



NZ ACCOUNTING
STANDARDS
BOARD

NZ International Financial Reporting Standard 7 (Diff Rep)

Financial Instruments: Disclosures (NZ IFRS 7 (Diff Rep))

Issued November 2012 excluding consequential amendments resulting from early adoption of NZ IFRS 9 (2009) (Diff Rep) *Financial Instruments*, NZ IFRS 9 (2010) (Diff Rep) *Financial Instruments*, NZ IFRS 10 (Diff Rep) *Consolidated Financial Statements*, NZ IFRS 11 (Diff Rep) *Joint Arrangements* and NZ IFRS 13 (Diff Rep) *Fair Value Measurement*

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Standard are identical to the requirements in NZ IFRS 7 *Financial Instruments: Disclosures* as applied by qualifying entities. Versions of NZ IFRS 7 applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

The following New Zealand Interpretations refer to NZ IFRS 7 (Diff Rep):

- NZ IFRIC 12 (Diff Rep) *Service Concession Arrangements*
- NZ IFRIC 17 (Diff Rep) *Distributions of Non-cash Assets to Owners*

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NZ International Financial Reporting Standard 7 (Diff Rep) *Financial Instruments: Disclosure* (NZ IFRS 7 (Diff Rep)) is set out in paragraphs 1–45 and Appendices A–E. NZ IFRS 7 (Diff Rep) is based on International Financial Reporting Standard 7 *Financial Instruments: Disclosures* (IFRS 7) (2005) published by the International Accounting Standards Board (IASB). 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. NZ IFRS 7 (Diff Rep) should be read in the context of its objective and the IASB’s Basis for Conclusions on IFRS 7 and the New Zealand *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ Framework (Diff Rep)). NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRS 7 (Diff Rep) *Financial Instruments: Disclosures*

This table lists the pronouncements establishing NZ IFRS 7 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 7 (Diff Rep) <i>Financial Instruments: Disclosures</i>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IFRS 7 (Diff Rep)		
Paragraph affected	How affected	By ... [date]
Paragraph NZ 2.1	Inserted	NZ IFRS 7 (Diff Rep) [Nov 2012]
Paragraphs NZ 5.2	Deleted	NZ IFRS 7 (Diff Rep) [Nov 2012]
Paragraphs 43–NZ 44.3	Deleted	NZ IFRS 7 (Diff Rep) [Nov 2012]
Paragraph NZ 44.4	Inserted	NZ IFRS 7 (Diff Rep) [Nov 2012]
Paragraph 45	Deleted	NZ IFRS 7 (Diff Rep) [Nov 2012]
Paragraphs NZ 45.1	Deleted	NZ IFRS 7 (Diff Rep) [Nov 2012]
Appendix E	Deleted	NZ IFRS 7 (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IFRS 7 as applied by qualifying entities prior to the issue of this Standard as NZ IFRS 7 (Diff Rep) other than consequential amendments resulting from early adoption of NZ IFRS 9 (2009) *Financial Instruments*, NZ IFRS 9 (2010) *Financial Instruments*, NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IFRS 13 *Fair Value Measurement*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 7 <i>Financial Instruments: Disclosures</i>	Nov 2005	Early application encouraged	1 Jan 2007

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Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
Amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> — <i>Differential Reporting Concessions and Financial Institution Disclosures</i>	Sep 2006	1 Jan 2007 Early application encouraged	1 Jan 2007
Amendments to NZ IFRS 4 <i>Insurance Contracts—The Scope of Insurance Activities and Differential Reporting Concessions</i>	Sept 2007	Early application permitted	1 Jan 2009
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007	Early application permitted	1 Jan 2009
Amendments to NZ IAS 32 and NZ IAS 1— <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>	Feb 2008	Early application permitted	1 Jan 2009
NZ IFRS 3 <i>Business Combinations</i> (revised 2008)	Feb 2008	Early application permitted	1 Jan 2009
<i>Improvements to NZ IFRSs</i>	June 2008	Early application permitted	1 Jan 2009
<i>Reclassification of Financial Assets</i> (Amendments to NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and NZ IFRS 7 <i>Financial Instruments: Disclosures</i>)	Oct 2008 Dec 2008	Restricted retrospective application permitted back to 1 July 2008	Prospective application from 1 Nov 2008 (not annual period commencing)
<i>Improving Disclosures about Financial Instruments</i> (Amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i>)	March 2009	Early application permitted	1 Jan 2009
<i>Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters</i> (Amendment to NZ IFRS 1)	March 2010	Early application permitted	1 July 2010
<i>Improvements to NZ IFRSs</i>	July 2010	Early application permitted	1 Jan 2011
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate

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Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
<i>Disclosures—Transfers of Financial Assets</i> (Amendments to NZ IFRS 7)	Nov 2010	Early application permitted	1 July 2011
Amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> Amendments to Appendix E <i>New Zealand-specific additional disclosure requirements applicable to financial institutions</i> (Amendments to NZ IFRS 7—Appendix E)	March 2011	Early application permitted	1 April 2011

Table of Amended Paragraphs in NZ IFRS 7		
Paragraph affected	How affected	By ... [date]
Paragraph 3	Amended	Amendments to NZ IAS 32 and NZ IAS 1 [Feb 2008]
Paragraph 3(a)	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 3(c)	Deleted	NZ IFRS 3 [Feb 2008]
Paragraph NZ 5.1	Inserted	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph NZ 5.1	Amended	Amendments to NZ IFRS 4 [Sept 2007]
Paragraph NZ 5.1	Amended	Minor Amendments [July 2010]
Paragraph NZ 5.2	Inserted	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph NZ 5.3	Inserted	Amendments to NZ IFRS 4 [Sept 2007]
Paragraph 12	Amended	<i>Reclassification of Financial Assets</i> [Oct 2008]
Paragraph 12A	Inserted	<i>Reclassification of Financial Assets</i> [Oct 2008]
Paragraph 13 and preceding heading	Deleted	<i>Disclosures—Transfers of Financial Assets</i> [Nov 2010]
Paragraphs 14–16	Amended (Diff Rep)	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph 20 and preceding heading	Amended	NZ IAS 1 [Nov 2007]

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Table of Amended Paragraphs in NZ IFRS 7		
Paragraph affected	How affected	By ... [date]
Paragraph 21	Amended	NZ IAS 1 [Nov 2007]
Paragraphs 23– 42	Amended (Diff Rep)	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph 23(c)	Amended	NZ IAS 1 [Nov 2007]
Paragraph 23(d)	Amended	NZ IAS 1 [Nov 2007]
Paragraph 27	Amended	NZ IAS 1 [Nov 2007]
Paragraph 27	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraphs 27A and 27B	Inserted	<i>Improving Disclosures</i> [Mar 2009]
Paragraph 32A	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 34	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 36	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 37	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 38	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 39	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraphs 42A–42H and preceding heading	Inserted	<i>Disclosures—Transfers of Financial Assets</i> [Nov 2010]
Paragraph 44A	Inserted	NZ IAS 1 [Nov 2007]
Paragraph 44B	Inserted	NZ IFRS 3 [Feb 2008]
Paragraph 44B	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 44C	Inserted	Amendments to NZ IAS 32 and NZ IAS 1 [Feb 2008]
Paragraph 44D	Inserted	Improvements to NZ IFRSs [June 2008]
Paragraph 44E	Inserted	<i>Reclassification of Financial Assets</i> [Oct 2008]
Paragraph 44E	Amended	<i>Reclassification of Financial Assets</i> [Dec 2008]
Paragraph 44F	Inserted	<i>Reclassification of Financial Assets</i> [Dec 2008]
Paragraph 44G	Inserted	<i>Improving Disclosures</i> [Mar 2009]

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Table of Amended Paragraphs in NZ IFRS 7		
Paragraph affected	How affected	By ... [date]
Paragraph 44G	Amended	<i>Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters</i> [March 2010]
Paragraph 44K	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 44L	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 44M	Inserted	<i>Disclosures—Transfers of Financial Assets</i> [Nov 2010]
Paragraph NZ 44.1	Inserted	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph NZ 44.1	Deleted	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]
Paragraph NZ 44.2	Inserted	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph NZ 44.3	Inserted	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]
Paragraph NZ 45.1	Amended	Amendments to NZ IFRS 7 [Sep 2006]
Paragraph NZ 45.1	Deleted	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]
Appendix A liquidity risk	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraph B5	Amended	NZ IAS 1 [Nov 2007]
Heading preceding paragraph B10A	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraph B10A	Inserted	<i>Improving Disclosures</i> [Mar 2009]
Paragraph B11	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraphs B11A–B11F	Inserted	<i>Improving Disclosures</i> [Mar 2009]
Paragraphs B12–B16	Deleted	<i>Improving Disclosures</i> [Mar 2009]
Paragraphs B29–B39 and two preceding headings	Inserted	<i>Disclosures—Transfers of Financial Assets</i> [Nov 2010]
Introduction to Appendix C	Amended	Amendments to NZ IFRS 7 [Sep 2006]
Appendix C	Amended	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]
Appendix E	Inserted	Amendments to NZ IFRS 7 [Sep 2006]

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Table of Amended Paragraphs in NZ IFRS 7		
Paragraph affected	How affected	By ... [date]
Appendix E various paragraphs	Terminology change	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]
Paragraph E19	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraph E20	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraph E21	Amended	<i>Improving Disclosures</i> [Mar 2009]
Paragraph E23 Defined terms deposit taker	Inserted	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]
Paragraph E23 Defined terms financial institution	Deleted	<i>(Amendments to NZ IFRS 7—Appendix E)</i> [March 2011]

Introduction to NZ IFRS 7 (Diff Rep)

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.

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.

Consequently, the IASB 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 IASB removed duplicative disclosures and simplified the disclosures about concentrations of risk, credit risk, liquidity risk and market risk in IAS 32.

NZ IFRS 7 (Diff Rep) is based on IFRS 7.

Main features of the Standard

NZ IFRS 7 (Diff Rep) is identical to NZ IFRS 7 applied by qualifying entities prior to the issuance of NZ IFRS 7 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IFRS 7 on adoption of this Standard.

NZ IFRS 7 (Diff Rep) applies to all risks arising from all financial instruments, except those instruments listed in paragraph 3. The Standard 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.

The Standard requires disclosure of:

- (a) the significance of financial instruments for an entity's financial position and performance.
- (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

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

The Standard includes in Appendix B mandatory application guidance that explains how to apply the requirements in the Standard. IFRS 7 is accompanied by non-mandatory Implementation Guidance that describes how an entity might provide the disclosures required by the Standard. This non-mandatory Implementation Guidance is available through the IASB.

Differential Reporting

Qualifying entities are given several concessions to the requirements of this Standard (as identified in the Standard).

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Financial Instruments: Disclosures (NZ IFRS 7 (Diff Rep))

Objective

- 1 The objective of this Standard 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 Standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in NZ IAS 32 (Diff Rep) *Financial Instruments: Presentation* and NZ IAS 39 (Diff Rep) *Financial Instruments: Recognition and Measurement*.

Scope

NZ 2.1 This Standard applies only to Tier 3 for-profit entities.

- 3 This Standard 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 NZ IAS 27 (Diff Rep) *Consolidated and Separate Financial Statements*, NZ IAS 28 (Diff Rep) *Investments in Associates* or NZ IAS 31 (Diff Rep) *Interests in Joint Ventures*. However, in some cases, NZ IAS 27 (Diff Rep), NZ IAS 28 (Diff Rep) or NZ IAS 31 (Diff Rep) permits an entity to account for an interest in a subsidiary, associate or joint venture using NZ IAS 39 (Diff Rep); in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in NZ IAS 32 (Diff Rep).
 - (b) employers' rights and obligations arising from employee benefit plans, to which NZ IAS 19 (Diff Rep) *Employee Benefits* applies.
 - (c) [deleted by IASB]

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- (d) insurance contracts as defined in NZ IFRS 4 (Diff Rep) *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if NZ IAS 39 (Diff Rep) requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies NZ IAS 39 (Diff Rep) in recognising and measuring the contracts, but shall apply NZ IFRS 4 (Diff Rep) if the issuer elects, in accordance with paragraph 4(d) of NZ IFRS 4 (Diff Rep), to apply NZ IFRS 4 (Diff Rep) in recognising and measuring them.
 - (e) financial instruments, contracts and obligations under share-based payment transactions to which NZ IFRS 2 (Diff Rep) *Share-based Payment* applies, except that this Standard applies to contracts within the scope of paragraphs 5–7 of NZ IAS 39 (Diff Rep).
 - (f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of NZ IAS 32 (Diff Rep).
- 4 This Standard applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of NZ IAS 39 (Diff Rep). Unrecognised financial instruments include some financial instruments that, although outside the scope of NZ IAS 39 (Diff Rep), are within the scope of this Standard (such as some loan commitments).
- 5 This Standard applies to contracts to buy or sell a non-financial item that are within the scope of NZ IAS 39 (Diff Rep) (see paragraphs 5–7 of NZ IAS 39 (Diff Rep)).

NZ 5.1 Other than entities complying with NZ IFRS 4 (Diff Rep) *Insurance Contracts* (see paragraph NZ 5.3 below), entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

NZ 5.2 [Deleted]

NZ 5.3 Qualifying entities which are also complying with NZ IFRS 4 (Diff Rep) *Insurance Contracts* are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*), except to the extent that NZ IFRS 4 (Diff Rep) refers to these disclosure requirements for insurance contracts under the scope of NZ IFRS 7 (Diff Rep). Qualifying entities that are also complying with NZ IFRS 4 (Diff Rep) shall comply in full with any requirements of this Standard which are referred to in NZ IFRS 4 (Diff Rep).

Classes of financial instruments and level of disclosure

- 6 When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of

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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 defined in NZ IAS 39 (Diff Rep), shall be disclosed either in the statement of financial position or in the notes:
- (a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with NZ IAS 39 (Diff Rep);
 - (b) held-to-maturity investments;
 - (c) loans and receivables;
 - (d) available-for-sale financial assets;
 - (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with NZ IAS 39 (Diff Rep); and
 - (f) financial liabilities measured at amortised cost.

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

- 9 If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:
- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) 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.

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- (c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) 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 loan or receivable 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 NZ IAS 39 (Diff Rep), 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.

- (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

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attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Reclassification

- 12 If the entity has reclassified a financial asset (in accordance with paragraphs 51–54 of NZ IAS 39 (Diff Rep)) as one measured:
- (a) at cost or amortised cost, rather than at fair value; or
 - (b) at fair value, rather than at cost or amortised cost,
- it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.
- 12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of NZ IAS 39 (Diff Rep) or out of the available-for-sale category in accordance with paragraph 50E of NZ IAS 39 (Diff Rep), it shall disclose:
- (a) the amount reclassified into and out of each category;
 - (b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;
 - (c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;
 - (d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;
 - (e) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and
 - (f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.
- 13 [Deleted by IASB]

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

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reclassified in accordance with paragraph 37(a) of NZ IAS 39 (Diff Rep);
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 NZ IAS 32 (Diff Rep)) 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

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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 or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with NZ IAS 39 (Diff Rep);
 - (ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;
 - (iii) held-to-maturity investments;
 - (iv) loans and receivables; and
 - (v) financial liabilities measured at amortised cost;
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are 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 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 NZ IAS 39 (Diff Rep); and
- (e) the amount of any impairment loss for each class of financial asset.

Other disclosures

Accounting policies

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- 21 In accordance with paragraph 117 of NZ IAS 1 (Diff Rep) *Presentation of Financial Statements*, 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 NZ IAS 39 (Diff Rep) (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
- (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 the 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

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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 NZ IAS 39 (Diff Rep)). 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 NZ IAS 39 (Diff Rep) 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

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consider in setting a price (see paragraph AG76A of NZ IAS 39 (Diff Rep)); 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 an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with NZ IAS 39 (Diff Rep) because its fair value cannot be measured reliably; or
- (c) for a contract containing a discretionary participation feature (as described in NZ IFRS 4 (Diff Rep)) 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 financial assets or financial liabilities 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.

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- 32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

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 NZ IAS 24 (Diff Rep) *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 accordance with (a).
 - (c) concentrations of risk if not apparent from the disclosures made in accordance with (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 NZ IAS 32 (Diff Rep)); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

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- (b) a description of collateral held as security and of other credit enhancements and their financial effect (eg a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).
- (c) information about the credit quality of financial assets that are neither *past due* nor impaired.
- (d) [deleted by IASB]

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; and
- (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.
- (c) [deleted by IASB]

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 Standards, an entity shall disclose for such assets held at the reporting date:

- (a) the nature and carrying amount of the assets; 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).

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- (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.

Transfers of financial assets

- 42A The disclosure requirements in paragraphs 42B–42H relating to transfers of financial assets supplement the other disclosure requirements of this NZ IFRS Diff Rep. An entity shall present the disclosures required by paragraphs 42B–42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction

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occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

- (a) transfers the contractual rights to receive the cash flows of that financial asset; or
- (b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

42B An entity shall disclose information that enables users of its financial statements:

- (a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- (b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

42C For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 42E–42H, the following do not constitute continuing involvement:

- (a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;
- (b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or
- (c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 19(a)–(c) of NZ IAS 39 (Diff Rep) are met.

Transferred financial assets that are not derecognised in their entirety

42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

- (a) the nature of the transferred assets.
- (b) the nature of the risks and rewards of ownership to which the entity is exposed.

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- (c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.
- (d) when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).
- (e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.
- (f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 20(c)(ii) and 30 of NZ IAS 39 (Diff Rep)), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Transferred financial assets that are derecognised in their entirety

42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 20(a) and (c)(i) of NZ IAS 39 (Diff Rep)) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

- (a) the carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised.
- (b) the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets.
- (c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined.
- (d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (eg the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.
- (e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.

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- (f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).
- 42F An entity may aggregate the information required by paragraph 42E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognised financial asset, and report it under one type of continuing involvement.
- 42G In addition, an entity shall disclose for each type of continuing involvement:
- (a) the gain or loss recognised at the date of transfer of the assets.
 - (b) income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (eg fair value changes in derivative instruments).
 - (c) if the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (eg if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):
 - (i) when the greatest transfer activity took place within that reporting period (eg the last five days before the end of the reporting period),
 - (ii) the amount (eg related gains or losses) recognised from transfer activity in that part of the reporting period, and
 - (iii) the total amount of proceeds from transfer activity in that part of the reporting period.
- An entity shall provide this information for each period for which a statement of comprehensive income is presented.

Supplementary information

- 42H An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph 42B.

Effective date and transition

43–44M [Deleted]

NZ 44.1 [Deleted]

NZ 44.2 [Deleted]

NZ 44.3 [Deleted]

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NZ 44.4 This Standard applies to annual periods beginning on or after 1 December 2012. Early application is permitted. This Standard replaces NZ IFRS 7 as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of NZ IFRS 7 as it applied to qualifying entities.

Withdrawal of NZ IAS 30

45 [Deleted by NZASB]

NZ 45.1 [Deleted]

Appendix A Defined terms

This appendix is an integral part of the Standard.

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.

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The following terms are defined in paragraph 11 of NZ IAS 32 (Diff Rep) or paragraph 9 of NZ IAS 39 (Diff Rep) and are used in the Standard with the meaning specified in NZ IAS 32 (Diff Rep) and NZ IAS 39 (Diff Rep).

- amortised cost of a financial asset or financial liability
- available-for-sale financial assets
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value
- financial asset
- financial asset or financial liability at fair value through profit or loss
- financial asset or financial liability held for trading
- financial guarantee contract
- financial instrument
- financial liability
- forecast transaction
- hedging instrument
- held-to-maturity investments
- loans and receivables
- regular way purchase or sale

Appendix B Application guidance

This appendix is an integral part of the Standard.

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 NZ IAS 39 (Diff Rep) (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 Standard.
- B3 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, 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

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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 assets or financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of NZ IAS 39 (Diff Rep) for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through profit or

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loss in NZ IAS 39 (Diff Rep), 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 asset or financial liability at fair value through profit or loss in NZ IAS 39 (Diff Rep), 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.

- (b) the criteria for designating financial assets as available for sale.
- (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of NZ IAS 39 (Diff Rep)).
- (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 NZ IAS 1 (Diff Rep) 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

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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. NZ IAS 8 (Diff Rep) *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 NZ IAS 32 (Diff Rep); and
 - (b) any impairment losses recognised in accordance with NZ IAS 39 (Diff Rep).
- 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 and receivables 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.

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- (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

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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

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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 by IASB]

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.

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- 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

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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 loans and receivables and debt instruments 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 Standard, 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.

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- B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments classified as at fair value through profit or loss and impairments of available-for-sale financial assets) is disclosed separately from the sensitivity of equity (that arises, for example, from instruments classified as available for sale).
- 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.

Derecognition (paragraphs 42C–42H)

Continuing involvement (paragraph 42C)

- B29 The assessment of continuing involvement in a transferred financial asset for the purposes of the disclosure requirements in paragraphs 42E–42H is made at the level of the reporting entity. For example, if a subsidiary transfers to an unrelated third party a financial asset in which the parent of the subsidiary has continuing involvement, the subsidiary does not include the parent's involvement in the assessment of whether it has continuing involvement in the transferred asset in its separate or individual financial statements (ie when the subsidiary is the reporting entity). However, a parent would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its subsidiary in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (ie when the reporting entity is the group).
- B30 An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future.
- B31 Continuing involvement in a transferred financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

Transferred financial assets that are not derecognised in their entirety (paragraph 42D)

- B32 Paragraph 42D requires disclosures when part or all of the transferred financial assets do not qualify for derecognition. Those disclosures are required at each

reporting date at which the entity continues to recognise the transferred financial assets, regardless of when the transfers occurred.

Types of continuing involvement (paragraphs 42E–42H)

- B33 Paragraphs 42E–42H require qualitative and quantitative disclosures for each type of continuing involvement in derecognised financial assets. An entity shall aggregate its continuing involvement into types that are representative of the entity's exposure to risks. For example, an entity may aggregate its continuing involvement by type of financial instrument (eg guarantees or call options) or by type of transfer (eg factoring of receivables, securitisations and securities lending).

Maturity analysis for undiscounted cash outflows to repurchase transferred assets (paragraph 42E(e))

- B34 Paragraph 42E(e) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognised financial assets or other amounts payable to the transferee in respect of the derecognised financial assets, showing the remaining contractual maturities of the entity's continuing involvement. This analysis distinguishes cash flows that are required to be paid (eg forward contracts), cash flows that the entity may be required to pay (eg written put options) and cash flows that the entity might choose to pay (eg purchased call options).
- B35 An entity shall use its judgement to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 42E(e). For example, an entity might determine that the following maturity 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 six months;
 - (d) later than six months and not later than one year;
 - (e) later than one year and not later than three years;
 - (f) later than three years and not later than five years; and
 - (g) more than five years.
- B36 If there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or is permitted to pay.

Qualitative information (paragraph 42E(f))

- B37 The qualitative information required by paragraph 42E(f) includes a description of the derecognised financial assets and the nature and purpose of the continuing involvement retained after transferring those assets. It also includes a description of the risks to which an entity is exposed, including:
- (a) a description of how the entity manages the risk inherent in its continuing involvement in the derecognised financial assets.
 - (b) whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (ie its continuing involvement in the asset).
 - (c) a description of any triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

Gain or loss on derecognition (paragraph 42G(a))

- B38 Paragraph 42G(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset (ie the interest in the asset derecognised and the interest retained by the entity) were different from the fair value of the previously recognised asset as a whole. In that situation, the entity shall also disclose whether the fair value measurements included significant inputs that were not based on observable market data, as described in paragraph 27A.

Supplementary information (paragraph 42H)

- B39 The disclosures required in paragraphs 42D–42G may not be sufficient to meet the disclosure objectives in paragraph 42B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

Appendix E
New Zealand-Specific Additional Disclosure
Requirements Applicable to Deposit Takers

Deleted for Tier 3 for-profit entities.