

Controversial financial instruments

The Australian Accounting Standards Board (AASB) released the pending version of the controversial standards on financial instruments late last year.

Those standards, according to AASB chairman David Boymal, will fill some major gaps in Australian financial reporting regulations. The country has had no comprehensive literature dealing with financial instruments in the past and it will result in complex arrangements, such as derivatives, being brought on to the balance sheet.

Certain types of financial instruments such as resetting preference shares will be reclassified. Those instruments presently classified as equity may find themselves defined as debt.

‘The AASB welcomes the release of the IASB’s [International Accounting Standards Board’s] improved financial instruments standards, which are key elements in the AASB’s process of implementing 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,’ says Boymal.

‘The Board is approving the contents of pending standards on a progressive basis so that they are available as soon as possible for the information of constituents.’

Other areas of accounting that will change as a result of these standards include the contentious area of securitisation. Some securitisation agreements will be brought back on to the balance sheet because the rules for when companies can remove such financial arrangements off the balance sheet have been tightened.

As is the case with most of the standards being issued by the board over the next few months, the financial instruments standards, known as IAS 32 and IAS 39, respectively, will be known as AASB 132 and AASB 139 when they are Australianised.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.