



Financial Instruments: Disclosure

Ind AS 107

What will you learn?

By completing this module,
you will be able to:

- 1) Describe the conditions for offsetting
- 2) List the types of disclosures required by Ind AS 107
- 3) Determine which level of the fair value hierarchy applies
- 4) Summarise the qualitative and quantitative risk disclosure requirements
- 5) Describe disclosures relating to transfers of financial assets

Agenda

Offsetting

Objective and overview of Ind AS 107

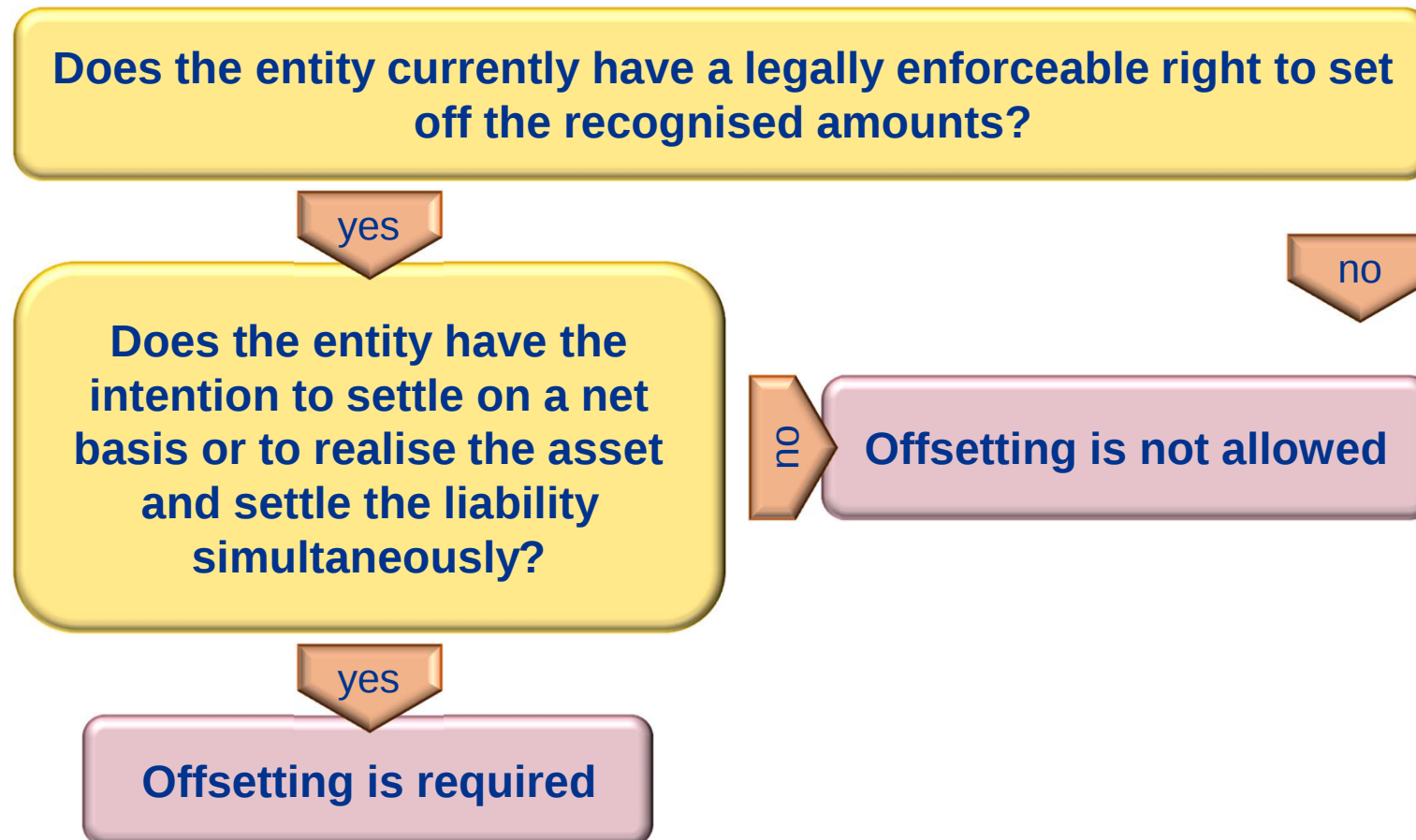
Fair value disclosures

Nature and extent of risks

Transfer of financial assets

The closing

Offsetting



A question for you: Offsetting

Are the following financial assets and liabilities required to be set off in the statement of financial position?

- ◆ A fixed rate liability and a fixed-to-floating interest rate swap that together form a synthetic floating rate liability
- ◆ Derivatives contracted with a single counterparty covered by a master netting agreement that provides for a single net settlement of the derivatives in the event of default on any of the derivatives by any of the parties
- ◆ An entity is a member of a clearing house: transactions are entered into with other members of the clearing house whereby transactions entered into with other members are novated such that the clearing house is the legal counterparty for all such transactions. Cash margins are payable or receivable between the entity and the clearing house based on the fair value of outstanding transactions. Only one net cash payment occurs each day between the entity and the clearing house which covers final settlement of maturing transactions, periodic payments on existing transactions, and net payment or receipt of cash margin



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Objective of Ind AS 107

Provide disclosures to enable users to evaluate significance of financial instruments for entity's financial position and performance

Disclosures to enable users to evaluate nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks



Overview of Ind AS 107

Significance of financial instruments for financial position and performance



- ◆ Statement of financial position
- ◆ Statement of comprehensive income
- ◆ Other disclosures (e.g. fair value)

Nature and extent of risks arising from financial instruments



- ◆ Qualitative
- ◆ Quantitative

Examples of topics covered in the detailed Ind AS 107 disclosures:

- ◆ Financial assets or financial liabilities at FVTPL
- ◆ Reclassification
- ◆ Hedge accounting
- ◆ Fair value etc.

Classes of financial instruments and level of disclosure

For purpose of disclosure financial instruments are grouped in classes that are appropriate to nature of information disclosed

Classes take into account nature of information disclosed and characteristics of financial instruments



Sufficient information is provided to permit reconciliation of information provided by class to the line items in the statement of financial position

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Fair value disclosures

For each class of financial instruments disclose fair value to enable comparison to carrying amount

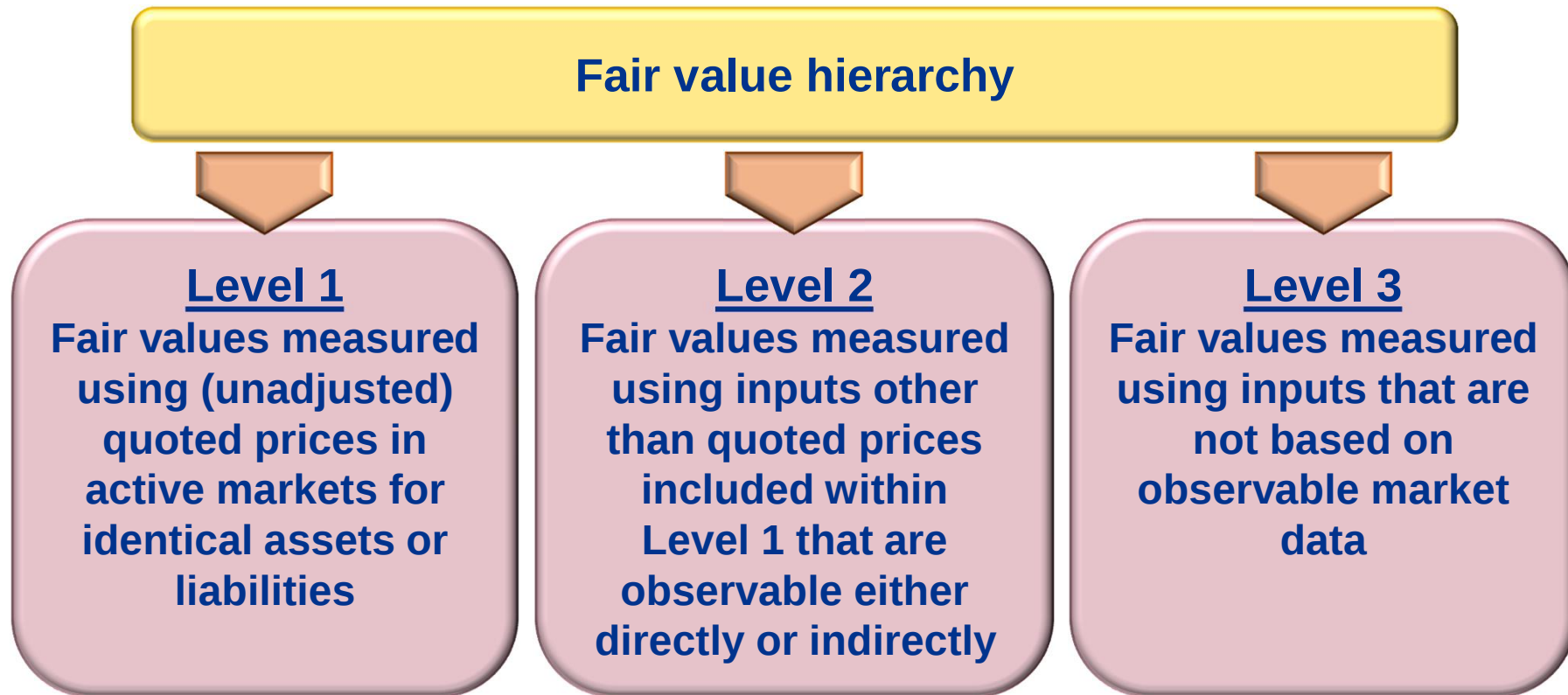
Disclose methods used to arrive at fair value and when a valuation technique is used, disclose also assumptions applied in determining fair value



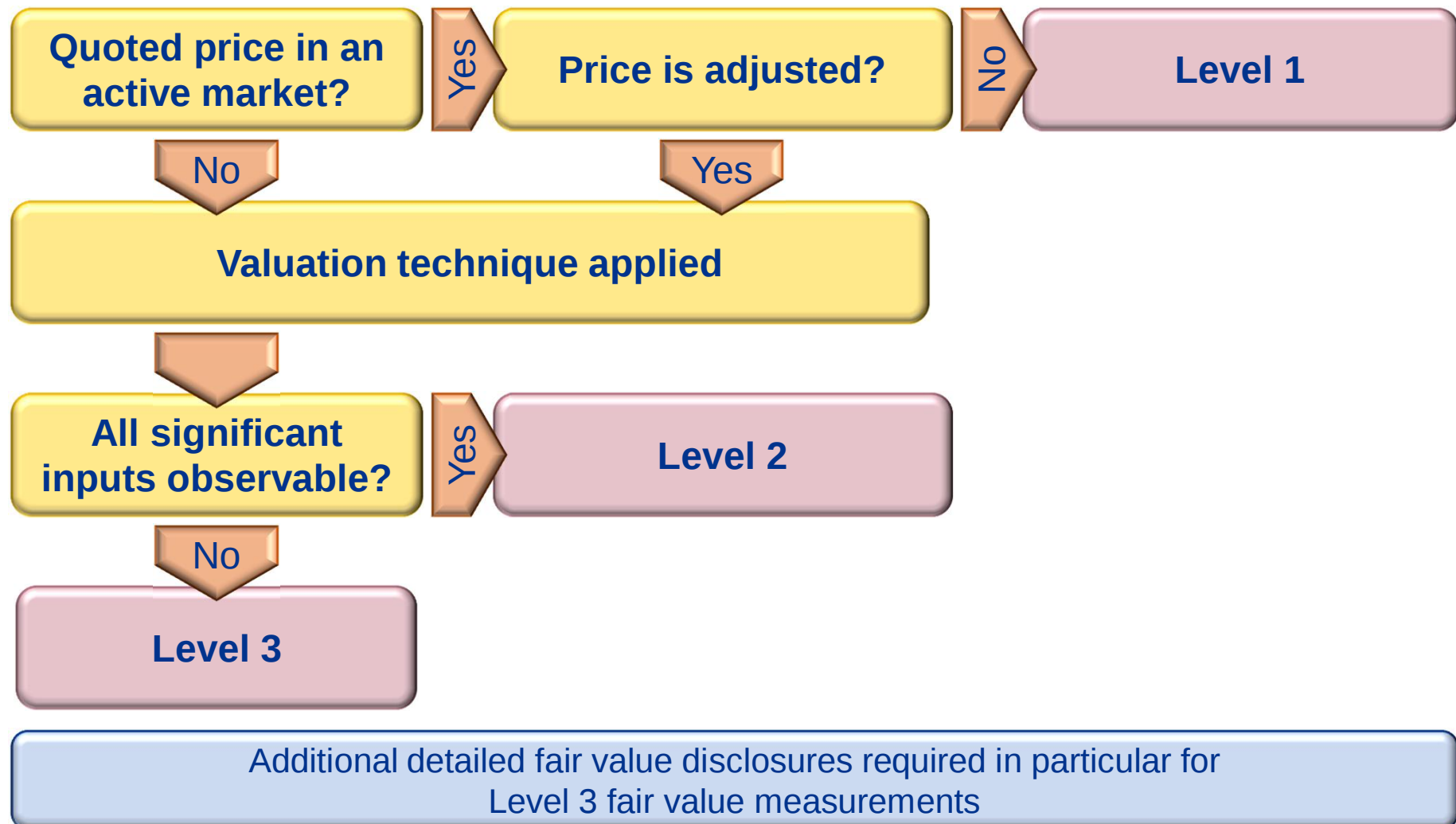
Disclose any changes in valuation techniques and reasons for the change

Disclose information about level in the fair value hierarchy

Fair value hierarchy (1)



Fair value hierarchy (2)



A question for you: Fair value hierarchy

Discuss which level of the fair value hierarchy applies?

- ◆ A forward exchange contract which valuation is based on observable forward exchange rates and yield curve data
- ◆ A broker quote for a CDO that is an indicative price based on the broker's valuation models
- ◆ Lila-Tech holds units in an open-ended unlisted investment fund. The units in the fund are often bought and sold but only by or to the fund or fund manager, i.e. the units are not traded on a stock exchange and cannot be sold to third parties. The fund manager calculates the price of the units only at a specific time each day to facilitate the purchase and the sale of the units. The transactions take place only at this time on each day and at the price determined by the fund manager



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Types of risk

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

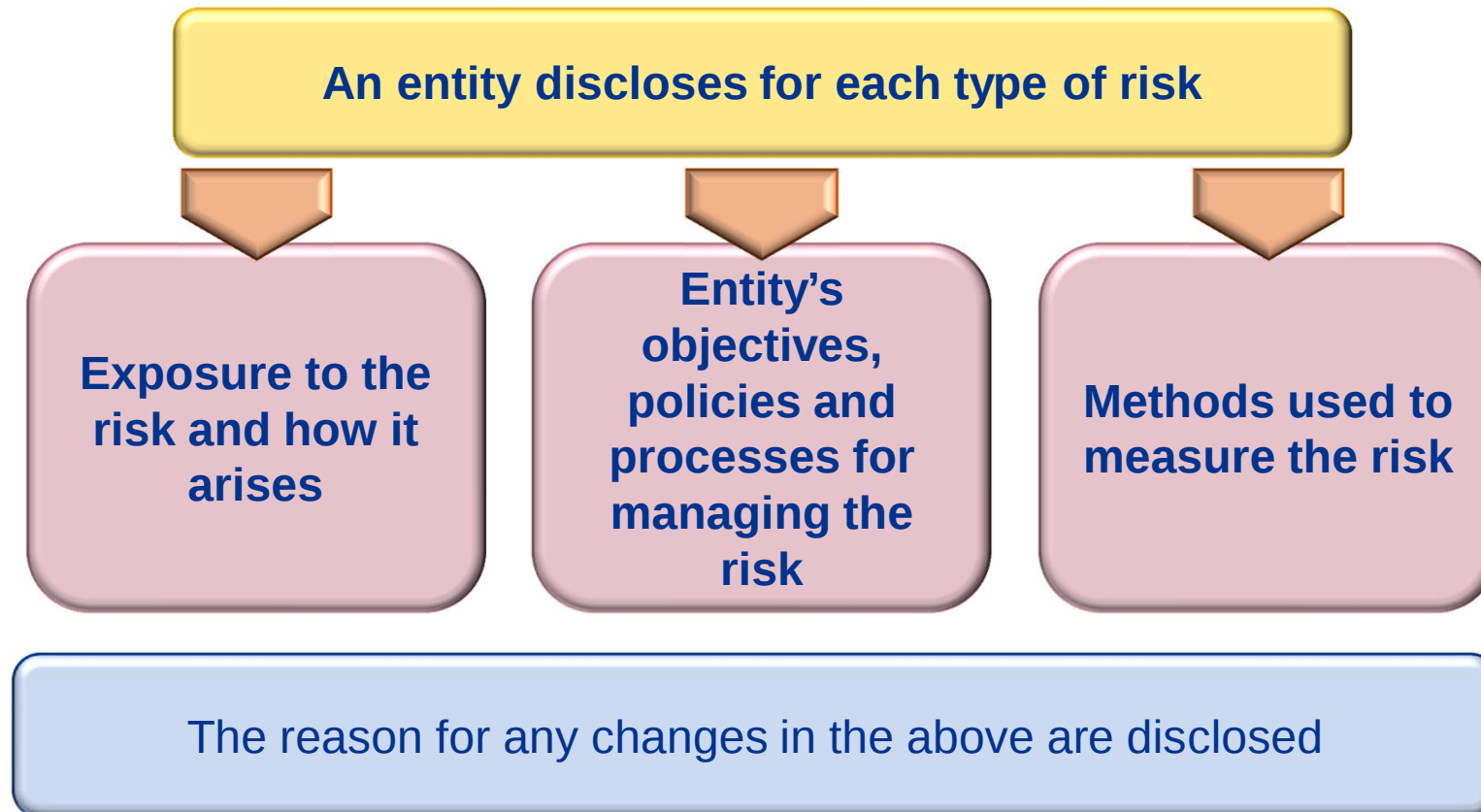
Liquidity risk: risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset



Other types of risk

Market risk: risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (includes currency, interest rate and other price risk)

Qualitative disclosures



Quantitative disclosures

An entity discloses for each type of risk

Summary quantitative data based on information internally provided to entity's key management personnel

Concentrations of risk

If quantitative data at end of reporting period are unrepresentative of entity's exposure to risk during the period, further representative information is disclosed

Specific quantitative disclosures

Credit risk disclosure includes:

- ◆ Information about credit quality of assets neither past due nor impaired
- ◆ Analysis of assets that are past due or impaired
- ◆ Information about collateral

Liquidity risk:

- ◆ Maturity analysis for financial liabilities based on remaining contractual maturities



Market risk

- ◆ Sensitivity analysis showing how profit or loss and equity would have been affected by changes in the relevant risk variable



- 1) Offsetting is required when the conditions on slide 5 are met
- 2) Ind AS 107 requires disclosures on the significance of financial instruments for the financial position and performance and the nature and extent of risks arising from financial instruments
- 3) Judgement may be required to determine which level of the fair value hierarchy applies
- 4) Ind AS 107 requires qualitative and quantitative disclosures for risks such as credit, liquidity and market risk