



IFRS AT A GLANCE
IFRS 7 *Financial Instruments: Disclosures*



IFRS 7 Financial Instruments: Disclosures

DISCLOSURE REQUIREMENTS: SIGNIFICANCE OF FINANCIAL INSTRUMENTS IN TERMS OF THE FINANCIAL POSITION AND PERFORMANCE

STATEMENT OF FINANCIAL POSITION

- ▶ 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.

STATEMENT OF COMPREHENSIVE INCOME

- ▶ 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

Accounting policies:

- ▶ All relevant accounting policies. Include measurement basis.

Hedge accounting:

- ▶ Description of hedge, description and fair value of hedged instrument and type of risk hedged
- ▶ Details of cash flow hedges, fair value hedges and hedge of net investment in foreign operations.
- ▶ Description of the impact of choosing the exception under IFRS 9 or IAS 39 for interest rate benchmark reform.

Fair value:

- ▶ Fair value for each class of financial asset and liability
- ▶ Disclose method and relevant assumptions to calculate fair value
- ▶ Disclose if fair value cannot be determined.

DISCLOSURE REQUIREMENTS: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE RISKS ARE MANAGED

Qualitative disclosure

- ▶ Exposure to risk and how it arises
- ▶ Objectives, policies and processes for managing risk and method used to measure risk.

Quantitative disclosure

- ▶ Summary of quantitative data about exposure to risk based on information given to key management
- ▶ Concentrations of risks.

SPECIFIC QUANTITATIVE DISCLOSURE REQUIREMENTS

LIQUIDITY RISK

Definition:

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 - Appendix B10A - B11F
- ▶ Time bands and increment are based on the entities' judgement
- ▶ How liquidity risk is managed.

CREDIT RISK

Definition:

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.

MARKET RISK

Definition:

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.



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SCOPE

IFRS 7 applies to all recognised and unrecognised financial instruments (including contracts to buy or sell non-financial assets) 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 32.16A-D).

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.

TRANSFER OF FINANCIAL ASSETS

Information for transferred assets that are and that are not derecognised in their entirety:












- ▶ Information to understand the relationship between financial assets and associated liabilities that are not derecognised in their entirety
- ▶ Information to evaluate the nature and risk associated with the entities continuing involvement in derecognised assets (IFRS 7.42A-G).

Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.



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