FINANCIAL INSTRUMENTS DISCLOSURES
(IFRS-7)

INTRODUCTION

IFRS 7 deals with the disclosure requirements in relation to all risks arising from financial instruments (with limited exemptions), and applies to any entity that holds financial instruments. The level of disclosure required depends on the extent of the entity's use of financial instruments and its exposure to financial risk.

The Standard retains many of the disclosure requirements currently within IAS 32 and IAS 30. However, there have been some editorial changes to the existing requirements as well as some additional disclosure requirements added.

The overriding objective of the Standard is that preparers should provide disclosures that enhance a user's understanding of the entity's exposures to financial risks and how the entity manages those risks.

To this end, the Standard requires an entity to disclose:

- Information on the significance of financial instruments to the entity's financial position and performance;
- The nature and extent of risk exposures arising from financial instruments (quantitative disclosures); and
- The approach taken in managing those risks (qualitative disclosures).

An appendix of mandatory application guidance is part of the Standard. There is also an appendix of non-mandatory implementation guidance that describes how an entity might provide the disclosures required by IFRS 7.

Principal changes

The more significant changes from the disclosure requirements of IAS 32 and IAS 30 include:

- a new requirement to disclose the carrying amounts of financial assets and financial liabilities under each of the classifications in IAS 39 Financial Instruments: Recognition and Measurement (i.e. financial assets and financial liabilities designated as at fair value through profit or loss (FVTPL), held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial liabilities measured at amortized cost;
- New disclosure requirements regarding loans and receivables designated as at FVTPL;
- The requirement to disclose the fair value movement on financial liabilities designated as at FVTPL due to changes in credit risk has also been extended to include loans and receivables designated as at FVTPL. In addition, entities are required to disclose the method used to determine the amount of the change;
- New disclosure requirements where there is a difference between the fair value of a financial instrument at initial recognition and the amount that would be determined at that date using a valuation technique (known as "day one P&L"). IFRS 7 requires disclosure of the entity's accounting policy for recognizing that difference in profit or loss, and the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference;
- New disclosure requirements for financial assets that are either past due or impaired. IFRS 7 requires an analysis of the age of financial assets that are past due and, unless impracticable, an estimate of the fair value of collaterals held by the entity;
- Where an entity records impairment on a financial asset or a group of financial assets through an allowance account (e.g. for bad debts), as opposed to a direct reduction to the carrying

amount of the financial asset, it shall disclose, for each class of financial asset, a reconciliation of changes in carrying amounts in that account during the period;

- Separate disclosure of the amount of ineffectiveness recognized in profit or loss on cash flow hedges and hedges of net investments in foreign operations;
- Separate disclosure of the gains or losses in fair value hedges arising from re-measuring the hedging instrument and on the hedged item attributable to the hedged risk;
- Disclosure of the net gain or loss on ‘held-to-maturity investments’, ‘loans and receivables’ and ‘financial liabilities measured at amortized cost’; and
- Additional requirements on providing sensitivity analysis of market risks and how changes in these risks would have impacted profit or loss and equity in the period.

Disclosure Requirements of IFRS 7

- An entity must group its financial instruments into classes of similar instruments and, when disclosures are required, make disclosures by class.
- The two main categories of disclosures required by IFRS 7 are:
  1. Information about the significance of financial instruments.
  2. Information about the nature and extent of risks arising from financial instruments.

Information about the significance of financial instruments

Statement of financial position

Disclosure of the significance of financial instruments for an entity's financial position and performance:

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This includes disclosures for each of the following categories:

- o Financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.
- o Held-to-maturity investments.
- o Loans and receivables.
- o Available-for-sale assets.
- o Financial liabilities at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.
- o Financial liabilities measured at amortized cost.
  - Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit and loss, including disclosures about credit risk and market risk and changes in fair values
  - Reclassifications of financial instruments from fair value to amortized cost or vice versa
  - Disclosures about de-recognitions, including transfers of financial assets for which de-recognition accounting is not permitted by IAS 39
  - Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral
  - Reconciliation of the allowance account for credit losses (bad debts).
  - Information about compound financial instruments with multiple embedded derivatives.
  - Breaches of terms of loan agreements.

Statement of Comprehensive Income

Items of income, expense, gains, and losses, with separate disclosure of gains and losses from:

- Financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.
- Held-to-maturity investments.
- Loans and receivables.
- Available-for-sale assets.
- Financial liabilities measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition.
- Financial liabilities measured at amortized cost.
- Interest income and interest expense for those financial instruments that are not measured at fair value through profit and loss
- Fee income and expense
- Amount of impairment losses on financial assets
- Interest income on impaired financial assets

Other Disclosures

- Accounting policies for financial instruments
- Information about hedge accounting, including:
    - Description of each hedge, hedging instrument, and fair values of those instruments, and nature of risks being hedged.
    - For cash flow hedges, the periods in which the cash flows are expected to occur, when they are expected to enter into the determination of profit or loss, and a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur.
    - If a gain or loss on a hedging instrument in a cash flow hedge has been recognized directly in equity, an entity should disclose the following:
        - The amount that was so recognized in equity during the period.
        - The amount that was removed from equity and included in profit or loss for the period.
        - The amount that was removed from equity during the period and included in the initial measurement of the acquisition cost or other carrying amount of a non-financial asset or non- financial liability in a hedged highly probable forecast transaction.
    - For fair value hedges, information about the fair value changes of the hedging instrument and the hedged item.
    - Hedge ineffectiveness recognized in profit and loss (separately for cash flow hedges and hedges of a net investment in a foreign operation).
- Information about the fair values of each class of financial asset and financial liability, along with:
    - Comparable carrying amounts.
    - Description of how fair value was determined.
    - Detailed information if fair value cannot be reliably measured.

Note that disclosure of fair values is not required when the carrying amount is a reasonable approximation of fair value, such as short-term trade receivables and payables, or for instruments whose fair value cannot be measured reliably.

Nature and extent of exposure to risks arising from financial instruments

Qualitative disclosures

The qualitative disclosures describe:

- Risk exposures for each type of financial instrument.
- Management's objectives, policies, and processes for managing those risks.
- Changes from the prior period.

Quantitative disclosures

The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. These disclosures include:

- Summary quantitative data about exposure to each risk at the reporting date.
- Disclosures about credit risk, liquidity risk, and market risk as further described below.
- Concentrations of risk.

Credit Risk

Disclosures about credit risk include:

- Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired, and information about credit quality of financial assets whose terms have been renegotiated.
- For financial assets that are past due or impaired, analytical disclosures are required.
- Information about collateral or other credit enhancements obtained or called.

Liquidity Risk

Disclosures about liquidity risk include:

- A maturity analysis of financial liabilities.
- Description of approach to risk management.

Market Risk

- Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk, and other price risks.
- Disclosures about market risk include:
- A sensitivity analysis of each type of market risk to which the entity is exposed. IFRS 7 provides that if an entity prepares a sensitivity analysis for management purposes that reflects interdependencies of more than one component of market risk (for instance, interest risk and foreign currency risk combined), it may disclose that analysis instead of a separate sensitivity analysis for each type of market risk.