IFRS 7

Financial Instruments: Disclosures

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IFRS 7 – Financial Instruments: Disclosures

Objective

To provide disclosures in financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance
- the nature and extent of risks arising from financial instruments

Scope

- applies to all financial instruments except:
  - Interests in Subsidiaries, Associates and Joint ventures (IAS 27, 28 & 31) – except where the instrument is held as 'available for sale'
  - Employee Benefit Plans (IAS 19)
  - Insurance Contracts (IFRS 4)
  - Business Combinations (IFRS 3)
  - Loan Commitments, Provisions (IAS 37)
  - Share Based Payment (IFRS 2)

IFRS 7 – Financial Instruments: Disclosures

Overview

- Applies to ALL entities that have financial Instruments
- Impacts any entity that holds even simple instruments such as borrowings, accounts payable and receivable, cash and investments
- Entities are required to report the metrics they use internally to manage and measure financial risks
- Requires reporting entities to disclose the sensitivity of their results to movements in market risks as a consequence of their financial instruments

IFRS 7 – Financial Instruments: Disclosures

Introduction

The main features of IFRS 7 are:

- Applies to all risks arising from all financial instruments,
- Applies to all entities, including entities that have a few financial instruments

IAS 32 and 39 are the principal standards that govern the measurement and recognition for financial instruments. However there are certain financial instruments (non recognised financial instruments) that are covered by IFRS 7.

For example, loan commitments not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39)

IFRS 7 – Financial Instruments: Disclosures

Disclosure

Balance sheet or respective notes

- carrying amounts of each category of financial instruments (as described in IAS 39) need to be disclosed on the face of the balance sheet or in the notes
- special disclosures for instruments designated to be measured at fair value through profit and loss – credit risk, market risk and changes in fair value
- reclassifications of financial instruments from fair value to amortised cost or vice versa
- disclosures about derecognition, including transfers of financial assets for which dercognition is not allowed by IAS 39
- information about financial assets pledged as collateral and financial/non-financial assets held as collateral (e.g. liens)
- reconciliation of the allowance account for credit losses (bad debts)
- breaches of terms, remedies and amounts involved of loans

IFRS 7 – Financial Instruments: Disclosures

Disclosure
Balance sheet or respective notes

The required core balance sheet disclosures for each category of financial assets and financial liabilities include the carrying amount and related fair value, along with the amount of and reason for any reclassifications between categories. Disclosures relating to financial instruments held for trading should be presented separately from those designated at fair value through profit or loss.

	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Financial assets				
Cash in hand and demand deposits with central banks	12,318	12,319	13,881	13,881
Due from credit institutions and central banks	275,268	275,270	274,918	274,918
Trading portfolio assets	490,954	490,954	444,521	444,521
Financial investment securities	28,336	28,357	28,712	28,696
Assets held for sale	1,796	1,814	205	265
Bank loans and advances	1,054,322	1,054,307	829,603	829,603
Mortgage loans	602,584	602,584	569,092	569,092
Assets under pooled schemes and unit-linked investment contracts	39,602	39,602	35,678	35,678
Assets under insurance contracts	194,302	194,302	188,342	188,342
Total	2,697,485	2,697,509	2,384,950	2,384,994
Financial liabilities				
Due to credit institutions and central banks	564,549	564,558	478,363	476,363
Trading portfolio liabilities	236,524	236,524	212,042	212,042
Liabilities held for sale	888	888	-	-
Deposits	702,843	702,843	631,184	631,184
Issued mortgage bonds	484,217	484,217	438,675	438,675
Deposits under pooled schemes and unit-linked investment contracts	46,983	46,983	42,287	42,287
Liabilities under insurance contracts	215,793	215,793	212,328	212,328
Other issued bonds	293,736	294,467	251,098	254,677
Subordinated debt	48,951	50,984	43,837	46,107
Total	2,594,584	2,597,357	2,307,815	2,313,863

	Loans and receivables	Available-for-sale	Fair value through profit or loss: Held for trading	Fair value through profit or loss: Fair value option	Total carrying amount
31 December 2007					
Assets as per balance sheet					
Non-current financial investments	0	3,291	0	11,975	15,266
Non-current derivative financial instruments	0	0	609	0	609
Non-current financial receivables	3,515	0	0	0	3,515
Current trade and other receivables	69,378	0	0	0	69,378
Current derivative financial instruments	0	0	21,093	0	21,093
Current financial investments	0	0	3,359	0	3,359
Cash and cash equivalents	18,264	0	0	0	18,264
Total	91,157	3,291	25,061	11,975	131,484

IFRS 7 – Financial Instruments: Disclosures

Income statement, equity and respective notes

•items of income, expense, gains or losses either on the face of the financial statements or in the notes from each category in IAS 39

• total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss

• fee income and expense (other than amounts included in determining the effective interest rate)

• interest income accrued on impaired financial assets

• the amount of any impairment loss for each class of financial asset

	Year ended December 31, 2007						
	Finance costs, net				Operating income		Equity
	Cost of net financial debt	Foreign exchange gains (losses)	Other net financial expense		Foreign exchange gains (losses)	Other	Retained earnings
Assets available for sale	5	(6)	-		-	-	(38)
Loans and receivables	48	(445)	-		(28)	(286)	-
Financial assets at fair value through profit or loss, excluding derivatives	257	-	-		-	-	-
Liabilities at amortized cost	(2,766)	1,177	(64)		29	(2)	-
Financial liabilities at fair value through profit or loss, excluding derivatives	-	-	(32)		-	-	-
Derivatives	31	(730)	-		(7)	-	319
TOTAL	**(2,425)**	**(4)**	**(96)**	**(2,525)**	**(6)**	**(288)**	**281**
Discounting expense				(125)			
Finance costs, net				**(2,650)**			

IFRS 7 – Financial Instruments: Disclosures

Other disclosures

- accounting policies – for a better understanding of the financial statements (IAS 1)
- fair value of all classes of financial instruments including:
    - comparable carrying amount
    - basis of determination of fair value (valuation technique and assumptions)
    - information if the fair value cannot be measured reliably
    - detailed movement for each class of financial instruments

IFRS 7 – Financial Instruments: Disclosures

Risk disclosures

Required for evaluation, nature and extent of risks arising from financial instruments an entity is exposed to.

Qualitative disclosures

For each type of financial instrument:

- exposure to risk and how they arise
- objectives, policies and processes used by management to manage the risk
- changes in the above from the previous period

IFRS 7 – Financial Instruments: Presentation

Quantitative disclosures

Provide information about the extent that entity is exposed to risk based on information provided internally to key management personnel

- credit risk
  - max exposure before taking into account any collaterals
  - description of collateral held as security
  - information about the credit quality of financial assets (foreclosed assets)
  - credit quality of financial assets whose terms have been renegotiated

IFRS 7 – Financial Instruments: Presentation

Quantitative disclosures

- liquidity risk
  - maturity analysis for financial liabilities
- market risk
  - sensitivity analysis for each type of market risk (interest rate risk, currency risk and price risk) and its effect on the operating results of the company

For all types of risks, the entity must disclose methods and assumptions used in preparing the analysis disclosed in the financial statements, its internal procedures to mitigate these risks and any changes from previous periods.