

International Financial Reporting Standard 7

Financial Instruments: Disclosures

This version includes amendments resulting from IFRSs issued up to 31 December 2009.

IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* was issued by the International Accounting Standards Committee in August 1990.

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In August 2005 the IASB issued IFRS 7 *Financial Instruments: Disclosures*, which replaced IAS 30.

IFRS 7 and its accompanying documents have been amended by the following IFRSs:

- *Financial Guarantee Contracts* (Amendments to IAS 39 and IFRS 4) (issued August 2005)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)^{*}
- IFRS 3 *Business Combinations* (as revised in January 2008)[†]
- *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1) (issued February 2008)^{*}
- *Improvements to IFRSs* (issued May 2008)^{*}
- *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7) (issued October 2008)[§]
- *Reclassification of Financial Assets—Effective Date and Transition* (Amendments to IAS 39 and IFRS 7) (issued November 2008)[§]
- *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7) (issued March 2009)^{*}
- IFRS 9 *Financial Instruments* (issued November 2009).^ø

The following Interpretations refer to IFRS 7:

- IFRIC 12 *Service Concession Arrangements* (issued November 2006 and subsequently amended)
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (issued November 2008).[†]

^{*} effective date 1 January 2009

[†] effective date 1 July 2009

[§] effective date 1 July 2008

^ø effective date 1 January 2013 (earlier application permitted)

CONTENTS

paragraphs

INTRODUCTION	IN1–IN8
INTERNATIONAL FINANCIAL REPORTING STANDARD 7 FINANCIAL INSTRUMENTS: DISCLOSURES	
OBJECTIVE	1–2
SCOPE	3–5
CLASSES OF FINANCIAL INSTRUMENTS AND LEVEL OF DISCLOSURE	6
SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE	7–30
Statement of financial position	8–19
Categories of financial assets and financial liabilities	8
Financial assets or financial liabilities at fair value through profit or loss	9–11
Financial assets measured at fair value through other comprehensive income	11A–11B
Reclassification	12B–12D
Derecognition	13
Collateral	14–15
Allowance account for credit losses	16
Compound financial instruments with multiple embedded derivatives	17
Defaults and breaches	18–19
Statement of comprehensive income	20–20A
Items of income, expense, gains or losses	20–20A
Other disclosures	21–30
Accounting policies	21
Hedge accounting	22–24
Fair value	25–30
NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS	31–42
Qualitative disclosures	33
Quantitative disclosures	34–42
Credit risk	36–38
<i>Financial assets that are either past due or impaired</i>	37
<i>Collateral and other credit enhancements obtained</i>	38
Liquidity risk	39
Market risk	40–42
<i>Sensitivity analysis</i>	40
<i>Other market risk disclosures</i>	42
EFFECTIVE DATE AND TRANSITION	43–44J
WITHDRAWAL OF IAS 30	45

APPENDICES

A Defined terms

B Application guidance

C Amendments to other IFRSs

FOR THE ACCOMPANYING DOCUMENTS LISTED BELOW, SEE PART B OF THIS EDITION

APPROVAL BY THE BOARD OF IFRS 7 ISSUED IN AUGUST 2005

APPROVAL BY THE BOARD OF AMENDMENTS TO IFRS 7:

Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7)
issued in October 2008

Reclassification of Financial Assets—Effective Date and Transition
(Amendments to IAS 39 and IFRS 7) issued in November 2008

Improving Disclosures about Financial Instruments
issued in March 2009

BASIS FOR CONCLUSIONS

APPENDIX

Amendments to Basis for Conclusions on other IFRSs

IMPLEMENTATION GUIDANCE

APPENDIX

Amendments to guidance on other IFRSs

IFRS 7

International Financial Reporting Standard 7 *Financial Instruments: Disclosures* (IFRS 7) is set out in paragraphs 1–45 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 7 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Reasons for issuing the IFRS

- IN1 In recent years, the techniques used by entities for measuring and managing exposure to risks arising from financial instruments have evolved and new risk management concepts and approaches have gained acceptance. In addition, many public and private sector initiatives have proposed improvements to the disclosure framework for risks arising from financial instruments.
- IN2 The International Accounting Standards Board believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgements about risk and return.
- IN3 Consequently, the Board concluded that there was a need to revise and enhance the disclosures in IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and IAS 32 *Financial Instruments: Disclosure and Presentation*. As part of this revision, the Board removed duplicative disclosures and simplified the disclosures about concentrations of risk, credit risk, liquidity risk and market risk in IAS 32.

Main features of the IFRS

- IN4 IFRS 7 applies to all risks arising from all financial instruments, except those instruments listed in paragraph 3. The IFRS applies to all entities, including entities that have few financial instruments (eg a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (eg a financial institution most of whose assets and liabilities are financial instruments). However, the extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk.
- IN5 The IFRS requires disclosure of:
- (a) the significance of financial instruments for an entity's financial position and performance. These disclosures incorporate many of the requirements previously in IAS 32.
 - (b) qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. 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. Together,

IFRS 7

these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

- IN5A Amendments to the IFRS, issued in March 2009, require enhanced disclosures about fair value measurements and liquidity risk. These have been made to address application issues and provide useful information to users.
- IN6 The IFRS includes in Appendix B mandatory application guidance that explains how to apply the requirements in the IFRS. The IFRS is accompanied by non-mandatory Implementation Guidance that describes how an entity might provide the disclosures required by the IFRS.
- IN7 The IFRS supersedes IAS 30 and the disclosure requirements of IAS 32. The presentation requirements of IAS 32 remain unchanged.
- IN8 The IFRS is effective for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

International Financial Reporting Standard 7

Financial Instruments: Disclosures

Objective

- 1 The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:
 - (a) the significance of financial instruments for the entity's financial position and performance; and
 - (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- 2 The principles in this IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*.

Scope

- 3 This IFRS shall be applied by all entities to all types of financial instruments, except:
 - (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39 and IFRS 9; in those cases, entities shall apply the requirements of this IFRS. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.
 - (b) employers' rights and obligations arising from employee benefit plans, to which IAS 19 *Employee Benefits* applies.
 - (c) [deleted]
 - (d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.
 - (e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, except that this IFRS applies to contracts within the scope of paragraphs 5–7 of IAS 39.

IFRS 7

- (f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.
- 4 This IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of IAS 39 and IFRS 9. Unrecognised financial instruments include some financial instruments that, although outside the scope of IAS 39 and IFRS 9, are within the scope of this IFRS (such as some loan commitments).
- 5 This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IAS 39 and IFRS 9 (see paragraphs 5–7 of IAS 39).

Classes of financial instruments and level of disclosure

- 6 When this IFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of financial instruments for financial position and performance

- 7 **An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.**

Statement of financial position

Categories of financial assets and financial liabilities

- 8 The carrying amounts of each of the following categories, as specified in IFRS 9 or IAS 39, shall be disclosed either in the statement of financial position or in the notes:
 - (a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value in accordance with IFRS 9.
 - (b)–(d)[deleted]
 - (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of held for trading in IAS 39.
 - (f) financial assets measured at amortised cost.
 - (g) financial liabilities measured at amortised cost.

- (h) financial assets measured at fair value through other comprehensive income.

Financial assets or financial liabilities at fair value through profit or loss

- 9 If the entity has designated as measured at fair value a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:

- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the financial asset (or group of financial assets) at the end of the reporting period.
- (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
- (c) the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
 - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.

- (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.

- 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39, it shall disclose:

- (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:
 - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.

IFRS 7

- (b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

11 The entity shall disclose:

- (a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a).
- (b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Financial assets measured at fair value through other comprehensive income

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.4.4 of IFRS 9, it shall disclose:

- (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
- (b) the reasons for using this presentation alternative.
- (c) the fair value of each such investment at the end of the reporting period.
- (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
- (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

- (a) the reasons for disposing of the investments.
- (b) the fair value of the investments at the date of derecognition.
- (c) the cumulative gain or loss on disposal.

Reclassification

12–12A [Deleted]

12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.9 of IFRS 9. For each such event, an entity shall disclose:

- (a) the date of reclassification.
- (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.

- (c) the amount reclassified into and out of each category.
- 12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.9 of IFRS 9:
 - (a) the effective interest rate determined on the date of reclassification; and
 - (b) the interest income or expense recognised.
- 12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it shall disclose:
 - (a) the fair value of the financial assets at the end of the reporting period; and
 - (b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.

Derecognition

- 13 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15–37 of IAS 39). The entity shall disclose for each class of such financial assets:
 - (a) the nature of the assets;
 - (b) the nature of the risks and rewards of ownership to which the entity remains exposed;
 - (c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and
 - (d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Collateral

- 14 An entity shall disclose:
 - (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39; and
 - (b) the terms and conditions relating to its pledge.
- 15 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:
 - (a) the fair value of the collateral held;
 - (b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
 - (c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

- 16 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

- 17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and breaches

- 18 For *loans payable* recognised at the end of the reporting period, an entity shall disclose:
- (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
 - (b) the carrying amount of the loans payable in default at the end of the reporting period; and
 - (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.
- 19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Statement of comprehensive income

Items of income, expense, gains or losses

- 20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
 - (i) financial assets measured at fair value through profit or loss, showing separately those on financial assets designated as such upon initial recognition, and those that are mandatorily measured at fair value in accordance with IFRS 9.
 - (ii)–(iv)[deleted]
 - (v) financial liabilities at fair value through profit or loss, showing separately those on financial liabilities designated as such upon

initial recognition, and those on financial liabilities that meet the definition of held for trading in IAS 39.

- (vi) financial assets measured at amortised cost.
 - (vii) financial liabilities measured at amortised cost.
 - (viii) financial assets measured at fair value through other comprehensive income.
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or financial liabilities not at fair value through profit or loss;
- (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
- (i) financial assets measured at amortised cost or financial liabilities that are not at fair value through profit or loss; and
 - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
- (d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and
- (e) the amount of any impairment loss for each class of financial asset.
- 20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

Other disclosures

Accounting policies

- 21 In accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge accounting

- 22 An entity shall disclose the following separately for each type of hedge described in IAS 39 (ie fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):
- (a) a description of each type of hedge;
 - (b) a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and

IFRS 7

- (c) the nature of the risks being hedged.
- 23 For cash flow hedges, an entity shall disclose:
- (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
 - (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
 - (c) the amount that was recognised in other comprehensive income during the period;
 - (d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and
 - (e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.
- 24 An entity shall disclose separately:
- (a) in fair value hedges, gains or losses:
 - (i) on the hedging instrument; and
 - (ii) on the hedged item attributable to the hedged risk.
 - (b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges.
 - (c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

Fair value

- 25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.
- 26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.
- 27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

27A To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:

- (a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.
- (b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.
- (c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
 - (i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);
 - (ii) total gains or losses recognised in other comprehensive income;
 - (iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
 - (iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers.

For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

- (d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
- (e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

- 28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

- (a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and
- (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

- 29 Disclosures of fair value are not required:

- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
- (b) for derivatives linked to investments in equity instruments that do not have a quoted market price in an active market that are measured at cost in accordance with IAS 39 because their fair value cannot be measured reliably; or
- (c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.

- 30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those contracts and their fair value, including:
- (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
 - (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
 - (c) information about the market for the instruments;
 - (d) information about whether and how the entity intends to dispose of the financial instruments; and
 - (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Nature and extent of risks arising from financial instruments

- 31 **An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.**
- 32 The disclosures required by paragraphs 33–42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, *liquidity risk* and market risk.

Qualitative disclosures

- 33 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) the exposures to risk and how they arise;
 - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
 - (c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

- 34 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer.
 - (b) the disclosures required by paragraphs 36–42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality).
 - (c) concentrations of risk if not apparent from (a) and (b).

- 35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

- 36 An entity shall disclose by class of financial instrument:
- (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32);
 - (b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
 - (c) information about the credit quality of financial assets that are neither *past due* nor impaired; and
 - (d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial assets that are either past due or impaired

- 37 An entity shall disclose by class of financial asset:
- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
 - (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
 - (c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and other credit enhancements obtained

- 38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other IFRSs, an entity shall disclose:
- (a) the nature and carrying amount of the assets obtained; and
 - (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

- 39 An entity shall disclose:
- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

- (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).
- (c) a description of how it manages the liquidity risk inherent in (a) and (b).

Market risk

Sensitivity analysis

- 40 Unless an entity complies with paragraph 41, it shall disclose:
- (a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
 - (b) the methods and assumptions used in preparing the sensitivity analysis; and
 - (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.
- 41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:
- (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
 - (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other market risk disclosures

- 42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Effective date and transition

- 43 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2007. Earlier application is encouraged. If an entity applies this IFRS for an earlier period, it shall disclose that fact.

IFRS 7

- 44 If an entity applies this IFRS for annual periods beginning before 1 January 2006, it need not present comparative information for the disclosures required by paragraphs 31–42 about the nature and extent of risks arising from financial instruments.
- 44A IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 20, 21, 23(c) and (d), 27(c) and B5 of Appendix B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.
- 44B IFRS 3 (as revised in 2008) deleted paragraph 3(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period.
- 44C An entity shall apply the amendment in paragraph 3 for annual periods beginning on or after 1 January 2009. If an entity applies *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1), issued in February 2008, for an earlier period, the amendment in paragraph 3 shall be applied for that earlier period.
- 44D Paragraph 3(a) was amended by *Improvements to IFRSs* issued in May 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 1 of IAS 28, paragraph 1 of IAS 31 and paragraph 4 of IAS 32 issued in May 2008. An entity is permitted to apply the amendment prospectively.
- 44E *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7), issued in October 2008, amended paragraph 12 and added paragraph 12A. An entity shall apply those amendments on or after 1 July 2008.
- 44F *Reclassification of Financial Assets—Effective Date and Transition* (Amendments to IAS 39 and IFRS 7), issued in November 2008, amended paragraph 44E. An entity shall apply that amendment on or after 1 July 2008.
- 44G *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, amended paragraphs 27, 39 and B11 and added paragraphs 27A, 27B, B10A and B11A–B11F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.
- 44H IFRS 9, issued in November 2009, amended paragraphs 2, 3, 8, 9, 20, 29 and 30, added paragraphs 11A, 11B, 12B–12D and 20A and deleted paragraphs 12 and 12A. It also amended the last paragraph of Appendix A (Defined terms) and paragraphs B1, B5, B10, B22 and B27, and deleted Appendix D (Amendments to IFRS 7 if the Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied). An entity shall apply those amendments when it applies IFRS 9.

44I When an entity first applies IFRS 9, it shall disclose for each class of financial assets at the date of initial application:

- (a) the original measurement category and carrying amount determined in accordance with IAS 39;
- (b) the new measurement category and carrying amount determined in accordance with IFRS 9;
- (c) the amount of any financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies IFRS 9, it shall disclose qualitative information to enable users to understand:

- (a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9.
- (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

Withdrawal of IAS 30

45 This IFRS supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.

Appendix A Defined terms

This appendix is an integral part of the IFRS.

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.
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
loans payable	Loans payable are financial liabilities, other than short-term trade payables on normal credit terms.
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk , interest rate risk and other price risk .
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
past due	A financial asset is past due when a counterparty has failed to make a payment when contractually due.

The following terms are defined in paragraph 11 of IAS 32 or paragraph 9 of IAS 39 and are used in the IFRS with the meaning specified in IAS 32 and IAS 39.

- amortised cost of a financial asset or financial liability
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value

- financial asset
- financial liability at fair value through profit or loss
- financial guarantee contract
- financial instrument
- financial liability
- forecast transaction
- hedging instrument
- held for trading
- regular way purchase or sale

Appendix B

Application guidance

This appendix is an integral part of the IFRS.

Classes of financial instruments and level of disclosure (paragraph 6)

- B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IAS 39 and IFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).
- B2 In determining classes of financial instrument, an entity shall, at a minimum:
- (a) distinguish instruments measured at amortised cost from those measured at fair value.
 - (b) treat as a separate class or classes those financial instruments outside the scope of this IFRS.
- B3 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

Significance of financial instruments for financial position and performance

Financial liabilities at fair value through profit or loss (paragraphs 10 and 11)

- B4 If an entity designates a financial liability as at fair value through profit or loss, paragraph 10(a) requires it to disclose the amount of change in the fair value of the financial liability that is attributable to changes in the liability's credit risk. Paragraph 10(a)(i) permits an entity to determine this amount as the amount of change in the liability's fair value that is not attributable to changes in market conditions that give rise to market risk. If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:

- (a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.
- (b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a).
- (c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

This example assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in interest rates are not significant. If the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed in accordance with paragraph 10(a).

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of IAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

- (aa) for financial assets designated as measured at fair value through profit or loss:
 - (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss;
 - (ii) how the entity has satisfied the criteria in paragraph 4.5 of IFRS 9 for such designation.
- (b) [deleted]
- (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of IAS 39).
- (d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:
 - (i) the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
 - (ii) the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 16).
- (e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.
- (f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 20(e)).
- (g) when the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 36(d)).

Paragraph 122 of IAS 1 (as revised in 2007) also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

- B6 The disclosures required by paragraphs 31–42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

Quantitative disclosures (paragraph 34)

- B7 Paragraph 34(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and reliability.
- B8 Paragraph 34(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:
- (a) a description of how management determines concentrations;
 - (b) a description of the shared characteristic that identifies each concentration (eg counterparty, geographical area, currency or market); and
 - (c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

Maximum credit risk exposure (paragraph 36(a))

- B9 Paragraph 36(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:
- (a) any amounts offset in accordance with IAS 32; and
 - (b) any impairment losses recognised in accordance with IAS 39.
- B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:
- (a) granting loans to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.
 - (b) entering into derivative contracts, eg foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount.
 - (c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability.
 - (d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any

undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

- B10A In accordance with paragraph 34(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:
- (a) occur significantly earlier than indicated in the data, or
 - (b) be for significantly different amounts from those indicated in the data (eg for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),
- the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 39(a) or (b).
- B11 In preparing the maturity analyses required by paragraph 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:
- (a) not later than one month;
 - (b) later than one month and not later than three months;
 - (c) later than three months and not later than one year; and
 - (d) later than one year and not later than five years.
- B11A In complying with paragraph 39(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) financial instrument. For such an instrument, an entity shall apply paragraph 39(a).
- B11B Paragraph 39(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:
- (a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.
 - (b) all loan commitments.
- B11C Paragraph 39(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:
- (a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay.

For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.

- (b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.
- (c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

B11D The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows, for example:

- (a) gross finance lease obligations (before deducting finance charges);
- (b) prices specified in forward agreements to purchase financial assets for cash;
- (c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;
- (d) contractual amounts to be exchanged in a derivative financial instrument (eg a currency swap) for which gross cash flows are exchanged; and
- (e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

- (a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;
- (b) holds deposits at central banks to meet liquidity needs;
- (c) has very diverse funding sources;
- (d) has significant concentrations of liquidity risk in either its assets or its funding sources;

- (e) has internal control processes and contingency plans for managing liquidity risk;
- (f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);
- (g) has instruments that could require the posting of collateral (eg margin calls for derivatives);
- (h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or
- (i) has instruments that are subject to master netting agreements.

B12–B16 [Deleted]

Market risk – sensitivity analysis (paragraphs 40 and 41)

B17 Paragraph 40(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph B3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:

- (a) an entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading.
- (b) an entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.

If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.

B18 Paragraph 40(a) requires the sensitivity analysis to show the effect on profit or loss and equity of reasonably possible changes in the relevant risk variable (eg prevailing market interest rates, currency rates, equity prices or commodity prices). For this purpose:

- (a) entities are not required to determine what the profit or loss for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on profit or loss and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on profit or loss (ie interest expense) for the current year if interest rates had varied by reasonably possible amounts.
- (b) entities are not required to disclose the effect on profit or loss and equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.

- B19 In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:
- (a) the economic environments in which it operates. A reasonably possible change should not include remote or 'worst case' scenarios or 'stress tests'. Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5 per cent and an entity determines that a fluctuation in interest rates of ± 50 basis points is reasonably possible. It would disclose the effect on profit or loss and equity if interest rates were to change to 4.5 per cent or 5.5 per cent. In the next period, interest rates have increased to 5.5 per cent. The entity continues to believe that interest rates may fluctuate by ± 50 basis points (ie that the rate of change in interest rates is stable). The entity would disclose the effect on profit or loss and equity if interest rates were to change to 5 per cent or 6 per cent. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by ± 50 basis points, unless there is evidence that interest rates have become significantly more volatile.
 - (b) the time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.
- B20 Paragraph 41 permits an entity to use a sensitivity analysis that reflects interdependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 41(a) by disclosing the type of value-at-risk model used (eg whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (eg the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.
- B21 An entity shall provide sensitivity analyses for the whole of its business, but may provide different types of sensitivity analysis for different classes of financial instruments.

Interest rate risk

- B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

Currency risk

- B23 *Currency risk* (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this IFRS, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.
- B24 A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Other price risk

- B25 *Other price risk* arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 40, an entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.
- B26 Two examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.
- B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments measured at fair value through profit or loss) is disclosed separately from the sensitivity of other comprehensive income (that arises, for example, from investments in equity instruments whose changes in fair value are presented in other comprehensive income).
- B28 Financial instruments that an entity classifies as equity instruments are not remeasured. Neither profit or loss nor equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Appendix C

Amendments to other IFRSs

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2007. If an entity applies this IFRS for an earlier period, these amendments shall be applied for that earlier period.

* * * * *

The amendments contained in this appendix when this IFRS was issued in 2005 have been incorporated into the text of the relevant IFRSs included in this volume.

