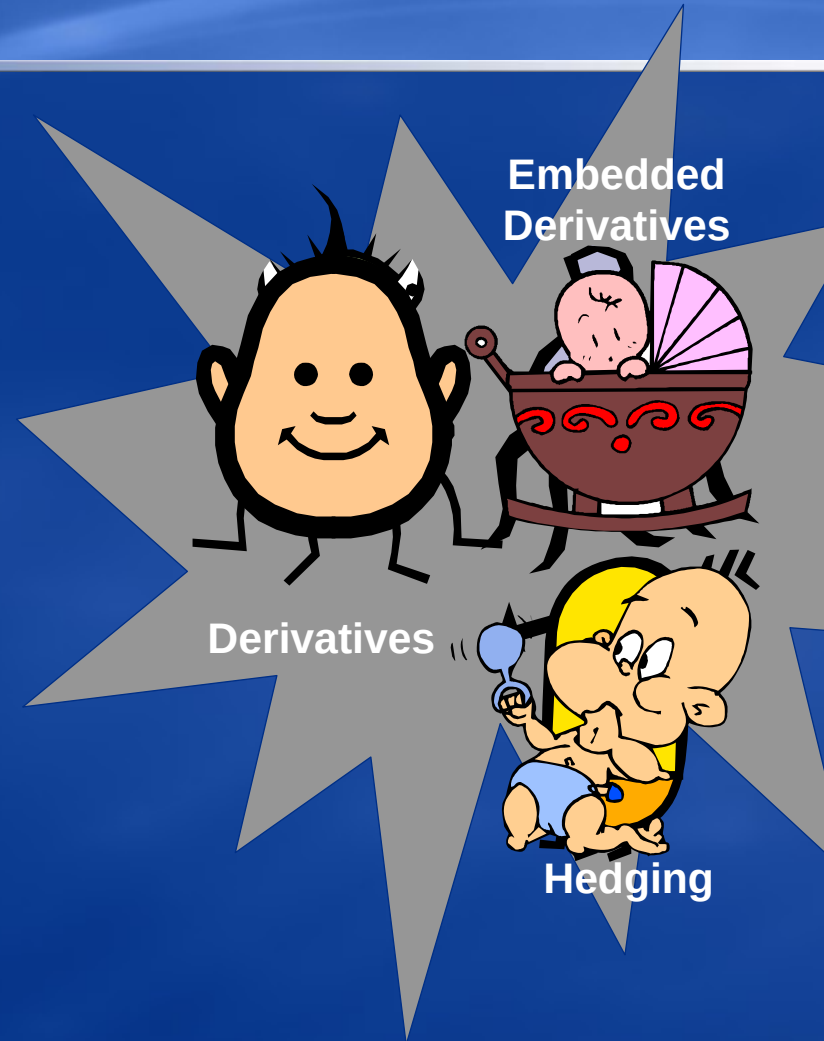


Financial instruments



AS 30, 31, 32



Market trends as reflected in AS 30, 31 and 32

Key principles of the Standard

Harmonisation of markets

Increased complexity

Detailed disclosures

Use of fair values

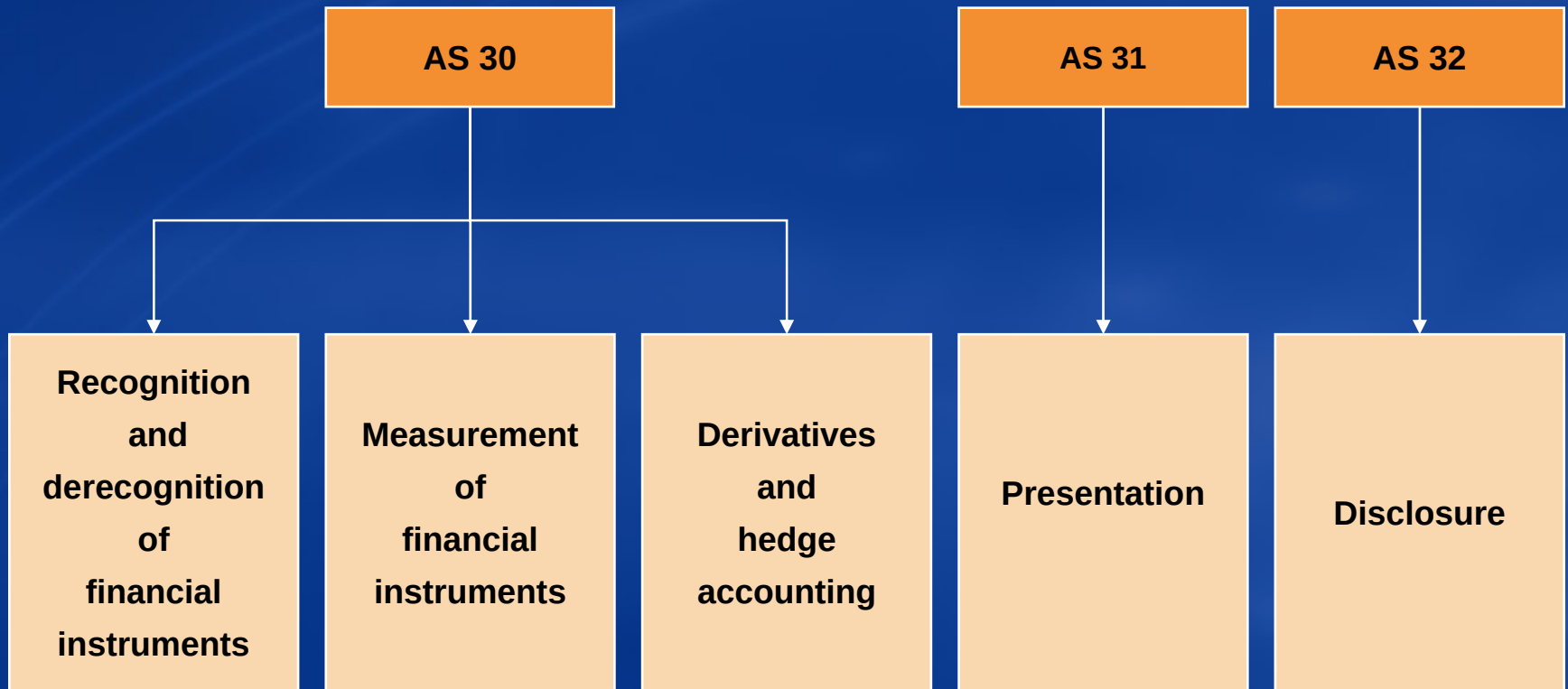
Reduction of options

All derivatives are
recognised on the
balance sheet

Most financial
assets measured
at fair value

Measurement of the hedging
instrument is the basis for
hedge accounting

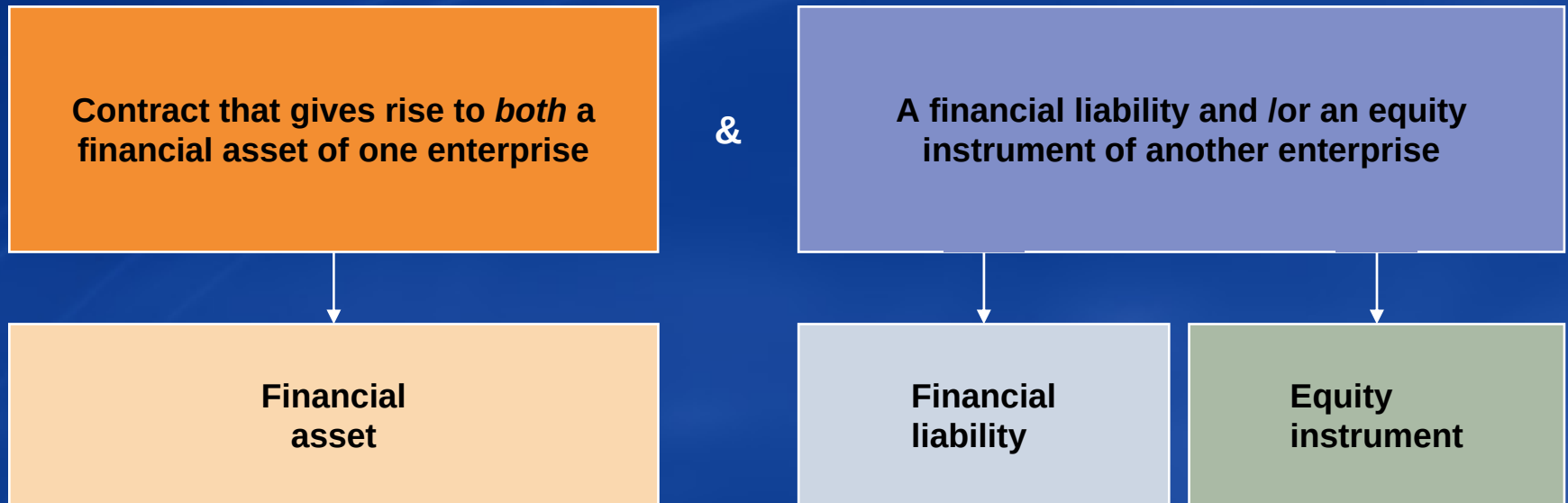
Financial instruments



Scope of AS 30 – applies to all Financial instruments except:

- Business combinations;
- Insurance Contracts;
- ESOPs;
- Leasing arrangements; and
- Any other standard covered specifically

Financial instruments – definition



Categories of financial instruments

4 categories of financial instruments:

- A financial asset or financial liability at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

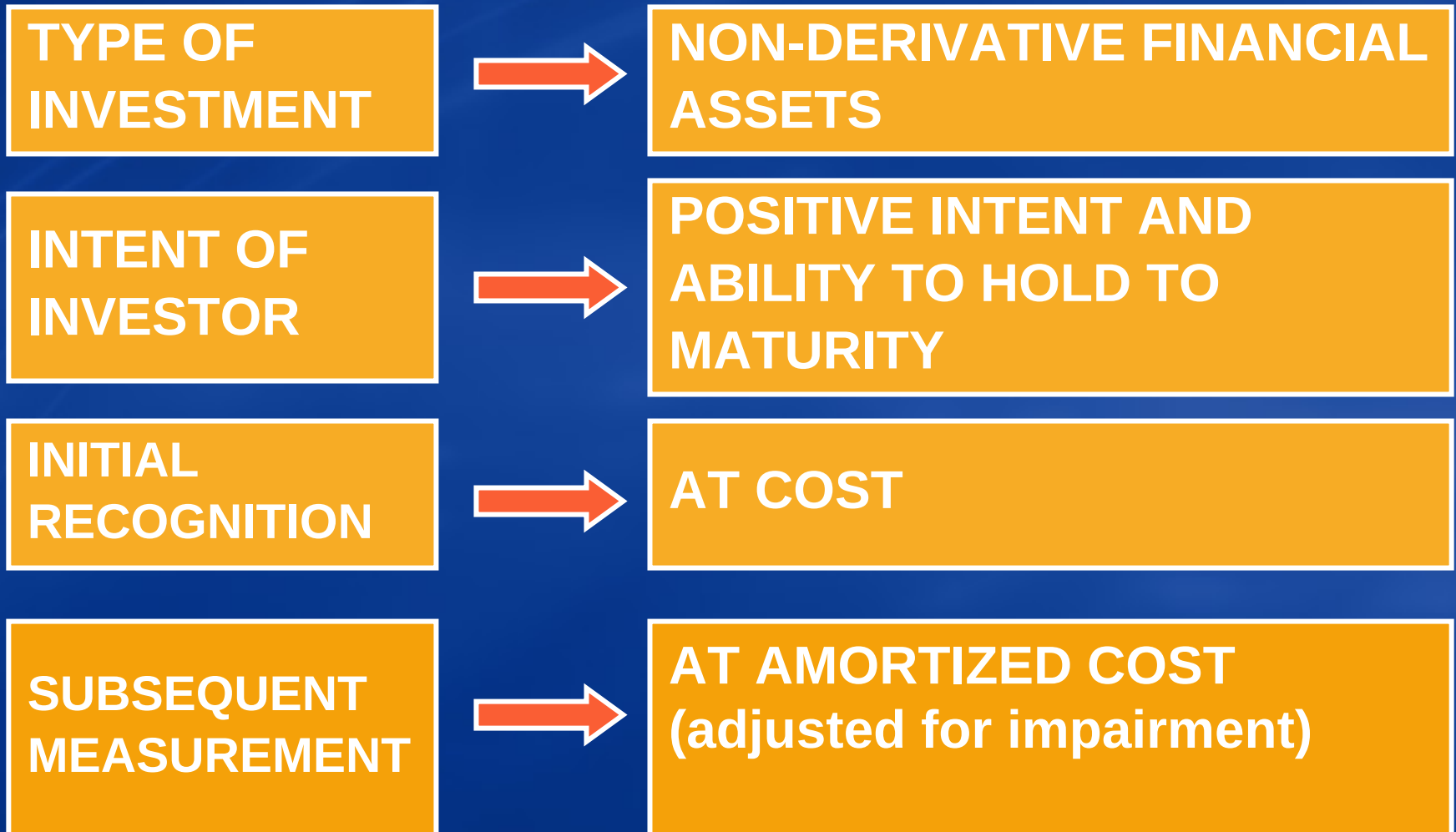
Categories of financial assets

Category	Definition
Financial assets at fair value through profit or loss	• Financial assets held for trading • Derivatives, unless accounted for as hedges • Financial asset designated to this category under the fair value option
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intent and ability to hold to maturity
Available-for-sale financial assets	• All financial assets that are not classified in another category are classified as available-for-sale • Any financial asset designated to this category on initial recognition

Categories of financial liabilities

Category	Definition
Financial liabilities at fair value through profit or loss	• Financial liabilities held for trading • Financial liability designated as at fair value through profit or loss on initial recognition (fair value option)
Other financial liabilities – at amortised cost	All financial liabilities that are not classified at fair value through profit or loss

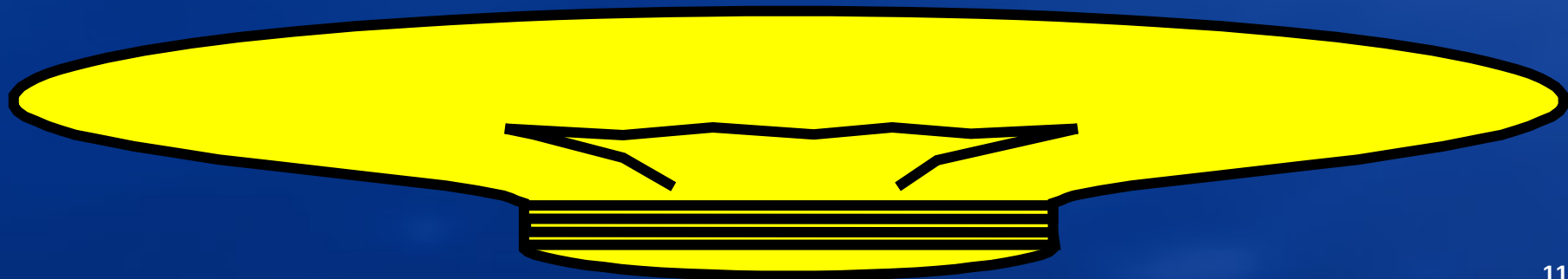
Investments - Held to Maturity (HTM) ⁽¹⁾



Held to Maturity (HTM) ⁽²⁾

IS THE HTM PORTFOLIO TAINTED?

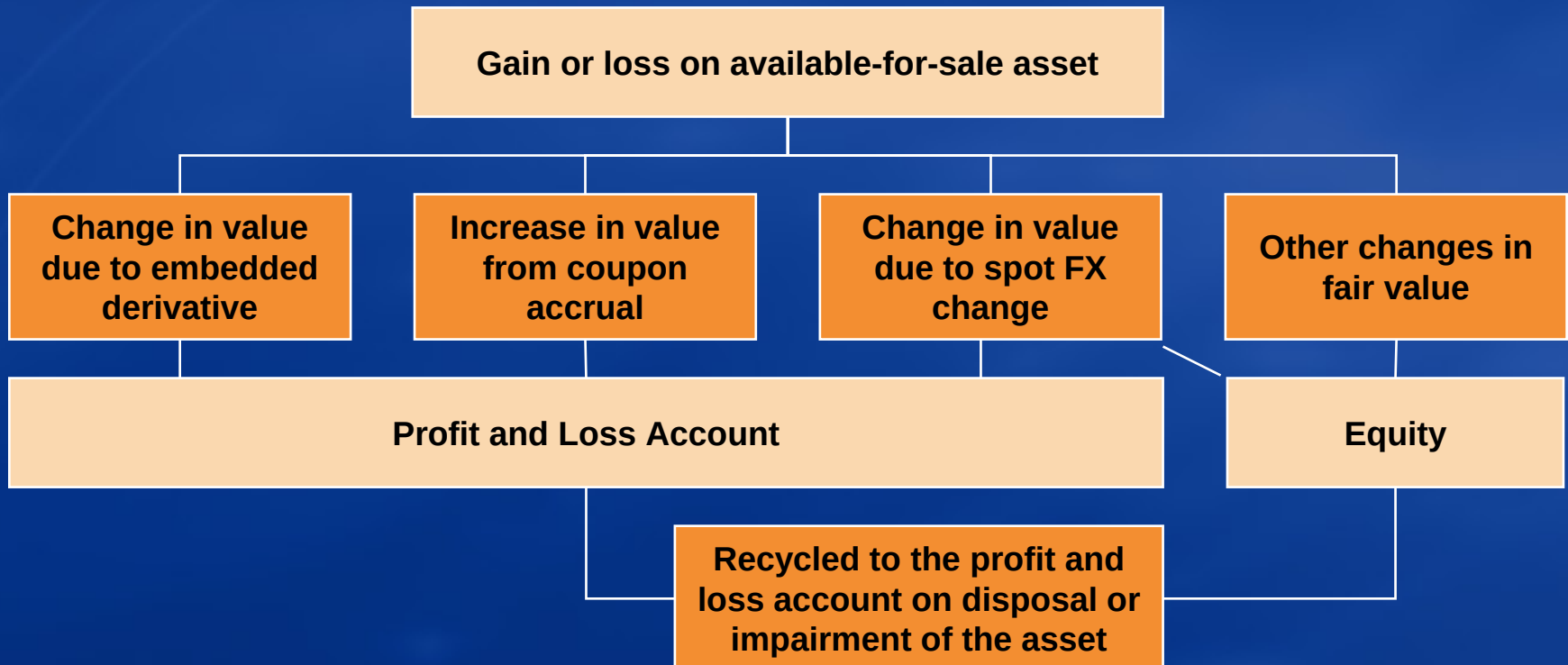
-  Change in the intent to hold to maturity could create doubt regarding classification
-  Isolated, non recurring and unusual events causing a change may not taint the classification



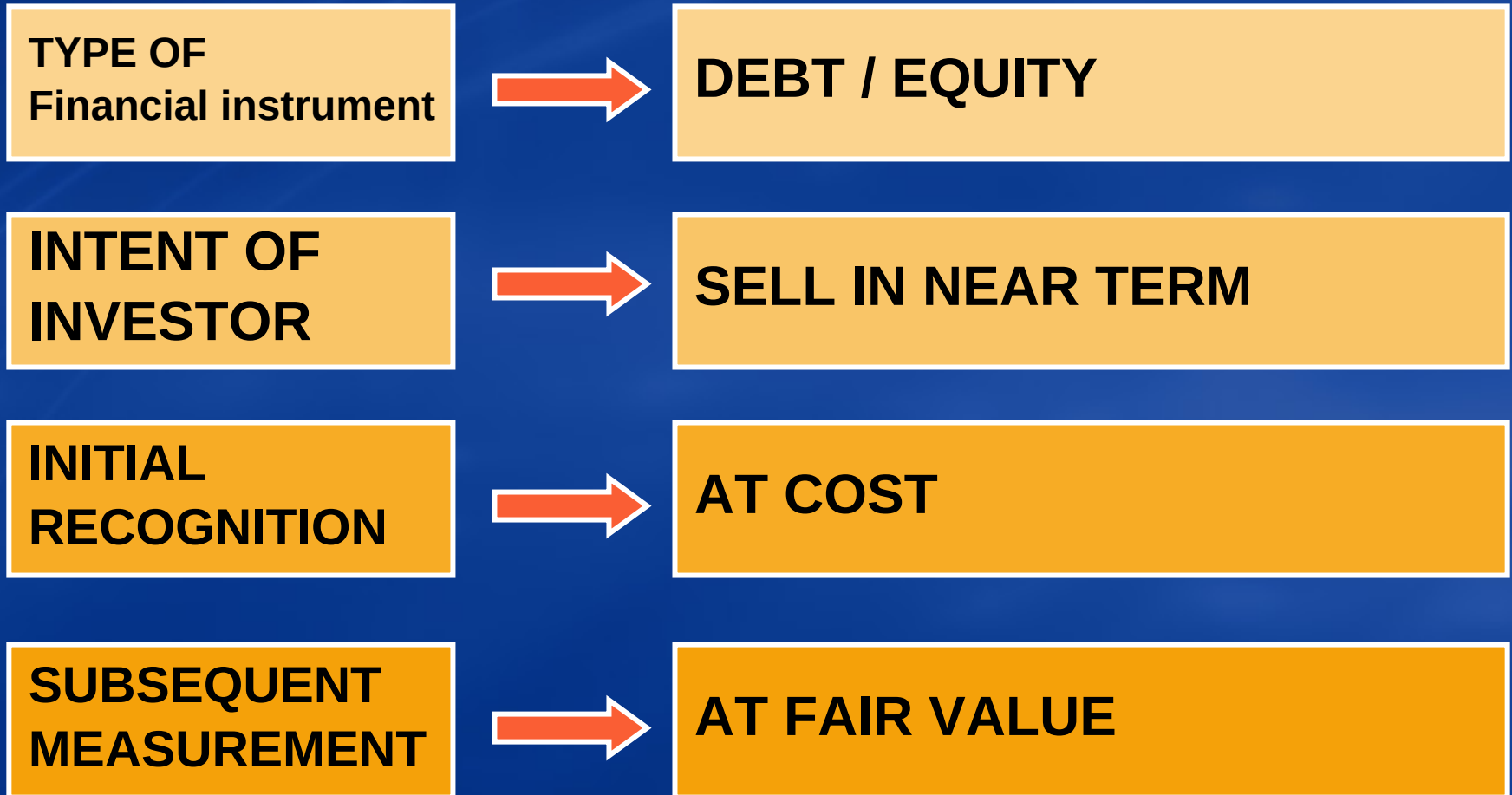
Classification of financial instruments:

Available-for-sale financial assets

- All available for sale assets are marked to market through a separate component of equity
- Gains and losses on AFS assets are recognised in the profit and loss account on disposal or impairment of the asset. However, there are a number of other complications with available for sale gains and losses



Investments – Trading



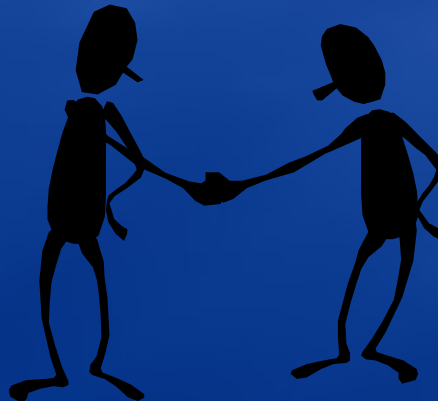
Recognition

All financial assets and financial liabilities, including derivatives, should be recognised on the balance sheet when the entity becomes party to the contractual provisions of the instrument

Financial assets

@

**“fair value of
consideration
given”**



Financial liabilities

@

**“fair value of
consideration
received”**

Initial recognition

- Measured at fair value on initial recognition
- Transaction costs are included in the initial measurement of financial instruments that are not measured at fair value through profit or loss.

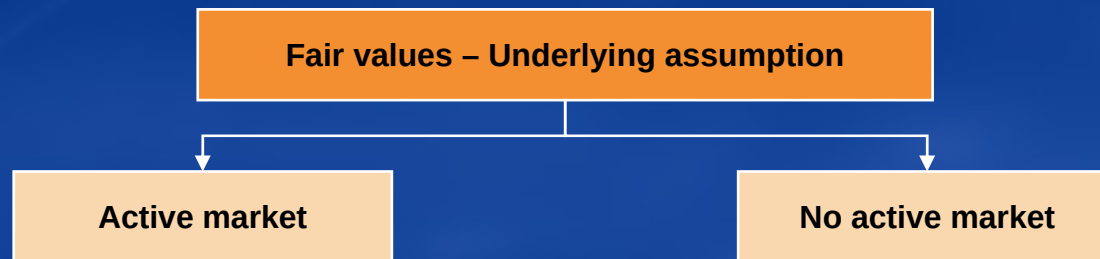
Classification determines subsequent measurement of financial assets

Instrument	Measurement	Value changes
Financial assets at fair value through profit or loss	Fair value	P&L
Held-to-maturity investments	Amortised cost (effective interest rate)	Not relevant (unless impaired)
Loans and receivables	Amortised cost (effective interest rate)	Not relevant (unless impaired)
Available-for-sale	Fair value	Equity (unless impaired)
Financial liabilities at fair value through profit or loss or designated as such	Fair value	P&L
Other liabilities	Amortised cost	Not relevant
Derivatives unless hedged	Fair value	P&L

Fair value

Fair value – definition

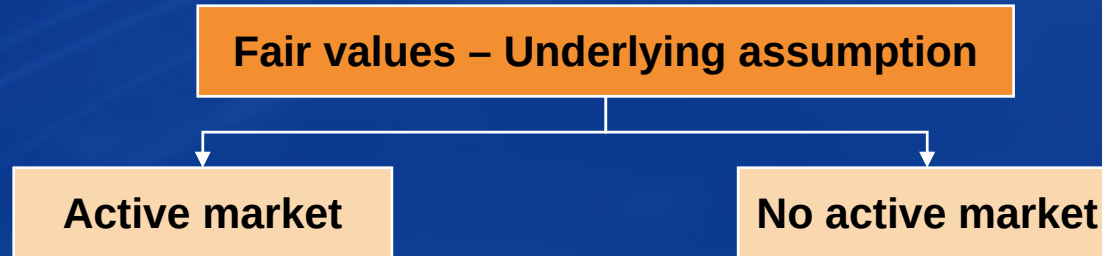
- An amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arms length transaction



Indication of active market

- Readily and regularly available prices
- In an actual and regularly occurring market at arm's length
- Current bid prices:
 - Mid market prices for offsetting risk positions
 - Bid or offer prices for net open positions
- No current fair value – use most recent transaction (as long as no significant change in economic circumstances)
- Significant economic changes – reflect in fair value (using similar financial instruments)
- No published price for a financial instrument in its entirety. Component parts valuation (Day 1 P&L should be considered)

Fair value (continued)



Valuation techniques

- Incorporate all factors market participants would consider when setting a price
- Are commonly applied and recognised by the market

...use **Valuation Techniques**:

- Comparable arm's length transactions
- Discounted cash flow analysis
- Option pricing models

... Consider day one profit based on observable market data

Class discussion: Market Participants

Rachel Ltd, a manufacturing corporation, has a machinery which it is assessing for impairment and is therefore in the process of identifying fair value for the asset. To arrive at the fair value, it has obtained bids for the machinery from various parties. Which of these bids would be considered appropriate for fair value measurement?

Bids received

Bid of USD 2 million received from Phoebe Ltd, its parent company

Bid of USD 1.8 million received from Gunther Ltd, an unrelated company, whose primary business is securities trading, willing and able to transact

Bid of USD 2.1 million received from Monica Ltd, a fellow competitor, which has filed for bankruptcy

Bid of USD 1.75 million from Ross Inc, a fellow competitor, willing and able to complete the transaction

Class discussion: Market Participants (2)

Rachel Inc, a manufacturing corporation, has a machinery which it is assessing for impairment and is therefore in the process of identifying fair value for the asset. To arrive at the fair value, it has obtained bids for the machinery from various parties. Which of these bids would be considered appropriate for fair value measurement?

Bids received	Yes/ No
Bid of USD 2 million received from Phoebe Corp, its parent company	NO
Bid of USD 1.8 million received from Gunther Inc, an unrelated company, whose primary business is securities trading, willing and able to transact	NO
Bid of USD 2.1 million received from Monica Inc, a fellow competitor, which has filed for bankruptcy	NO
Bid of USD 1.75 million from Ross Inc, a fellow competitor, willing and able to complete the transaction	YES

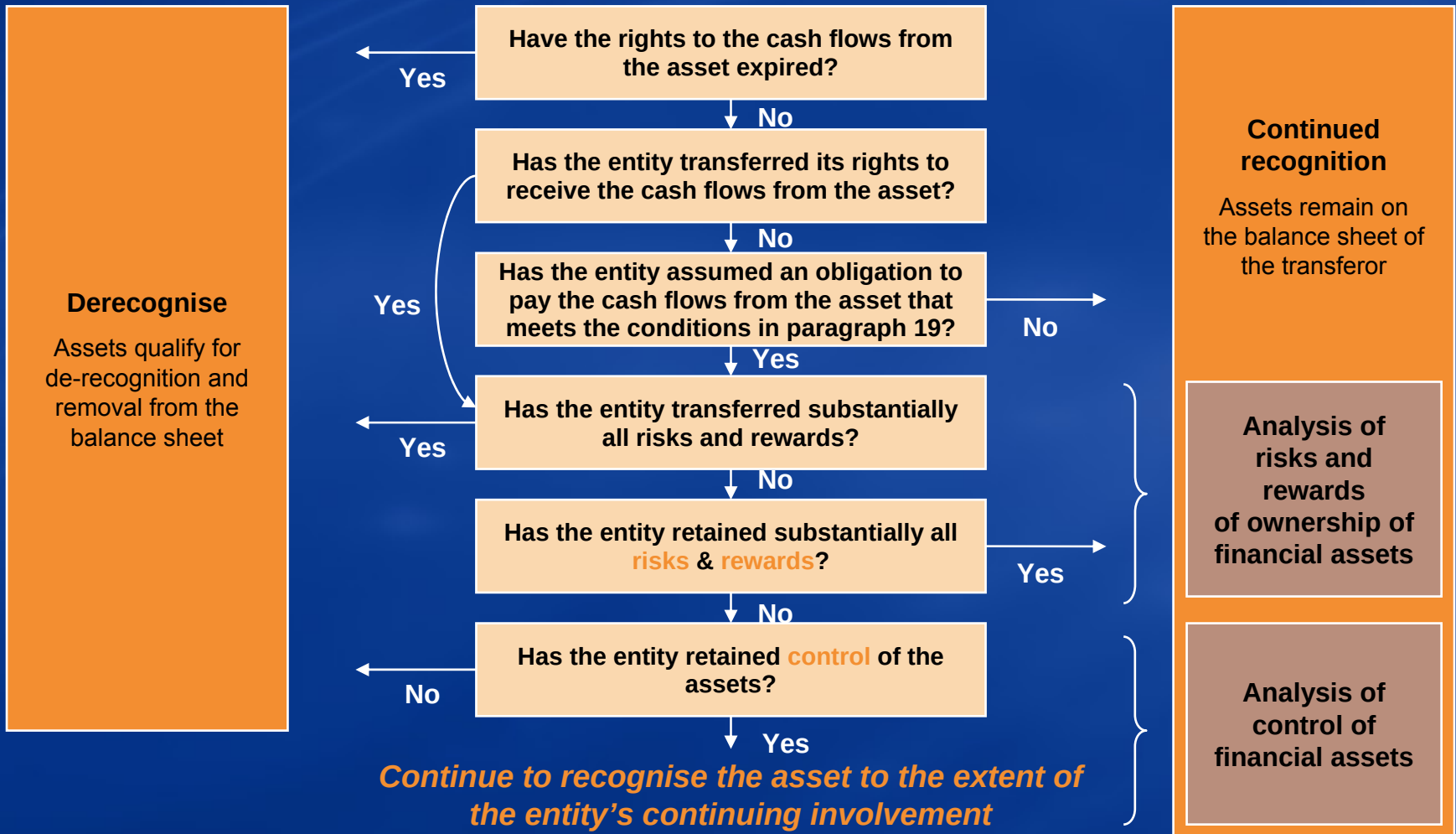
Amortised cost and effective interest method

$$\begin{array}{|c|} \hline \text{Amortised} \\ \text{cost} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Amount to} \\ \text{be paid at} \\ \text{maturity} \\ \hline \end{array} \begin{array}{c} -/+ \\ \end{array} \begin{array}{|c|} \hline \text{Unamortised} \\ \text{original} \\ \text{premium or} \\ \text{discount} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Origination} \\ \text{fees and} \\ \text{transaction} \\ \text{costs} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Principal} \\ \text{repayments} \\ \hline \end{array}$$

Amortisation is calculated using the **effective interest rate** method

At **each reporting date** apply the effective interest rate to carrying amount to determine interest income and interest expense

Main concepts of derecognition principles



Pass through arrangements

A transaction is treated as a transfer of financial assets, if all three criteria are met:

- An entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- An entity is prohibited from selling or pledging the original asset; and
- An entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.
 - Typical securitisation structures include:
 - swaps between a transferor and transferee
 - cash collection accounts used for reinvestment purposes
 - “reserve fund” used to cover future cases

Any such arrangements can be seen as a breach of pass-through requirements

99% of securitisations will not meet the criteria for a transfer and will never get to the “risk and rewards” stage

INTRODUCTION TO DERIVATIVE PRODUCTS

Genesis and Concept of Derivatives

Chemistry and maths

Change in function due
to change in inputs

Inputs = Underlying

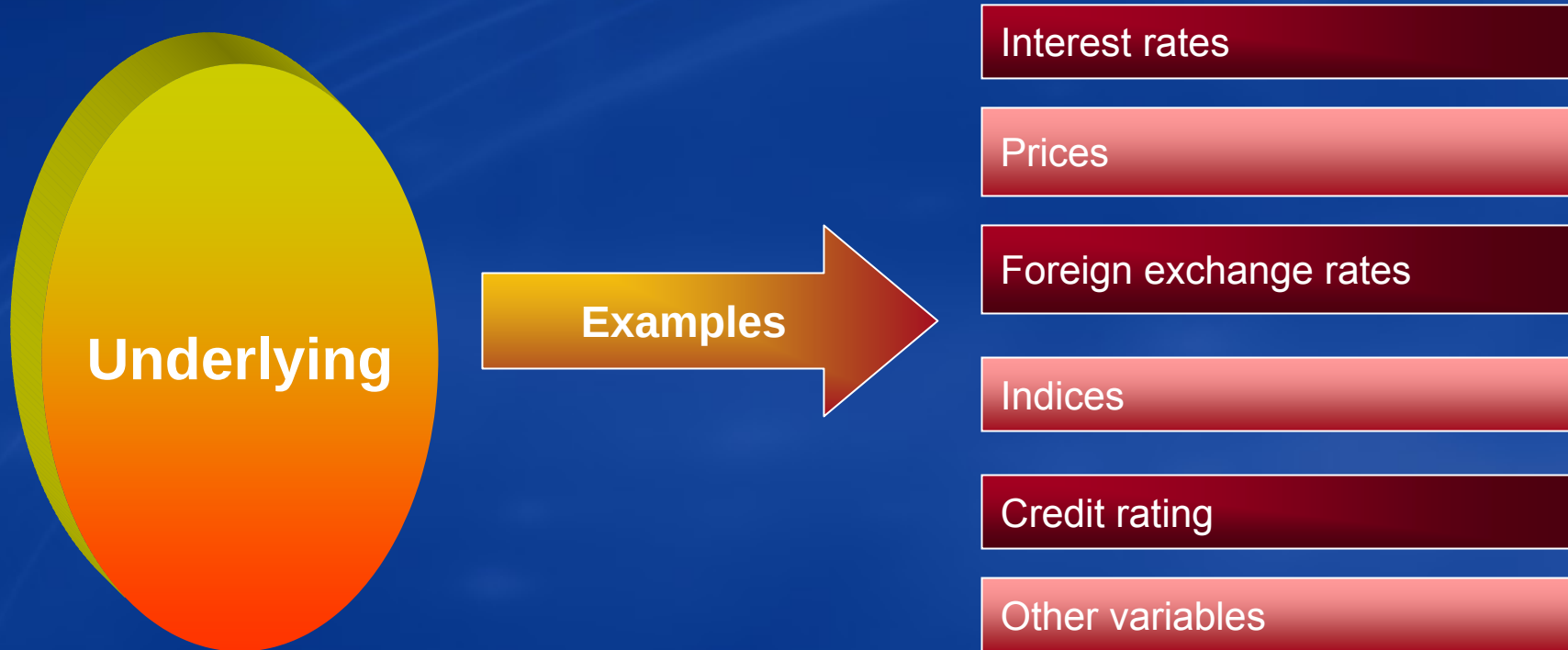
Derivative cannot exist
without “Underlying”

No Underlying, no Derivative



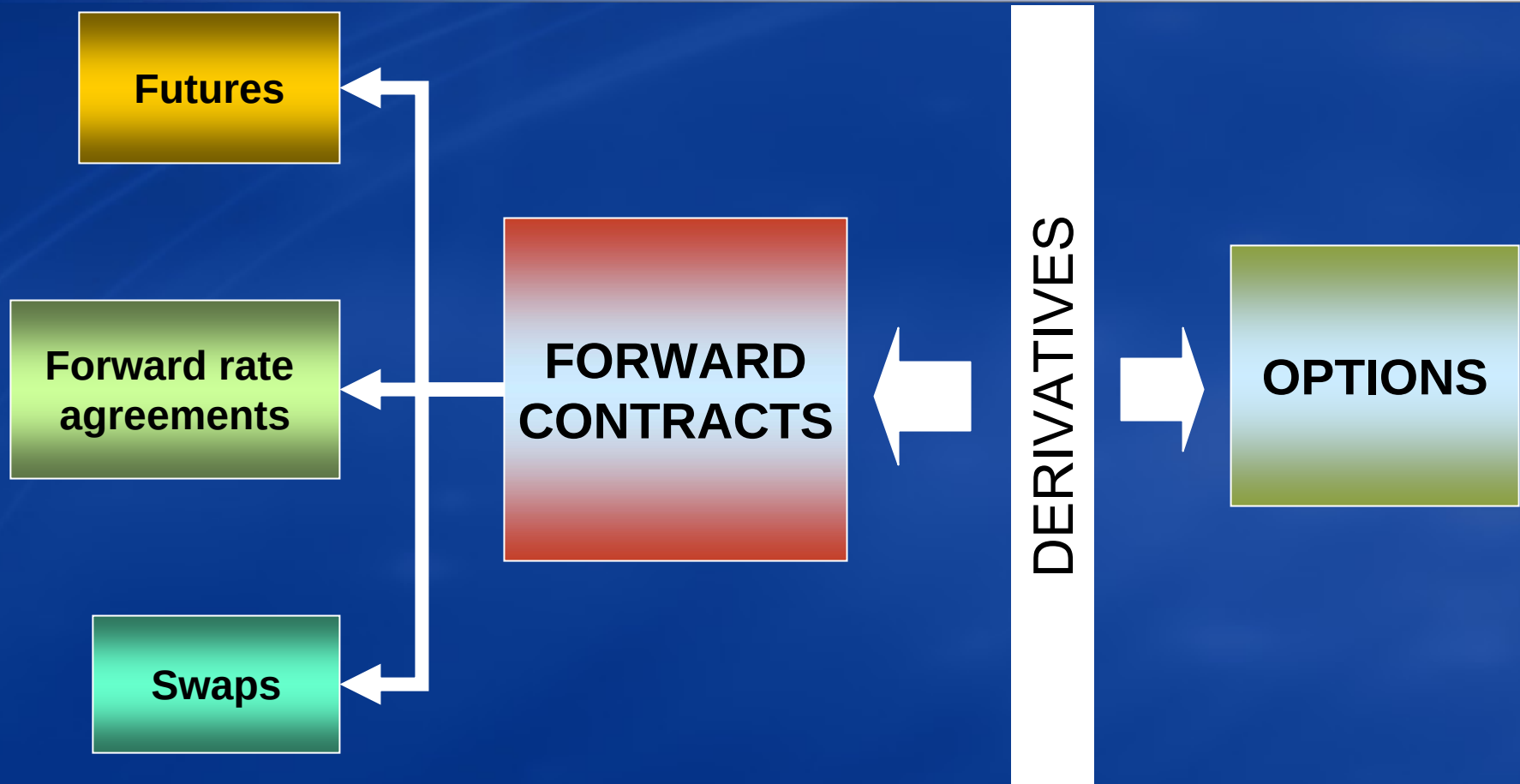
Thumb Rule : Derivative cannot exist without the underlying

Examples of Underlying



Thumb Rule : Underlying is any variable whose changes are observable or otherwise objectively verifiable

Examples of Derivative Products



1. Contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument or by exchanging financial instruments (specifically included in AS 30, although not a financial instrument)

Discussion: Determining the Underlying

1. *Mr Chang* has entered into an interest rate swap (IRS) which has the following arrangement: At every quarter end he will receive interest at a variable rate of 3-month LIBOR + 200 basis points and pay interest at a fixed rate of 7%, both computed on a notional amount of USD 10 million.
2. As per a contractual arrangement *Pigeon Plc* must pay *Duck LLC* USD 5 million if, *Duck LLC* does not receive from *Crow Corp.* payment of interest computed @ LIBOR + 50 basis points on a loan lent by *Duck LLC* to *Crow Corp.*

What is the underlying in each of the above cases?

Freestanding Derivatives

#1

Underlying

=

**Fair value changes
In response to
Change in underlying**

#2

**No initial net
investment**

or

**Smaller initial investment
than otherwise required
to obtain same exposure**

#3

Net settlement

or

**“Equivalent” of
Net settlement**

All three characteristics must be present to meet the definition of a derivative!

Derivatives excluded from AS 30 derivative accounting rules

All derivatives are always marked-to-market (MTM) with changes in fair value recognised in the P&L (unless used as hedging instruments in cash flow hedge when fair value changes are in reserves) except for:

Contracts for 'normal' purchases and sales of non-financial items

- Intended to meet purchase, sale or usage requirements
- Designated for that purpose
- Will be settled by delivery

Regular way purchase or sale of a financial asset

- Delivery within a time frame established by regulation or convention in the market
- Apply trade date or settlement date accounting

Exceptions: Regular Way Security Trades

On 30 June, the CFO of Global Choc calls his broker and buys 200 shares of Cadbury. The settlement date of this trade is on 3 July.

On the trade date (30 June 2008), this transaction is not recorded as a derivative because this trade is going to be settled within the time customary for equity transactions on the specific exchange where it is traded (e.g. 3 days on VIRTEX). This is considered a “REGULAR WAY SECURITY TRADE”.

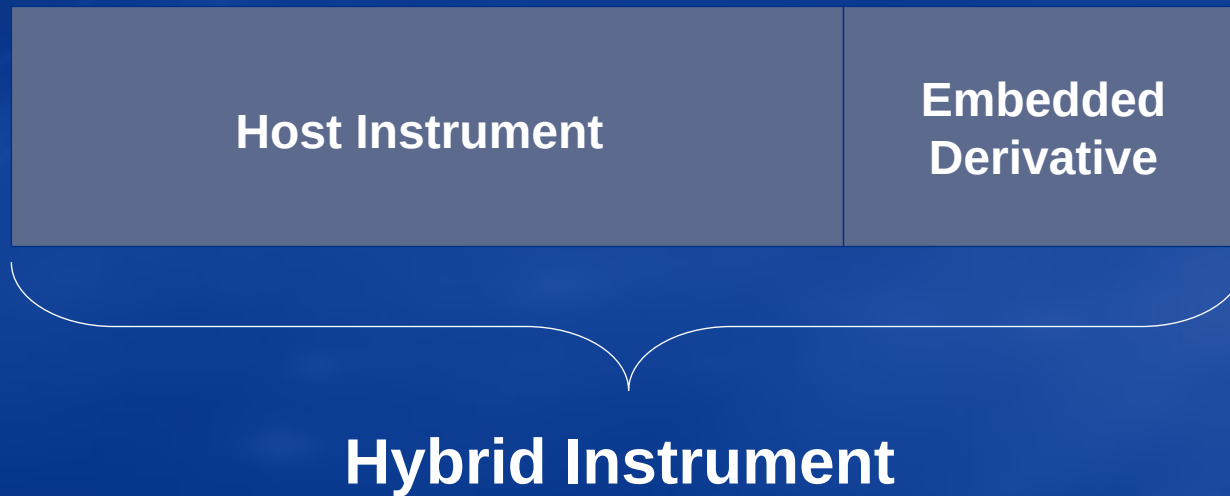
Does this contract meet the definition of a derivative? Should it be accounted for as a derivative?

Class Discussion: Derivative or Not? ⁽¹⁾

On 1 January, Blue Inc. purchased a EUR 10 million bond from Black Corp. Blue was worried about the credit risk of Black resulting in default of the bond payments. Therefore, Blue purchased a contract with a local bank for EUR 500k that requires the bank to pay Blue EUR 10 million should the credit rating of Black fall below BBB (i.e. junk status).

How should this contract be accounted for? Is it a derivative, an insurance contract, or a financial guarantee?

Embedded Derivatives



To BIFURCATE or NOT to BIFURCATE... that is the question!!

Embedded derivatives - Identification

What are they? / How to identify?

- An implicit or explicit term in a contract that makes it behave like a derivative

**Instruments
with
conversion
features**

**Index linked
payments**

**Transactions
in “third
currency”**

**Instruments with
option to extend
the term of debt**

**Purchase or sale of contracts
in foreign currency (other
than currency of major
party, or currency in which
the contract is normally
denominated)**

Embedded derivatives - Separation

When to separate?

- The embedded derivative is ***not closely related*** to economic characteristics and risks of the host contract, *and*
- A separate instrument with the same terms as the embedded derivative would meet the definition of a ***derivative***, *and*
- The hybrid contract is not carried at fair value through profit or loss

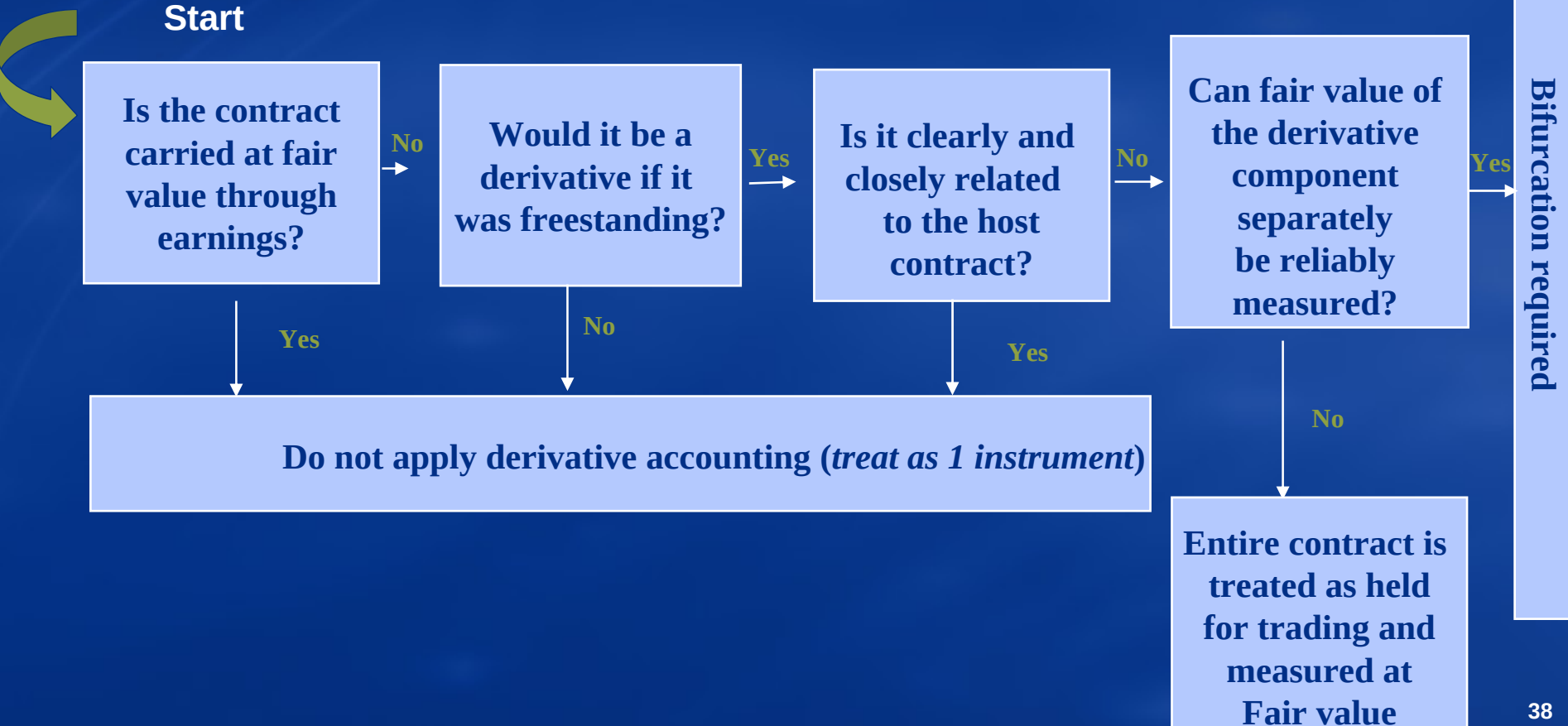
Class Discussion: Identifying the Hybrid Instrument Components

Skipper Corp issues a USD 10 million fixed rate bond to Gilligan which can be exchanged, at Gilligan's request, for 1 million shares of Skipper Corp at any time in the next 3 years.

What is the host and embedded derivative in this hybrid instrument?

Embedded Derivatives-Decision matrix

To bifurcate or not to bifurcate....



Clearly and Closely Related Characteristics or Risks

Economic relationship between host and embedded derivative component determine whether their characteristics and risks are *clearly and closely related*.

Prepayment option in a callable debt?

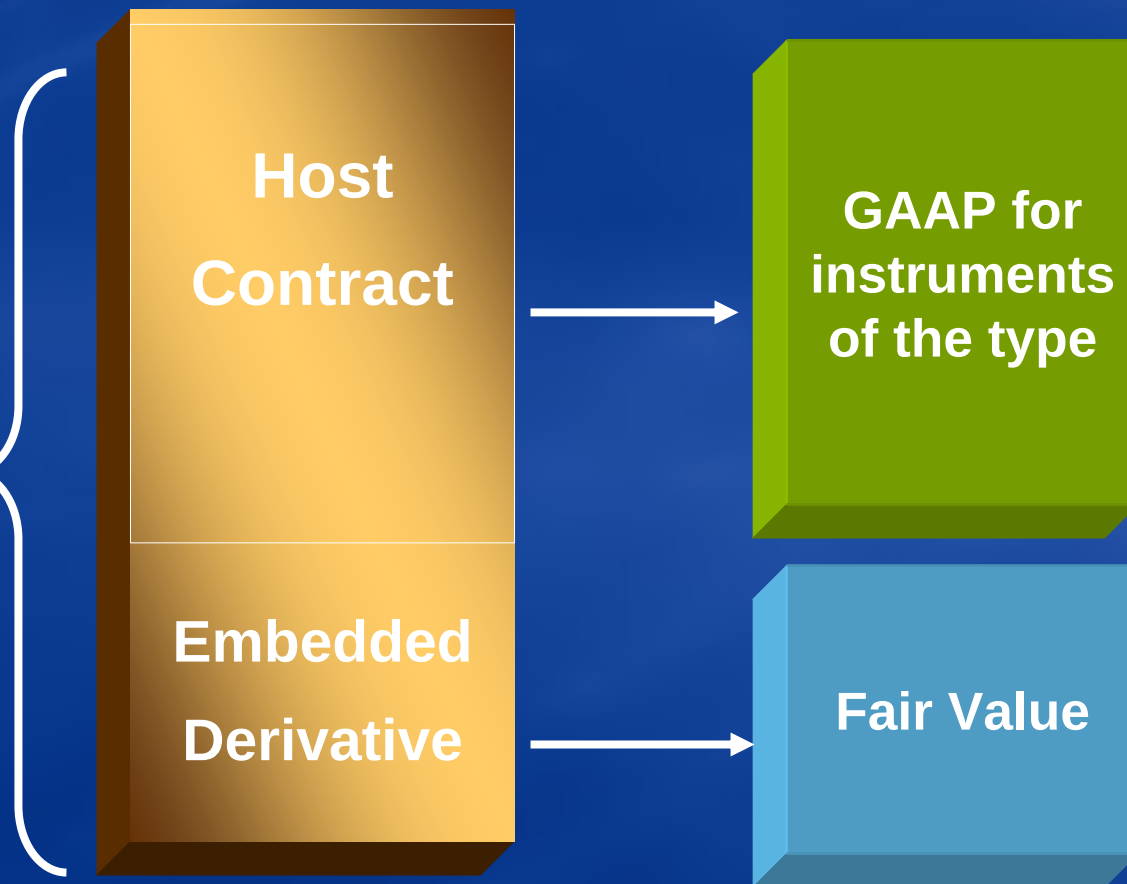
Equity-indexed debt that pays the holder return based on Standard & Poor's (S&P) 500 Index?

Accounting for Embedded Derivatives

B) Components cannot be separated



A) If components are separated



Tip: -if it is difficult to identify the value of the embedded derivative than it is deemed to be the difference between the fair value of the combined (hybrid) instrument and the fair value of the host contract.

Embedded derivatives – Example

Australian company leases an aircraft from a UK company for 2 years. Monthly rentals of Euro 20,000 are payable at the beginning of each month.

- What is the host contract?
- Are there any derivatives embedded in it?
- Do the derivatives need to be separated?

Embedded derivatives – Example (solution)

What is the host contract?

- Lease contract (not carried at fair value)

Are there any derivatives embedded in it?

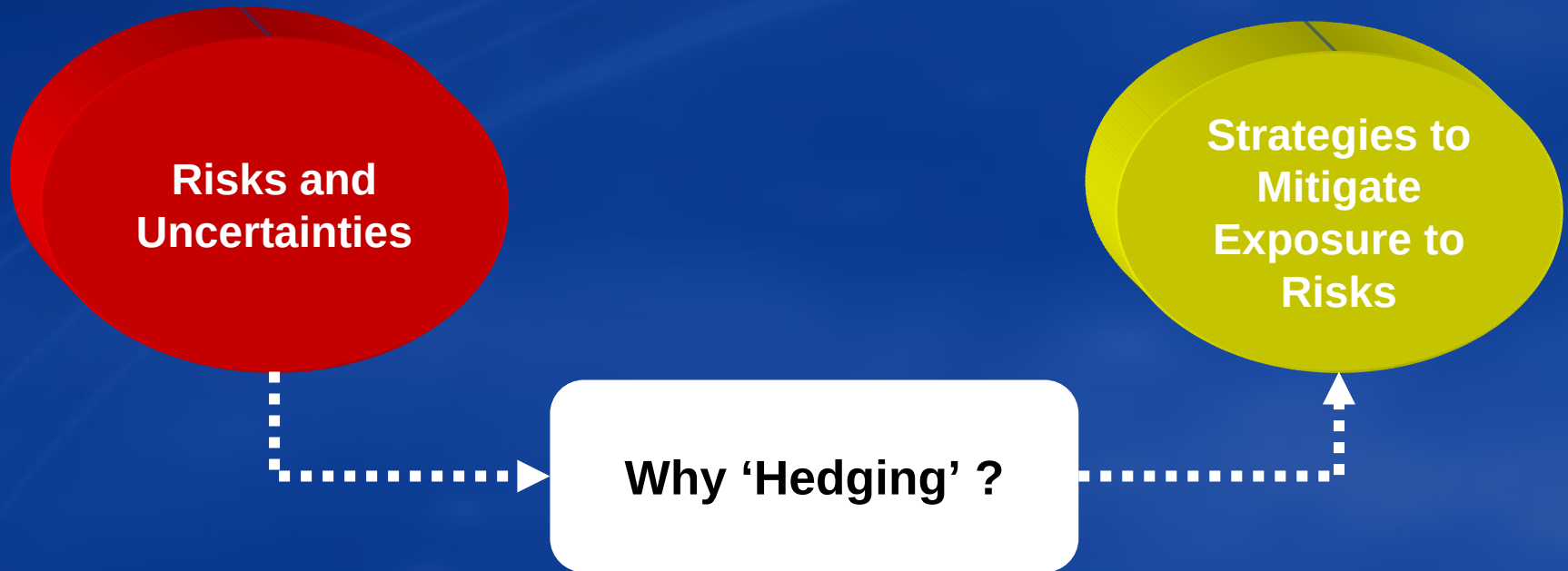
- Yes, there are implied forward contracts to sell Euro (which are within the scope of AS 30)

Do the derivatives need to be separated in year 1?

- Yes, there are 23 embedded forward contracts to exchange Euro 20,000 for Australian dollars (each of these embedded forward contracts is a derivative that is within the scope of AS 30 and the host contract is not carried at fair value.)

Introduction to the Concept of Hedging and its Accounting Implications

Introduction to the Concept of ‘Hedging’



A perfect hedge reduces investor's risk to 'nothing' except for cost of the hedge!

Objective of hedge accounting: get the timing right

	1	2	Cumul
Hedged item	0	(20)	(20)
Hedging instrument	20	0	20
	20	(20)	0



Accelerate recognition of gain or loss on hedged item (fair value hedge)



Defer recognition of gain or loss on hedging instrument (cash flow hedge)

Components of a hedge relationship

Hedging relationship components

Hedged items

Hedgeable risks

**Hedging
instruments**

Hedgeable risks: - Commodity price risks must be hedged in their entirety



Hedged risk should ultimately affect earnings

Example: Commodity contracts

- Company A enters into oil swap to hedge part of its exposure to the price of fuel (the price of fuel is made up of several components including the cost of oil). Can the swap be designated as hedging the oil exposure component of the price risk?
- AS 30 does not permit a hedge of a component of the pricing of a non-financial asset or liability. The risk must be hedged in its entirety.
- As such a correlation must be established between the price of the hedged component (the oil swap) and the jet fuel price to qualify for hedge accounting.

Hedged item

To qualify for designation the hedged item should create an exposure to risk that ultimately affects profit or loss

The following can be designated as hedged items:

- A single or group of assets/liabilities
- Firm commitments or highly probable forecast transactions
- Non-financial assets/liabilities for foreign currency risk or the entire risk
- A portion of the cash flows on any financial asset/liability
- Net investments in foreign operations

•**Net positions cannot be designated as hedged items**

Qualifying hedging instruments – General rules

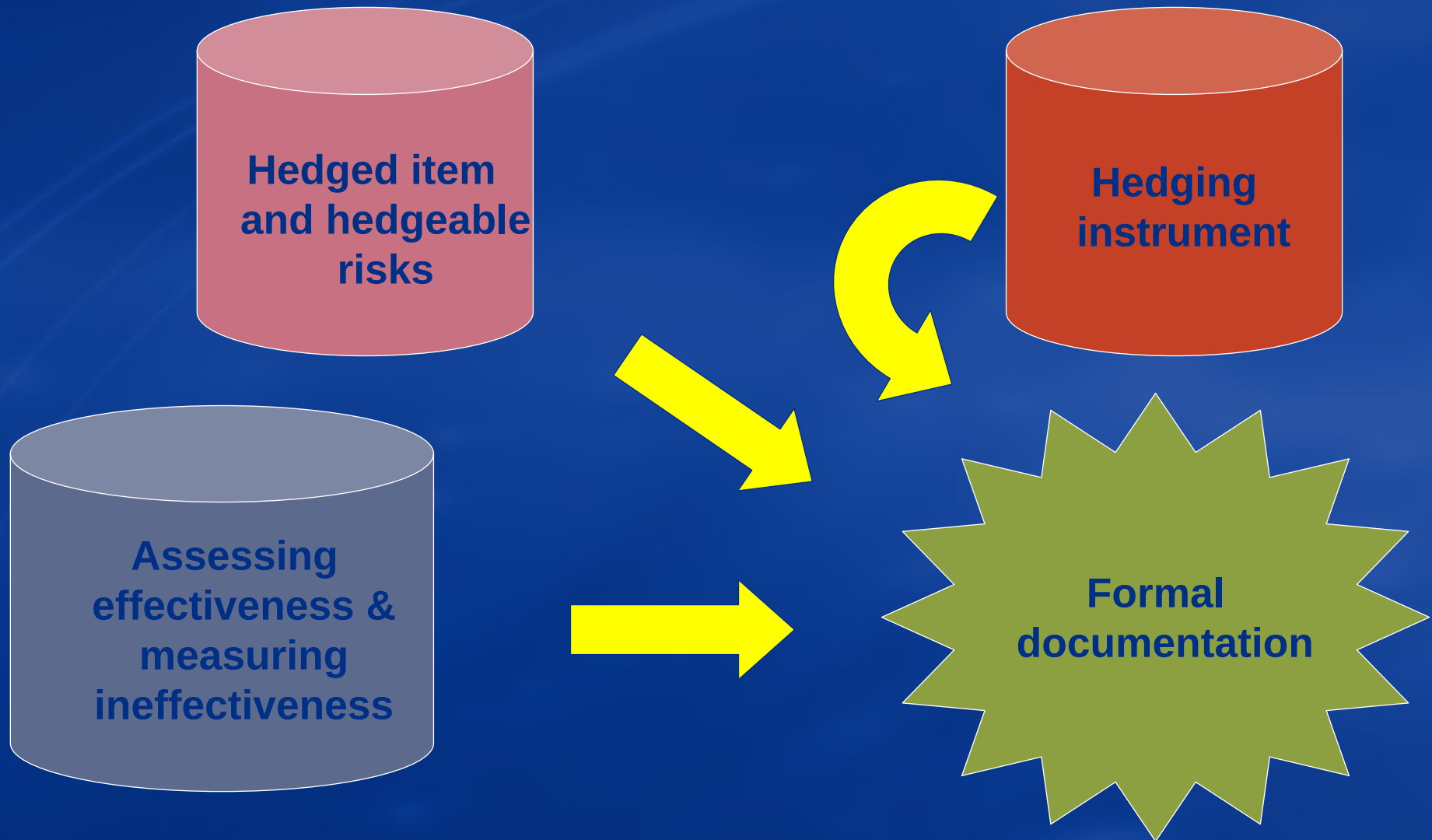
Few restrictions on use of derivatives as hedging instruments

- Important exception: net written options

Natural hedges of FX risk permitted in limited circumstances

- All of the derivative must be used in the hedge relationship
- Derivative cannot hedge another derivative
- More than one derivative can be used in a hedging relationship
- Permitted strategies include:
 - partial term: - 5 year swap used to hedge part of 10 year debt as part of cash flow hedge
 - proportional hedging
- Profit related hedges not permitted

Hedge Accounting – Strict Criteria



Criteria for hedge accounting

1. Hedge relationship must be documented at inception

- Risk management objective and strategy for the hedge
- Identification of the hedging instrument
- The related hedged item or transaction
- The nature of the risk being hedged
- How hedging instrument's effectiveness will be assessed

2(a) Hedge relationship must be expected to be highly effective at inception and subsequent periods

2(b) Hedge effectiveness can be reliably measured

2(c) Actual hedge effectiveness must be measured

3. In the case of hedging future cash flows, there must be a high probability of that cash flow occurring

Firm commitments and forecast transactions

Firm commitment – definition:

- A binding agreement for the exchange of a specified quantity of resources at a specific price on a specified future date(s)

Forecasted transaction – definition

- A transaction that is expected to occur (highly probable) for which there is not a firm commitment
- Does not give an entity any present right to future benefits or a present obligation for future sacrifices

Class Discussion: Firm Commitment *versus* Forecasted Transaction

Chaplin enters into a contract to sell 100,000 bushels of wheat in one month to *Charlie* at the then fair value. *Chaplin* deems this transaction as a normal sale as all other provisions are met.

If *Charlie* cancels the contract he shall be required to pay a USD 50,000 as non-performance penalty to *Chaplin*.

Assuming that the penalty amount is significant, can this contract be designated as a firm commitment and accordingly, be treated as a hedged item in a fair value hedge?

Types of hedges

Fair value hedges

- ◆ Hedge of exposure to changes in fair value of:
 - a recognised asset or liability; an unrecognised firm commitment; or an identified portion of any of the above two;
 - that is attributable to a particular risk; and
 - could affect P&L

Cash flow hedges

- ◆ Hedge of exposure to variability in cash flows that is:
 - attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (also an inter-company one); and
 - could affect P&L

Hedges of a net investment in a foreign operation

Fair value hedge accounting model

Measurement of derivative instrument

Fair value



Measurement of hedged item

**Fair value with
respect to risk being
hedged⁽¹⁾**



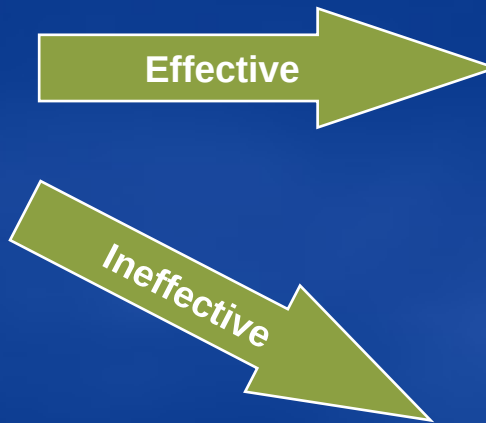
Changes in FV

P&L

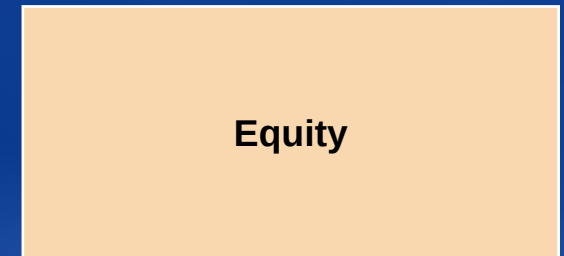
(1) This applies even if a hedged item is otherwise measured at FV with FV changes recognised in equity or if hedged item is measured at cost

Cash flow hedge accounting model

Measurement of derivative instrument



Changes in FV



(1) Based on timing of earnings impact of hedged item (cost of sales, depreciation, interest)

Hedging anticipated future cash flows is more difficult under AS 30

In the case of hedging future cash flows, there must be a high probability of that cash flow occurring

- Exposure to variability in cash flows
 - capex, floating interest rate, commitments and anticipated exposures
- High probability test to be satisfied on cash flow exposure
 - Generally more than 90% probability

Scale of probability of the forecasted transaction

General rule: Gain/loss on hedging instrument to P&L

Special rule: Cumulative gain and loss on hedging instrument remains in equity
“freeze mode” if test satisfied in a prior period

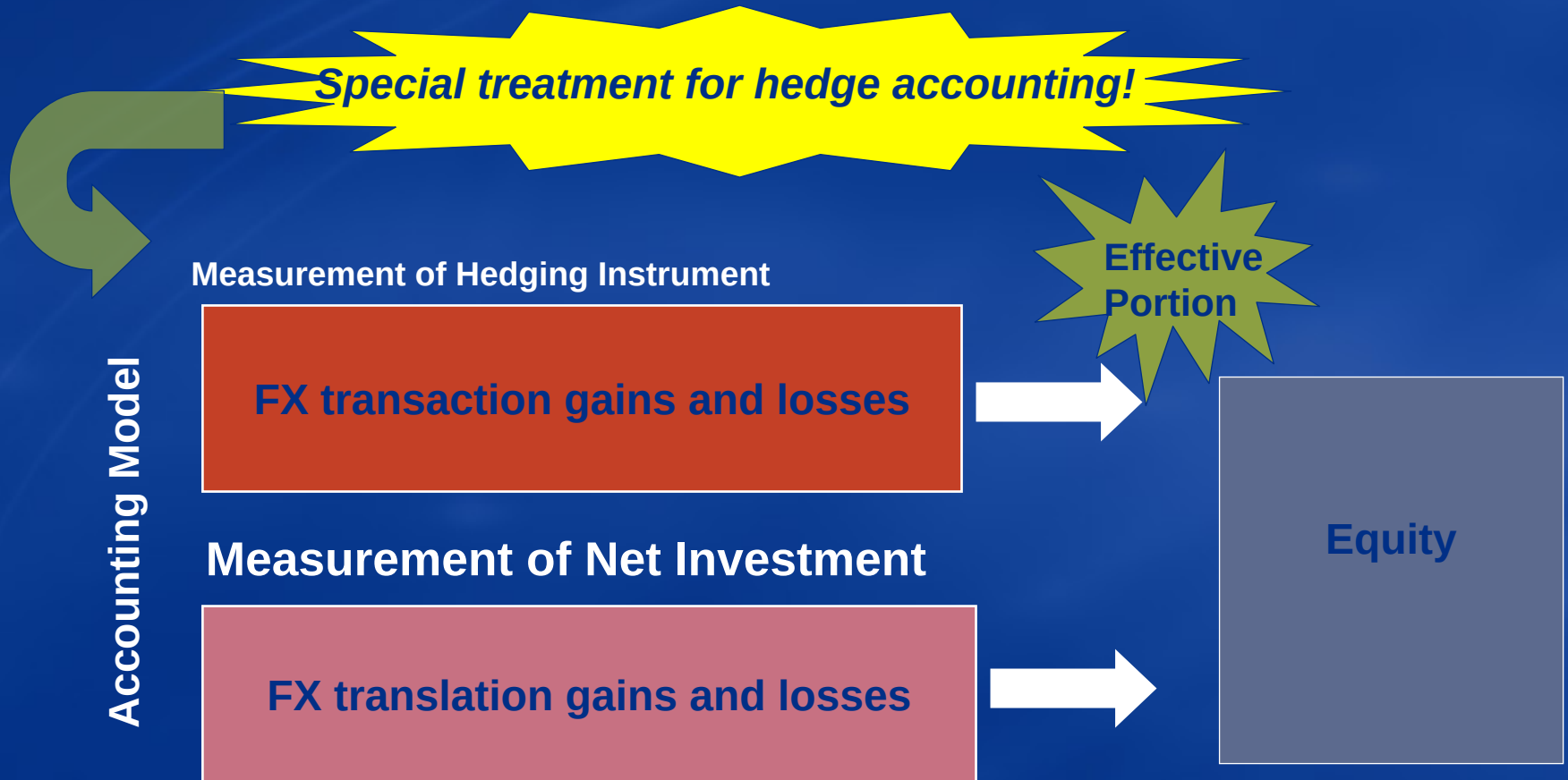


Hedges of a net investment

- Not for parent stand alone financial statements, group financial statements only
- Must meet criteria for hedge accounting
- Accounting treatment similar to that of cash flow hedges
- Effective portion of gain or loss on hedging instrument recorded in the same manner as the foreign currency translation gain or loss
- Ineffective portion is recognised in the profit or loss

Hedge of a Net Investment in a Foreign Operation – Accounting Model

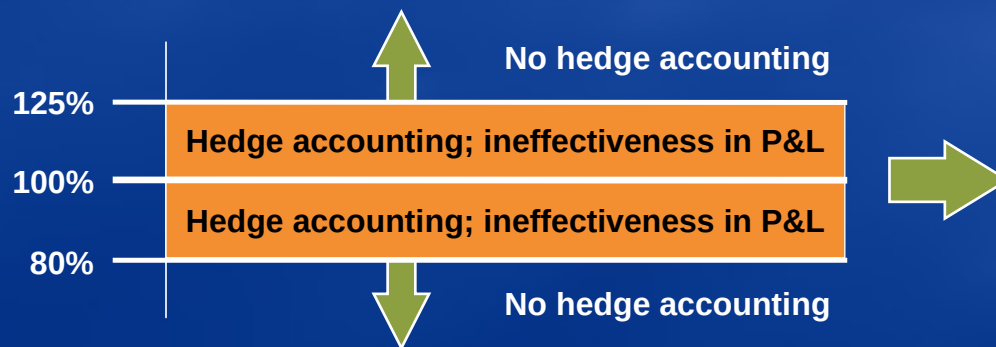
Special treatment for hedge accounting!



Hedge effectiveness

Hedge relationship must be expected to be highly effective at inception and in subsequent periods

- General principles
- Hedge effectiveness criteria
 - highly effective at inception
 - satisfy 80-125% effectiveness back test



- Different notional and principal amounts for the derivative and hedged item
- Basis differentials
- Different maturity and re-set dates
- Currency differences
- Credit differences
- Inclusion of time value

any ineffectiveness must be recognized in P&L ... even if hedge relationship is effective

Class Discussion: Highly Effective Hedge

Assume the following particulars in a hedging relationship

Period end	FV* of Derivative	FV* of hedged item
30 Jun	55	(65)
30 Sep	59	(61)
31 Dec	63	(64)

** FV = Fair Value*

Evaluate whether the above hedging relationship is highly effective at the end of each period.

Ineffectiveness

What is 'ineffectiveness'?

- The degree of *inexact offset* in the fair values of the derivative and hedged item expressed in absolute terms

Continuing with the previous illustration

Period end	FV of derivative	FV of hedged item
30 Jun	55	(65)
30 Sep	59	(61)
31 Dec	63	(64)

How can hedge ineffectiveness be measured?

Techniques for Assessing ‘Hedge Effectiveness’

Dollar-offset method

- This method compares the dollar amount of the change in fair value of the hedging instrument with the dollar amount of the change in fair value of the hedged item. While applying this method an entity may use either a *period-by-period* approach or a *cumulative* approach

Regression analysis

- Appropriate interpretation and an understanding of the statistical inferences of statistical methods are critical
- Requires involvement of *specialists* with the requisite knowledge to apply statistical methods

The technique used must be documented at the inception of the hedge!

Hedge effectiveness (continued)

Cash flow hedge effectiveness testing

- Use of the hypothetical derivative technique
- Create a “memo” derivative that will perfectly hedge the cash flows
- Value the memo derivative and compare changes in fair value to the real hedging instrument
- Hedge effectiveness can also be determined using regression analysis as for fair value hedges or using (cumulative) dollar offset methodologies

When a hedge no longer is effective

If the ongoing highly effective criterion fails, hedge accounting is discontinued

- Hedge activity recorded prior to loss of effectiveness is not affected.
- The hedge does not qualify for special accounting prospectively from the last time it was proven effective.
- There is therefore a trade off between performing effectiveness testing frequently to ensure effectiveness and the administration effort into doing this frequently

Discontinuation of hedge accounting

	Fair value hedges	Cash flow hedges
Future changes in fair value of hedging instrument	Continue to be taken to profit or loss	Recognised immediately in profit or loss
Changes in fair value of hedged item	- Treat as if not hedged - For hedges of interest bearing assets, adjustments to date is amortised to profit or loss over the period to maturity	N/A
Amounts recorded to date in equity: a) hedged item still exist or still expected to occur b) hedged item or transaction sold or no longer expected to occur	N/A	a) Transferred to profit or loss at the same time as the change in the hedged cash flows is recognised in profit or loss b) Transferred to profit or loss immediately

Liabilities v/s Equity – An Introduction

Liability or Equity?

Financial instrument is an equity instrument only if both criteria are met:

- There is no obligation to deliver cash or another financial asset or to exchange financial assets or financial liability; and
- The issuer will exchange fixed amount of cash or another financial asset for a fixed number of its own equity instruments.



Liability or Equity? (2)

- Perpetual instrument - interest paid in perpetuity
 - Redeemable non-cumulative preference shares - holder has the right to require redemption
 - Irredeemable cumulative preference shares – issuer has a contractual obligation to pay dividends.
- Compound instrument = part equity and part debt
 - e.g. convertible debt
- Split accounting required
 - The liability portion is valued first and the equity portion is the residual amount after deducting the fair value of the liability component from the issue proceeds

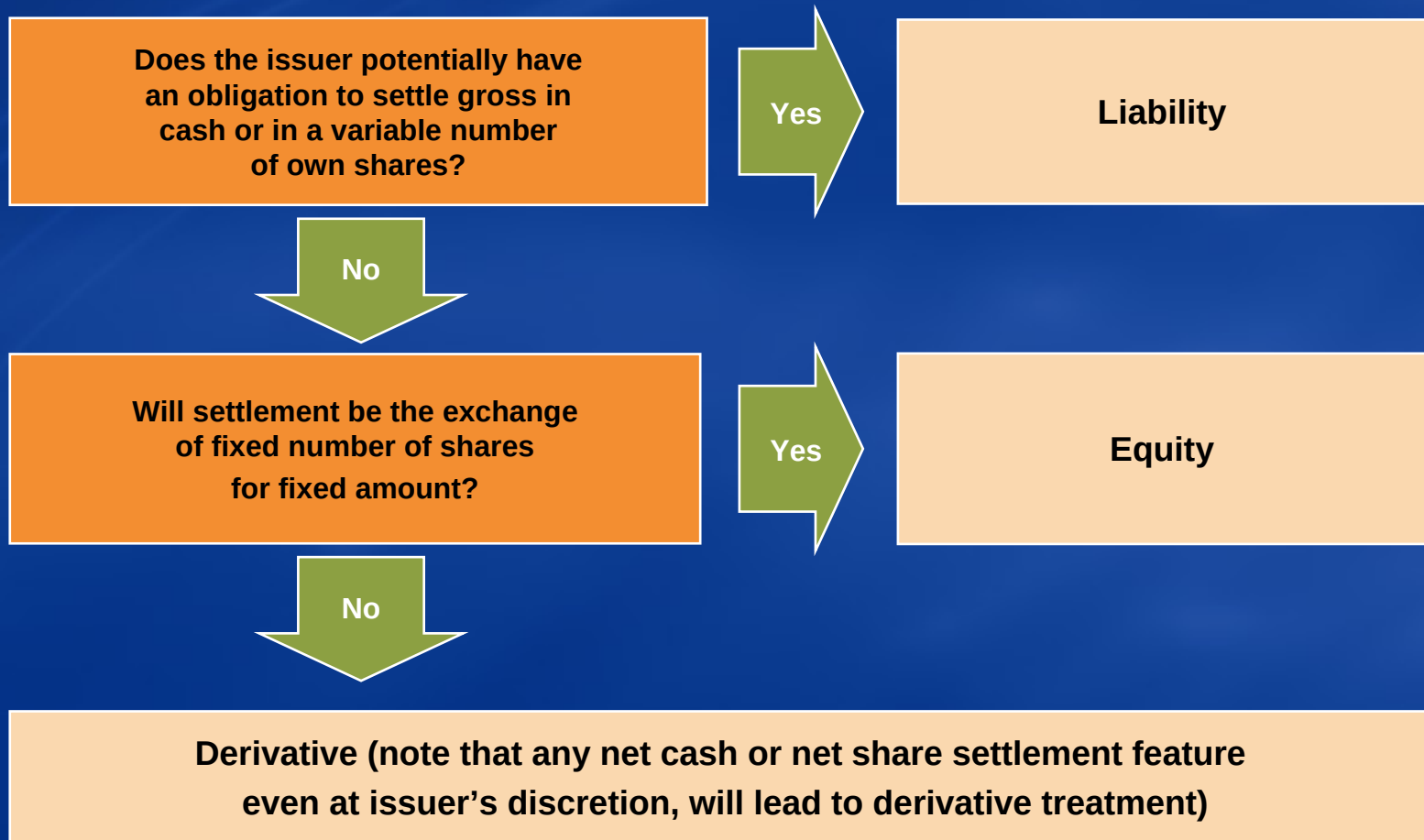
Liability or Equity? (3)

Entity A issued a convertible bond on 1 January 2005 for 1,000,000. The interest rate on this bond is 10% per year payable annually, and the maturity is 10 years. The bond is convertible into the company's equity at each interest payment date after 5 years. The market rate for a comparable bond without the conversion features is 12% per year.

What would the accounting entries be for this bond in 2005 and 2006?

Present value of the principal:	$1,000,000 / (1 + 0.12)^{10} = 321\,973$
Present value of the interest:	$\sum_{i=1}^{10} 100\,000 / (1 + 0.12)^i = 565\,022$
Total debt amount:	886 995
The equity is the residual	113 005

Transactions in own equity



Offsetting a financial asset and a financial liability

A legally enforceable right to set off and an intention to settle net or to realise the asset and settle the liability simultaneously



- Master netting agreements
- Several instruments used to emulate a single instrument (synthetic instrument)
- Items with the same risk, but different counterparties
- Financial assets pledged as collateral for non-recourse liabilities
- Assets set aside in a trust to discharge a liability that have not been accepted by the creditor (sinking fund arrangements)
- Obligations as a result of losses recoverable via insurance

AS 32 – Financial instruments: Disclosures (1)

- The objective is to provide disclosures on:
 - The significance of financial instruments for the entity
 - The nature and extent of risks arising from financial instruments to which the entity is exposed
- Both qualitative and quantitative disclosures are required

AS 32 – Financial instruments: Disclosures (2)

Significance of financial instruments for financial position and performance

Balance sheet

**Income statement
and equity**

**Other
disclosures**

AS 32 – Financial instruments: Disclosures (3)

Significance of financial instruments for financial position and performance

Balance sheet

- Carrying value of the four categories of financial assets and financial liabilities
- The change in a designated at fair through p&l financial liability's fair value due to its credit risk and amount payable at maturity
- Amount of reclassification from fair value to amortized cost or vice versa
- Information about transferred financial assets that don't qualify for derecognition
- Information about collateral pledged and collateral received
- Details of the allowance for credit losses account
- Compound instruments with multiple embedded derivatives
- Information about defaults and breached of loans payable

AS 32 – Financial instruments: Disclosures (4)

Significance of financial instruments for financial position and performance

Income statement and equity

- Gains and losses on the four categories of financial assets and financial liabilities
- Total interest income & expense for financial assets & liabilities not at fair value through the p&l
- Fee income and expense arising from financial assets & liabilities not at fair value through the p&l and trust and other fiduciary liabilities
- Interest income on impaired financial assets
- Amount of impairment losses for each financial asset

AS 32 – Financial instruments: Disclosures (5)

Significance of financial instruments for financial position and performance

Other disclosures (1)

- Accounting policies
- Hedge accounting
 - Description of hedge types, instruments, nature of risks, when cash flows are expected to occur
 - For cash flow hedges, amount deferred and removed from equity, also amount included in cost of non-financial asset
 - Gains/losses for fair value hedges on re-measuring hedged item and instrument
 - Ineffectiveness recognised in the p&l for cash flow and net investment hedges

AS 32 – Financial instruments: Disclosures (6)

Significance of financial instruments for financial position and performance

Other disclosures (2)

- **Fair value**

- For each class fair values to compare it with balance sheet
- Methods/valuation techniques to determine fair values per class
- Accounting policy and amortization of the day 1 profit reserve
- Limited exemption for some unquoted equities and DPF's

AS 32 – Financial instruments: Disclosures (7)

Nature and extent of risk arising from financial instruments

Qualitative disclosures

- For each type of risk arising from financial instruments, disclose:
 - The exposures and how they were generated
 - Objectives, policies and processes for managing the risks and methods to measure the risk
 - Any changes to the above from the previous period

AS 32 – Financial instruments: Disclosures (8)

Nature and extent of risk arising from financial instruments

Quantitative disclosures (1)

- For each risk arising from financial instruments, disclose:
 - Quantitative data about the risk exposure as provided to key management personnel
 - Detailed disclosures (see next slide) to the extent not disclosed already from the point above
- If the year-end disclosures are unrepresentative for the year, disclose additional information that is representative (e.g. highest, average)

AS 32 – Financial instruments: Disclosures (9)

Nature and extent of risk arising from financial instruments

Quantitative disclosures (2)

- **Credit risk**
 - Maximum credit exposure, description of collateral, information about credit quality
 - Analysis of financial assets past due and impaired
 - Collateral and credit enhancements obtained

As 32 – Financial instruments: Disclosures (10)

Nature and extent of risk arising from financial instruments

Quantitative disclosures (3)

- **Liquidity risk**
 - Maturity analysis of financial liabilities showing remaining contractual maturities
 - Description of how liquidity risk is disclosed
 - Expected maturities can also be disclosed if different from contractual maturities (e.g. demand deposits)

AS 32 – Financial instruments: Disclosures (11)

Nature and extent of risk arising from financial instruments

Quantitative disclosures (4)

- Market risk (including interest rate risk, currency risk, other price risk)
 - Sensitivity analysis for each type of market risk, showing the effect on profit and loss and equity, including methods and assumptions and changes in assumptions from the previous period
- Sensitivity analysis that reflects interdependencies (e.g. value at risk) can replace the sensitivity analysis above