



IFRS 7

FINANCIAL INSTRUMENTS: DISCLOSURES

Credibility

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Professionalism

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AccountAbility

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 or joint ventures, where IAS 27/28 or IFRS 10/11 permit accounting in accordance with IAS 39/IFRS 9
 - Assets and liabilities resulting from IAS 19
 - Insurance contracts in accordance with IFRS 4 (excluding embedded derivatives in these contracts if IAS 39/IFRS 9 require separate accounting)
 - Financial instruments, contracts and obligations under IFRS 2, except contracts within the scope of IAS 39/IFRS 9
 - Puttable instruments (IAS 32.

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/ IFRS 9 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

FAIR VALUE (FV) HIERARCHY

All financial instruments measured at fair value must be classified into the levels below (that reflect how fair value has been determined):

- ☐ **Level 1: Quoted prices, in active markets**
- ☐ **Level 2: Level 1 quoted prices are not available but fair value is based on observable market data**
- ☐ **Level 3: Inputs that are not based on observable market data.**

A financial Instrument will be categorised based on the lowest level of any one of the inputs used for its valuation.

The following disclosures are also required:

- ☐ Significant transfers of financial instruments between each category – and reasons why
- ☐ For level 3, a reconciliation between opening and closing balances, incorporating; gains/losses, purchases/sales/settlements, transfers
- ☐ Amount of gains/losses and where they are included in profit and loss
- ☐ For level 3, if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact.

Disclosure

Statement of financial position or respective notes

- Total carrying value of each category of financial assets and liabilities on face of the statement of financial position or in the notes
- Information on fair value of loans and receivables
- Financial liabilities designated as at fair value through profit and loss
- Financial assets reclassified
- Financial assets that do not qualify for derecognition
- Details of financial assets pledged as collateral & collateral held
- Reconciliation of allowance account for credit losses.
- Compound financial instruments with embedded derivatives
- Details of defaults and breaches of loans payable

Income statement, equity and respective notes

- Gain or loss for each category of financial assets and liabilities in the statement of comprehensive income or in the notes
- Total interest income and interest expense (effective interest method)
- Fee income and expense
- Interest on impaired financial assets
- Amount of impairment loss for each financial asset

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

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

- Maximum exposure to credit risk without taking into account collateral
- Collateral held as security and other credit enhancements
- Information of financial assets that are either past due (when a counterparty has failed to make a payment when contractually due) or impaired
- Information about collateral and other credit enhancements obtained.

IFRS 7 – Financial Instruments: Presentation

Quantitative disclosures

- liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

- Maturity analysis for financial liabilities that shows the remaining contractual maturities
- Time bands and increment are based on the entities' judgement
- How liquidity risk is managed.

IFRS 7 – Financial Instruments: Presentation

Quantitative disclosures

- market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk

- A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity
- or
- If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis.

IFRS 7 – Financial Instruments: Presentation

Quantitative disclosures

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.

Conclusion



- Discussion
- Questions?

