them at fair value through profit or loss. See note 1(a) above for information regarding the impact of the change in accounting policy.

Commentary – Summary of significant accounting policies

Changes to the accounting for interests in other entities

New consolidation requirements

1. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 112 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.
2. AASB 10 introduces a single definition of control that applies to all entities. It focuses on the need to have power, rights or exposure to variable returns and the ability to use its power to affect those returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.
3. The new standard also includes guidance on participating and protective rights and on agent/principal relationships. While the determination of control and consolidation decisions may not change for many investments, it will be necessary to consider the new guidance in the context of each entity's specific arrangements.

Investment entities

AASB2013-5 (27)

4. Effective 1 January 2014, investment entities must recognise their controlled entities at fair value instead of consolidating them. This standard may be early adopted. An investment entity is an entity that:

   (a) obtains funds from investors for the purpose of providing them with investment management services

   (b) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

   (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

5. The standard also outlines a set of typical characteristics of an investment entity:

   (a) having more than one investor

   (b) having more than one investment

   (c) having investors that are not related parties of the entity

   (d) having ownership interests in the form of equity or similar interests.

AASB2013-5 (28)

   Not all of the above characteristics are required for the entity to qualify as an investment entity. However, if the entity does not exhibit all of the characteristics identified above it shall disclose its reasons for concluding that it is nevertheless an investment entity.

Commentary – Summary of significant accounting policies (continued)

AASB2013-5 (5)

6. The amendments to AASB 10 can be adopted early by investment entities. The change in accounting policy will have to be applied retrospectively.

AASB2013-5 (32)

7. Note if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities it is required to consolidate that subsidiary and apply the requirements of AASB 3 to the acquisition of any such subsidiary.

8. For more detailed explanations of the new rules, please refer to our practical guide to the IFRS equivalent, "*Investment entities – Exception to consolidation"* which can be accessed via the www.pwc.com/ifrs web site.

Disclosure of retrospective changes due to the investment entities exemptions

9. The Fund in these illustrative financial statements, previously prepared **both** consolidated and separate financial statements. Its investments in controlled entities were also accounted for at fair value through profit or loss in the separate financial statements. As a result of applying the investment entity exception, the separate financial statements of the Fund illustrate the impact of deconsolidating the controlled entities and accounting for them at fair value through profit or loss. As a result, in our view no further quantitative disclosure concerning the change is required. However, a description outlining the nature of the changes should be included within the basis of preparation.

10. Refer to Appendix A for additional quantitative disclosures that may be required by a fund applying the investment entity exception. For example, where a fund did not previously prepare separate financial statements and is required to deconsolidate and account for investments at fair value.

Other changes

11. AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. It does not introduce any changes to the guidance for separate financial statements. However, the amendments to AASB 127 provide for investment entities that account for all controlled entities at fair value through profit or loss to prepare separate financial statements only.

12. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. This could result in further changes in accounting policy which are not illustrated in this publication.

Fair value measurement

13. AASB 13 consolidates fair value measurement guidance from across various Australian Accounting Standards into a single standard. AASB 13 does not change when fair value can or should be used.

AASB13 (9)

14. The standard defines fair value as 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 (exit price).

15. AASB 13 largely incorporates valuation practices that are already commonly used today, however, it does also introduce a number of changes including:

AASB13 (15)

(a) A requirement for the fair value of financial liabilities to be determined based on the assumption that they will be transferred to another party rather than otherwise settled or extinguished "exit price" concept. As a result own credit risk will be incorporated into the fair value of financial liabilities (including derivative liabilities). Derivative assets should also incorporate credit risk into the valuation.

AASB13 (42)

(b) An explicit requirement for the fair value of both assets and liabilities to incorporate credit risk

AASB13 (70)

(c) The removal of the requirement to use bid and ask prices for actively-quoted financial assets and financial liabilities respectively. Instead, the most representative price within the bid-ask spread should be used.

AASB13 (93)(b)

(d) The introduction of a fair value hierarchy for non-financial assets and liabilities measured at fair value similar to what AASB 7 currently prescribes for financial instruments for year end disclosures.

AASB13 (93)(h)

(e) The introduction of additional disclosures related to level 3 fair value measurements and significant unobservable inputs.

Commentary – Summary of significant accounting policies (continued)

AASB13 (C2)

16. Where there are changes on adoption of AASB 13 to the fair value measurement of assets and liabilities carried at fair value on the balance sheet, the changes are accounted for prospectively similar to changes in estimates. Fair value measurements in previous financial periods presented are not changed as a result.
17. Hedge accounting may be impacted as a result of incorporating credit risk into the valuation of financial instruments. Generally credit risk is not designated as part of the risk being hedged, thus creating a mismatch between the hedged item and hedging instrument. The impact on an entity's hedging relationships should be analysed by management to determine whether it will give rise to ineffectiveness.
18. For more detailed explanations of the new rules, please refer to our practical guide *Fair value measurement – unifying the concept of 'fair value'* which can be accessed via the www.pwc.com/ifrs web site.

Change to bid/ask prices for actively quoted financial instruments

19. AASB 13 removes the requirement to use bid/ask prices for actively quoted financial instruments. Rather the most representative price within the bid/ask spread is used. The Fund has elected to retain the use of bid/ask prices to fair value actively quoted financial instruments. Where management elect to use an alternative basis, such as last traded price or mid price, it should describe this change as part of its accounting policies.
20. Where last traded price is used by an entity, management should ensure at balance date that last traded price falls within the bid/ask spread as at that date. Where it falls outside the bid/ask spread, an alternative basis most representative of fair value within the bid/ask spread, must be used.

2 Fair value measurements [1-14]

AASB134 (16A)(j)
AASB13 (91)

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis[5]:

- Financial assets / liabilities designated at fair value through profit or loss (FVTPL)
- Financial assets / liabilities held for trading
- Derivative financial instruments

AASB13 (93)(a)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and

c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Recognised fair value measurements

AASB13 (C3)

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 31 December 2013. [7, 13,14]

AASB13 (93) (a),(b)

At 31 December 2013	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial assets				
Financial assets held for trading:				
Trading derivatives	200	100	-	300
Financial assets designated at fair value through profit or loss				
Equity securities	4,350	-	1,150	5,500
Debt securities	3,220	1,100	-	4,320
Unlisted unit trusts	1,000	1,000	3,250	5,250
Total financial assets	8,770	2,200	4,400	15,370
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	4,350	-	-	4,350
Derivatives	3,220	-	-	3,220
Total financial liabilities	7,570	-	-	7,570

At 30 June 2013	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial assets				
Financial assets held for trading:				
Trading derivatives	250	125	-	375
Financial assets designated at fair value through profit or loss				
Equity securities	84,160	-	3,240	87,400
Debt securities	4,500	1,400	-	5,900
Unlisted unit trusts	1,500	2,000	4,230	7,730
Total financial assets	90,410	3,525	7,470	101,405
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	2,000	-	-	2,000
Derivatives	3,000	-	-	3,000
Total financial liabilities	5,000	-	-	5,000

2 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

AASB13 (93)(c) There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 see (d) below.

AASB13 (95) The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(b) Disclosed fair values

AASB7 (29)(a) For all financial instruments other than those measured at fair value their carrying value approximates fair value.

(c) Valuation techniques used to derive level 2 and level 3 fair values [8,9]

AASB13 (91)(a) AASB13 (93)(d) The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the Fund's unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments where available.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(d) Fair value measurements using significant unobservable inputs (level 3) [8,9]

AASB13 (93)(e) The following table presents the changes in level 3 items for the period ending 31 December 2013 for recurring fair value measurements: [7]

	Unlisted equity securities $'000	Unlisted unit trusts $'000	Total $'000
Opening balance 1 July 2013 [13]	**3,240**	**4,230**	**7,470**
Transfer from level 2		200	200
Acquisitions	40	-	40
Disposals	(1,000)	-	(1,000)
Unrealised losses recognised in net gains and losses on financial instruments	(1,130)	(1,180)	(2,310)
Closing balance 31 December 2013	**1,150**	**3,250**	**4,400**

(i) Transfers between levels 2 and 3 and changes in valuation techniques

AASB13 (93)(d) The transfer from level 2 to level 3 relates to an unlisted unit trust investment whose trading volumes in the over the counter market declined to such an extent that the valuation inputs could not be based on observable market inputs at the end of the reporting period.

There have been no changes to valuation techniques during the period.

2 Fair value measurements (continued)

(d) Fair value measurements using significant unobservable inputs (level 3; continued)

(ii) Valuation inputs and relationships to fair value

AASB13 (93)(d) (99)

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See (c) above for the valuation techniques adopted. [8-10]

AASB13 (93)(d) , (h)
AASB13 (93)(i) , (ii)

Description	Fair value at 31 Dec 2013 $000	Unobservable inputs *	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Unlisted equity securities	1,150	Earnings growth factor	2.5 % - 3.5% (3%)	Increased earnings growth factor (+50 basis points (bps)) and lower discount rate (-100 bps) would increase FV by $70,000; lower growth factor (-50 bps) and higher discount rate (+100 bps) would decrease FV by $80,000.
		Risk-adjusted discount rate	9% - 11% (10%)	
Unlisted unit trusts	3,250	Earnings growth factor	4.5 % - 7.5% (5%)	Increased earnings growth factor (+50 basis points (bps)) and lower discount rate (-100 bps) would increase FV by $70,000; lower growth factor (-50 bps) and higher discount rate (+100 bps) would decrease FV by $80,000.
		Risk-adjusted discount rate	12% - 14% (11%)	

AASB13 (93)(h)(i)

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

AASB13 (93)(g)

(iii) Valuation processes

The fund manager's finance department includes a team that performs detailed monthly valuations of the financial instruments required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the Audit Committee. Discussions of valuation processes and results are held between the CFO, Audit Committee and the valuation team at least once every six months, in line with the Fund's half-yearly reporting dates.

AASB13 (91)(b)

The main level 3 inputs used by the Fund are derived and evaluated as follows:

- Earnings growth factor for unlisted equity securities and unit trusts are estimated based on market information for similar types of companies.
- Risk-adjusted discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation meetings between the CFO, Audit Committee and the valuation team. As part of this discussion the team presents a report that explains the reasons for the fair value movements.

Commentary – Fair value measurements

New accounting standard for fair value measurements and interim disclosure requirements

1. In September 2011, the AASB issued AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from* AASB 13.
2. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not change when an entity is required to use fair value to measure an asset or liability. The standard defines fair value as 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 (exit price). It also provides guidance on how fair value should be measured. Preparers of financial reports will need to review their fair value measurements and determine whether any of the techniques used may have to change as a result of the new guidance.
3. For interim periods commencing on or after 1 January 2013, entities must now provide detailed information about the fair value measurements of their financial instruments, regardless of whether there have been significant changes or transactions during the interim period. This includes information about:
   (a) the recognised fair value measurements at the end of the interim period
   (b) for financial assets and financial liabilities that are not measured at fair value – the fair value such that it can be compared with the carrying amount
   (c) for non-recurring fair value measurements, the reason for the measurement
   (d) the level of the fair value hierarchy within which the measurements are categorised
   (e) the amount of transfers between level 1 and level 2 of the hierarchy, the reasons for those transfers and the entity's policy for determining when transfers have occurred
   (f) for level 2 and level 3 measurements a description of the valuation techniques and inputs used, changes in the valuation techniques used and reasons for changes. For level 3 measurements also quantitative information about significant unobservable inputs used
   (g) for level 3 measurements a reconciliation from opening to closing balances, showing separately a number of specifically identified items
   (h) for recurring level 3 measurements, the amount of unrealised gains or losses for the period that is attributable assets and liabilities held at the end of the reporting period
   (i) for level 3 measurements, a description of the valuation processes used by the entity
   (j) for recurring level 3 measurements, a narrative description of the sensitivity of the fair value to changes in unobservable inputs and the effect of changes to unobservable inputs if such changes have a significant effect on the fair value
   (k) the existence of inseparable third-party credit enhancements.

Disclosure objectives

AASB134 (16A) (j)
AASB13 (91)

4. AASB 13 requires disclosure of information that helps users of financial statements to assess:
   (a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis after initial recognition, the valuation techniques and inputs used to develop those measurements
   (b) for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

AASB13 (93) (a)

5. AASB 13 distinguishes between recurring and non-recurring fair value measurements. Recurring fair value measurements of assets or liabilities are those that other accounting standards require or permit at the end of each reporting period. Non-recurring fair value measurements are those that other standards require or permit in certain circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations).* For the purpose of this supplemental disclosure there are no non-recurring fair value measurements.

AASB13 (92)

6. Entities shall consider what level of detail is necessary to satisfy the above disclosure objectives, how much emphasis needs to be placed on each of the requirements, to what extent information should be aggregated or disaggregated and whether any additional information is necessary to meet those objectives.

AASB13 (99)

7. The information should be presented in tabular format unless another format is more appropriate

Commentary – Fair value measurements (continued)

Information about valuation techniques

AASB13 (93)(d)

8. Entities must describe the valuation technique(s) and inputs used in the fair value measurement for all recurring and non-recurring fair value measurements of financial instruments that are categorised within level 2 and level 3 of the fair value hierarchy.

AASB13 (93)(d)

9. For fair value measurements categorised within level 3 of the hierarchy, the entity must also provide quantitative information about the significant unobservable inputs used, unless quantitative inputs are not developed by the entity when measuring fair value (eg if the entity uses prices from prior transactions or third-party pricing information without adjustment).

Sensitivity

AASB13 (93)(h)

10. For all recurring fair value measurements that are classified as 'level 3' entities must provide information about the sensitivity of the fair value measurement to changes in unobservable inputs:
    (a) For all such measurements: a narrative description of the sensitivity if a change in unobservable inputs could result in significantly higher or lower fair values and a description of any interrelationships between those inputs and other unobservable inputs and how these interrelationships could magnify or mitigate the effect of changes in the inputs.
    (b) For financial assets and financial liabilities, if changing one or more unobservable inputs would change fair value significantly, entities shall disclose the effect of reasonably possible changes in assumptions and how the effect was calculated.

Classes of assets and liabilities

AASB13 (94)

11. The disclosures in AASB 13 must be made separately for each class of assets and liabilities. Entities shall determine appropriate classes of assets and liabilities by considering:
    (a) the nature, characteristics and risks of the asset or liability, and
    (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

AASB13 (94)

12. A class of assets and liabilities will often require greater disaggregation than the line items presented in the balance sheet. The number of classes may also need to be greater for fair value measurements categorised within level 3 of the hierarchy, as those measurements have a greater degree of uncertainty and subjectivity. Entities shall disclose sufficient information to allow a reconciliation back to the line items disclosed on the balance sheet.

Comparatives

AASB13 (C3)

13. While AASB 13 provides relief from providing comparative information in the first year of application, we do not believe that this can be applied to remove comparative information for disclosures that were already required under AASB 7 *Financial Instruments: Disclosures* (eg information in relation to the fair value hierarchy of financial instruments).

14. In terms of the fair value disclosures that are now required for interim reports, comparative information should be provided where it is necessary to provide context for the information disclosed for the current interim period. For example, if there have been significant movements in the fair value hierarchy in the current period, in particular in levels 1 and 2, information about the classification of the financial instruments as at the previous reporting date will allow users to assess the magnitude of these changes. However, roll-forward information such as changes in level 3 items during the interim period will not need to be provided for the comparative interim period, unless this information is necessary to understand the movements in the current year. While AASB 13 provides relief from providing comparative information in the first year of application, we do not believe that this can be applied to completely remove any comparative information for disclosures that were already required under AASB 7 *Financial Instruments: Disclosure.* Instead, the general rules described above should be applied.

Additional interim reporting requirements – AASB 7

AASB2011-8
AASB134 16A (j)
AASB7 (25), (26), (28)-(30)

15. The amendments to the interim reporting standard now require a number of disclosures prescribed by AASB 7 to be disclosed as part of interim reports.
    (a) Disclosure of the fair value for each class of financial assets and financial liabilities in a way that permits it to be compared with its carrying amount. Fair values do not need to be disclosed for the following:
        (i) where the carrying amount is a reasonable approximation of fair value
        (ii) where investments in equity instruments (and derivatives linked to such equity instruments) are measured at cost in accordance with AASB 139 because their fair value cannot be measured reliably

Commentary – Fair value measurements (continued)

(iii) a contract containing a discretionary participation feature (as described in AASB 4 *Insurance Contracts*) where the fair value of that feature cannot be measured reliably.

Additional disclosures are required in respect of (ii) and (iii) to allow users to make their own judgements about the extent of possible differences between carrying amount and fair value.

(b) If there is a difference between the fair value of a financial instrument at initial recognition (being transaction price) and the amount that would be determined at that date using a valuation technique, disclosure about the entity's accounting policy in recognising these differences through profit or loss is required. In addition, a reconciliation of the movements to the aggregate differences during the period is also required.

The extract below illustrates the additional quantitative disclosures that may be required by a fund applying the investment entity exception for the first time. For example, where a fund did not previously prepare separate financial statements and is required to deconsolidate and account for investments at fair value.

Summary of significant accounting policies (extract)

(i) Changes in accounting policy and transition (continued)

This change in accounting policy has been applied retrospectively in accordance with the transition provisions of AASB 10 and with the amendments to AASB 10. The transition provisions require retrospective application in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The following table shows the adjustments made to each financial statement line item for the comparative period.

Balance sheet	**30 June 2013 (Consolidated) $'000**	**Adjustment $'000**	**30 June 2013 (Restated) $'000**
Assets			
Cash and cash equivalents	2,500	(1,000)	1,500
Receivables	349	(349)	-
Due from brokers	1,465	(1,465)	-
Financial assets held at fair value through profit or loss	156,009	(54,604)	101,405
Other assets	3,400	(2,900)	500
Margin accounts	459	(459)	-
Total assets	164,182	(60,777)	103,405
Liabilities			
Payables	(450)	350	(100)
Due to brokers	(2,304)	1,293	(1,011)
Financial liabilities held at fair value through profit or loss	(30,000)	25,000	(5,000)
Other liabilities	(345)	245	(100)
Total liabilities (excluding net assets attributable to unitholders)	(33,099)	26,888	(6,211)
Net assets attributable to unitholders – liability	131,083	-	97,194

Statement of comprehensive income	**31 Dec 2012 (Consolidated) $'000**	**Adjustment $'000**	**31 Dec 2012 (Restated) $'000**
Income			
Interest income	956	(491)	465
Dividend income	103	(36)	67
Net gains / (losses) on financial instruments held at fair value through profit or loss	13,495	(7,727)	5,768
Total net investment income (loss)	14,554	(8,254)	6,300
Expenses			
Responsible entity fees	(506)	106	(400)
Custody fees	(465)	161	(304)
Remuneration of auditors	(100)	50	(50)
Transaction costs	(454)	90	(364)
Other operating expense	(35)	4	(31)
Total operating expenses	(1,560)	411	(1,149)
Operating profit / (loss)	12,994	(7,843)	5,151
Finance costs attributable to unitholders			
Distributions to unitholders	(450)	210	(240)
Increase / (decrease) in net assets attributable to unit holders	(12,544)	7,633	(4,911)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	-	-

Commentary – Summary of significant accounting policies (extract)

1. This appendix illustrates the additional quantitative disclosures that may be presented as part of an interim financial report, where the impact of applying the investment entities exception is required to be disclosed.

AASB108(28)(f)

2. AASB 134 *Interim Financial Reporting* does not specify how much detail entities must provide to explain a change in policy. For the purpose of this appendix we have only presented disclosures in relation to the statement of financial position and statement of comprehensive income following the requirements prescribed by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

3. Depending on the individual circumstances, in particular the impact of the change on individual line items in the financial statements, less detailed disclosures may be sufficient.

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