

Parliamentary Joint Committee on Corporations and Financial Services

Australian Securities and Investments Commission

Answers to Questions on Notice

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Question:

Senator O'NEILL: I've got five quick questions around derivatives. Are banks reporting on their derivative exposure effectively in their financial reports so that investors have a complete understanding of what banks are exposed to?

Mr Price: Banks are required to comply with financial reporting standards around financial instruments, which do include derivative transactions, but the devil is in the detail as to what those accounting standards require. I fear I could spend the rest of the afternoon going through the precise detail of how it all works, so if there's a specific example you might be able to provide I can—

Senator O'NEILL: We might give you some time to give us on notice a discussion paper about that.

Answer:

Banks and other entities preparing financial reports under the Corporations Act 2001 are required to comply with accounting standards. Accounting Standard AASB 7 *Financial instrument disclosures* (AASB 7) is consistent with International Financial Reporting Standard IFRS 7 *Financial instrument disclosures*. AASB 7 first applied for reporting periods beginning on 1 January 2005 and requires the notes to financial reports to include disclosures relating to credit, market and liquidity risks associated with derivatives and other financial instruments.

Deficiencies identified by ASIC in relation to the disclosures concerning derivatives are reported as a part of our financial reporting surveillance program. A recent example of additional disclosure on financial instruments by a company following concerns raised by ASIC appears in ASIC media release 19-270MR *Generation Development Group changes life business disclosures* issued on 30 September 2019 (<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-270mr-generation-development-group-changes-life-business-disclosures/>).

Our reviews of audits of large banks typically include a review of audit work on financial instruments with a particular focus on valuation.