IFRS 7 – Financial Instruments: Disclosures

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Uphold public interest

Overview

IFRS 7 requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms.

IFRS 7:

- Adds certain new disclosures about financial instruments to those previously required by IAS 32
- replaces the disclosures previously required by IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*

IFRS 7 overview

Classes of financial instruments and level of disclosures

Significance of financial instruments

Nature and extent of risks arising from financial instruments

IFRS 7 overview

- Shall be applied by all entities to all risks arising from all financial instruments (some exceptions apply)
- Applicable to:
  - recognised and unrecognised financial instruments even when outside the scope of IFRS 9 (e.g. loan commitments)
  - contracts to buy or sell a non-financial item that are within the scope of IFRS9

SCOPE

- IFRS 7 to be applied by all entities and to all types of financial instruments <u>except</u>:
  - Interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10, IFRS 11, IAS 27 and IAS 28
  - Employers’ rights and obligations arising from employee benefit plans under IAS 19
  - Insurance contracts as defined in IFRS 4

- Financial Instruments, contracts and obligations under share-based payment transactions to which IFRS 2 applies
- Puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation under IAS 32 amendments

Classes of Financial Instruments

- Entity to determine classes of financial instruments
- Must be appropriate to nature of information disclosed
- Take into account characteristics of financial instruments
- Reconcile to statement of financial position

Disclosure Requirements of IFRS 7

- IFRS 7 requires certain disclosures to be presented by category of instrument based on the IFRS 9 measurement categories.

- Certain other disclosures are required by class of financial instrument.

Categories of Disclosures

- Information about the significance of financial instruments.
- Information about the nature and extent of risks arising from financial instruments

Significance Of Financial Instruments

Statement Of Financial Position

- Carrying value of each category of financial assets and financial liabilities
- Loans or receivables designated at fair value through profit or loss
  - Maximum exposure to credit risk and amount mitigated by related credit derivatives
  - Change in fair value attributable to changes in credit risk
- Financial liability designated at fair value through profit or loss
  - Change in fair value attributable to changes in credit risk

- Statement of financial position (continued)
  - Amount and reason for reclassification from fair value to cost or amortised cost or vice versa
  - Information about transferred financial assets that don’t qualify for derecognition
  - Information about collateral pledged and collateral held

- Reconciliation of changes in allowance account for credit losses, for each class of financial asset
- Features of compound financial instruments with multiple embedded derivatives
- Information about defaults and breaches of loans payable

Significance Of Financial Instruments

Statement Of Comprehensive Income

- Net gains or net losses on each category of financial assets and financial liabilities
- Total interest income and expense
- Fee income and expense
- Interest income on impaired financial assets
- Amount of impairment losses for each class of financial asset

Significance Of Financial Instruments

Other disclosures

- Other disclosures
  - Accounting policies
    - Measurement basis (or bases) used in preparing financial statements; and
    - Other accounting policies used that are relevant to an understanding of the financial statements

Nature and Extent of Risks

- Qualitative disclosures
  - For each type of risk (e.g., credit, liquidity and market) arising from financial instruments, disclose:
    - The exposures to risk and how they arise
    - Objectives, policies and processes for managing the risk and methods used to measure the risk
    - Any changes to the above from the previous period

Nature and Extent of Risks Arising

- Quantitative disclosures
  - For each type of risk arising from financial instruments, disclose:
    - Summary quantitative data about the risk exposure as provided to key management personnel
    - Detailed disclosures to the extent not disclosed already from the point above
    - Concentrations of risk if not included above

Credit risk -*by class of financial instruments:*

- Maximum credit exposure (without collateral or other credit enhancements)
- Information about credit quality of financial assets that are neither past due nor impaired
- Carrying amount of renegotiated financial assets
- Analysis of financial assets past due or impaired

Liquidity Risk

- How liquidity risk is managed
- How the data in the liquidity risk disclosures are determined
- Maturity analysis of financial assets
  - *if* held as part of managing liquidity risk

Market risk (including interest rate risk, currency risk, other price risk)

- Sensitivity analysis for each type of market risk.
- Effect on profit or loss and equity
- Methods and assumptions used in sensitivity analysis.
- Changes in methods and assumptions used from the previous period

Fair Value Hierarchy

Level 1	• Fair values measured using quoted prices (unadjusted) in active markets for <u>identical</u> assets or liabilities
Level 2	• Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	• Fair values measured using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs)

Quantitative disclosures	Qualitative disclosures
Reconciliation of opening to closing amounts of loss allowances showing key drivers of change	Inputs, assumptions and estimation techniques for estimating ECL
Reconciliation of opening to closing amounts of GCAs showing key drivers of change	Inputs, assumptions and estimation techniques to determine significant increases in credit risk and default
GCAs by credit risk grade	Inputs, assumptions and techniques to determine credit-impaired assets
Write offs, recoveries and modifications	Write off policies, modification policies and collateral

IFRS 9 Vs Prudential Guidelines

CBK

i) For loans classified 'Normal' 1%
ii) For loans classified 'Watch' 3%
iii) For loans classified 'Substandard' 20%
iv) For loans classified 'Doubtful' 100%
v) For loans classified 'Loss' 100%

SASRA

i) For loans classified ‘Normal’ 1%
ii) For loans classified ‘Watch’ 5%
iii) For loans classified ‘Substandard’ 25%
iv) For loans classified ‘Doubtful’ 50%
v) For loans classified ‘Loss’ 100%

Questions & comments

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End

GOD BLESS YOU ALL

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