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Approval by the Board of IFRS 7 issued in August 2005

International Financial Reporting Standard 7 *Financial Instruments: Disclosures* was approved for issue by the fourteen members of the International Accounting Standards Board.

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Tatsumi Yamada	

Approval by the Board of *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7) issued in March 2009

Improving Disclosures about Financial Instruments (Amendments to IFRS 7) was approved for issue by the fourteen members of the International Accounting Standards Board.

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Approval by the Board of *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7) issued in October 2010

Disclosures—Transfers of Financial Assets (Amendments to IFRS 7) was approved for issue by the fourteen members of the International Accounting Standards Board.

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Approval by the Board of *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7) issued in December 2011

Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7) was approved for publication by fourteen of the fifteen members of the International Accounting Standards Board. Ms McConnell dissented from the issue of the amendments. Her dissenting opinion is set out after the Basis for Conclusions.

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John T Smith

Wei-Guo Zhang

Approval by the Board of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) issued in December 2011

Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) was approved for issue by the fifteen members of the International Accounting Standards Board.

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Paul Pacter

Darrel Scott

John T Smith

Wei-Guo Zhang

Approval by the Board of IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) issued in November 2013

IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) was approved for issue by fifteen of the sixteen members of the International Accounting Standards Board. Mr Finnegan dissented. His dissenting opinion is set out after the Basis for Conclusions.

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Mary Tokar	
Wei-Guo Zhang	

Approval by the Board of *Interest Rate Benchmark Reform* issued in September 2019

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7, was approved for issue by all 14 members of the International Accounting Standards Board (Board).

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Ann Tarca	
Mary Tokar	

Approval by the IASB of *Supplier Finance Arrangements* issued in May 2023

Supplier Finance Arrangements, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*, was approved for issue by 12 of 14 members of the International Accounting Standards Board (IASB). Mr Esterer and Ms Keren abstained from voting in view of their recent appointment to the IASB.

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IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES**

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Basis for Conclusions on IFRS 7 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, IFRS 7.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements (as revised in 2007).

The requirements of IAS 39 relating to classification and measurement of items within the scope of IAS 39 were relocated to IFRS 9 Financial Instruments, and IFRS 7 was amended accordingly. The text of this Basis for Conclusions has been amended for consistency with those changes.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in IFRS 7 *Financial Instruments: Disclosures*. Individual Board members gave greater weight to some factors than to others.
- BC2 During the late 1990s, the need for a comprehensive review of IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* became apparent. The Board's predecessor, the International Accounting Standards Committee (IASC), issued a number of Standards that addressed, more comprehensively, some of the topics previously addressed only for banks in IAS 30. Also, fundamental changes were taking place in the financial services industry and in the way in which financial institutions manage their activities and risk exposures. This made it increasingly difficult for users of banks' financial statements to assess and compare their financial position and performance, their associated risk exposures, and their processes for measuring and managing those risks.
- BC3 In 1999 IASC added a project to its agenda to revise IAS 30 and in 2000 it appointed a steering committee.
- BC4 In 2001 the Board added this project to its agenda. To assist and advise it, the Board retained the IAS 30 steering committee, renamed the Financial Activities Advisory Committee (FAAC), as an expert advisory group. FAAC members had experience and expertise in banks, finance companies and insurance companies and included auditors, financial analysts, preparers and regulators. The FAAC's role was:
- (a) to provide input from the perspective of preparers and auditors of financial statements of entities that have significant exposures to financial instruments; and
 - (b) to assist the Board in developing a standard and implementation guidance for risk disclosures arising from financial instruments and for other related disclosures.
- BC5 The Board published its proposals in July 2004 as ED 7 *Financial Instruments: Disclosures*. The deadline for comments was 27 October 2004. The Board received 105 comment letters. After reviewing the responses, the Board issued IFRS 7 in August 2005.
- BC5A In October 2008 the Board published an exposure draft *Improving Disclosures about Financial Instruments* (proposed amendments to IFRS 7). The aim of the proposed amendments was to enhance disclosures about fair value and liquidity risk. The Board received 89 comment letters. After reviewing the responses, the Board issued amendments to IFRS 7 in March 2009. The Board decided to require application of the amendments for periods beginning on or after 1 January 2009. The Board noted that, although the effective date of IFRSs and amendments to IFRSs is usually 6–18 months after issue, the urgent need for enhanced disclosures about financial instruments demanded earlier application.
- BC5B In January 2011 the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), published the exposure draft *Offsetting Financial Assets and Financial Liabilities*. This was in response to requests from users of financial statements and recommendations from the Financial Stability Board to achieve convergence of the boards' requirements for offsetting financial assets and financial liabilities. The different requirements result in a significant difference between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities. The proposals in the exposure draft would have replaced the requirements for offsetting financial assets and financial liabilities and would have established a common approach with the FASB. After considering the responses to the exposure draft, the boards decided to maintain their respective offsetting models. However, to meet the needs of users of financial statements, the boards agreed jointly on additional disclosures to enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. *Disclosures—Offsetting Financial Assets and Financial*

Liabilities (Amendments to IFRS 7) was issued in December 2011 and is effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.

Scope (paragraphs 3–5)

The entities to which the IFRS applies

- BC6 Although IFRS 7 arose from a project to revise IAS 30 (a Standard that applied only to banks and similar financial institutions), it applies to all entities that have financial instruments. The Board observed that the reduction in regulatory barriers in many countries and increasing competition between banks, non-bank financial services firms, and financial conglomerates have resulted in many entities providing financial services that were traditionally provided only by entities regulated and supervised as banks. The Board concluded that this development would make it inappropriate to limit this project to banks and similar financial institutions.
- BC7 The Board considered whether entities that undertake specified activities commonly undertaken by banks and other financial institutions, namely deposit-taking, lending and securities activities, face unique risks that would require a standard specific to them. However, the Board decided that the scope of this project should include disclosures about risks arising from financial instruments in all entities for the following reasons:
- (a) disclosures about risks associated with financial instruments are useful to users of the financial statements of all entities.
 - (b) the Board found it could not satisfactorily define deposit-taking, lending, and securities activities. In particular, it could not satisfactorily differentiate an entity with securities activities from an entity holding a portfolio of financial assets for investment and liquidity management purposes.
 - (c) responses to the Exposure Draft of Improvements to IAS 32 *Financial Instruments: Disclosure and Presentation*, published in June 2002, indicated that IAS 32's risk disclosure requirements, applicable to all entities, could be improved.
 - (d) the exclusion of some financial instruments would increase the danger that risk disclosures could be incomplete and possibly misleading. For example, a debt instrument issued by an entity could significantly affect its exposures to liquidity risk, interest rate risk and currency risk even if that instrument is not held as part of deposit-taking, lending and securities activities.
 - (e) users of financial statements need to be able to compare similar activities, transactions and events of different entities on a consistent basis. Hence, the disclosure principles that apply to regulated entities should not differ from those that apply to non-regulated, but otherwise similar, entities.
- BC8 The Board decided that the scope of the IFRS should be the same as that of IAS 32 with one exception. The Board concluded that the IFRS should not apply to derivatives based on interests in subsidiaries, associates or joint ventures if the derivatives meet the definition of an equity instrument in IAS 32. This is because equity instruments are not remeasured and hence:
- (a) they do not expose the issuer to balance sheet and income statement risk; and
 - (b) the disclosures about the significance of financial instruments for financial position and performance are not relevant to equity instruments.

Although these instruments are excluded from the scope of IFRS 7, they are within the scope of IAS 32 for the purpose of determining whether they meet the definition of equity instruments.

Exemptions considered by the Board

Insurers

- BC9 The Board considered whether the IFRS should apply to entities that both have financial instruments and issue insurance contracts. The Board did not exempt these entities because financial instruments expose all entities to risks regardless of what other assets and liabilities they have. Accordingly, an entity that both issues insurance contracts and has financial instruments applies IFRS 4 *Insurance Contracts*¹ to its insurance contracts and IFRS 7 to its financial assets and financial liabilities. However, many of the disclosure requirements in IFRS 4 were applications of, or relatively straightforward analogies with, existing requirements in IAS 32. Therefore, the Board also updated

¹ IFRS 17 *Insurance Contracts*, issued in May 2017, replaced IFRS 4.

the disclosures required by IFRS 4 to make them consistent with IFRS 7, with modifications that reflect the interim nature of IFRS 4.

Small and medium-sized entities

- BC10 The Board considered whether it should exempt small and medium-sized entities from the scope of the IFRS. The Board noted that the extent of disclosures required by the IFRS will depend on the extent to which the entity uses financial instruments and the extent to which it has assumed associated risks. The IFRS requires entities with few financial instruments and few risks to give few disclosures. Also, many of the requirements in the IFRS are based on information provided internally to the entity's key management personnel. This helps to avoid unduly onerous requirements that would not be appropriate for smaller entities. Accordingly, the Board decided not to exempt such entities from the scope of IFRS 7. However, it will keep this decision under review in its project on financial reporting for small and medium-sized entities.

Subsidiaries

- BC11 Some respondents to ED 7 stated that there is little public interest in the financial statements of some entities, such as a wholly-owned subsidiary whose parent issues publicly available financial statements. These respondents stated that such subsidiaries should be exempt from some of the requirements of IFRS 7 in their individual financial statements. However, deciding whether such an entity should prepare general purpose financial statements is a matter for the entity and local legislators and regulators. If such an entity prepares financial statements in accordance with IFRSs, users of those statements should receive information of the same quality as users of any general purpose financial statements prepared in accordance with IFRSs. The Board confirmed its view that no exemptions from the general requirements of any Standard should be given for the financial statements of subsidiaries.

Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)²

- BC12 The Board relocated disclosures from IAS 32 to IFRS 7, so that all disclosure requirements for financial instruments are in one Standard. Many of the disclosure requirements about the significance of financial instruments for an entity's financial position and performance were previously in IAS 32. For these disclosures, the relevant paragraphs from the Basis for Conclusions on IAS 32 have been incorporated into this Basis for Conclusions. This Basis for Conclusions does not discuss requirements that the Board did not reconsider either in revising IAS 32 in 2003 or in developing IFRS 7.

The principle (paragraph 7)

- BC13 The Board decided that the disclosure requirements of IFRS 7 should result from the explicit disclosure principle in paragraph 7. The Board also decided to specify disclosures to satisfy this principle. In the Board's view, entities could not satisfy the principle in paragraph 7 unless they disclose the information required by paragraphs 8–30.

Balance sheet disclosures (paragraphs 8–19 and B4)³

Categories of financial assets and financial liabilities (paragraph 8)

- BC14 Paragraph 8 requires entities to disclose financial assets and financial liabilities by the measurement categories in IFRS 9 *Financial Instruments*. The Board concluded that disclosures for each measurement category would assist users in understanding the extent to which accounting policies affect the amounts at which financial assets and financial liabilities are recognised.
- BC15 The Board also concluded that separate disclosure of the carrying amounts of financial assets and financial liabilities that are designated upon initial recognition as financial assets and financial liabilities at fair value through profit or loss and those mandatorily measured at fair value is useful because such designation is at the discretion of the entity.

² IFRS 9 *Financial Instruments* deleted paragraph B4 of IFRS 7.

³ IFRS 9 *Financial Instruments* deleted paragraph B4 of IFRS 7.

Financial assets or financial liabilities at fair value through profit or loss (paragraphs 9–11, B4 and B5)⁴

- BC16 IFRS 9 permits entities to designate a non-derivative financial liability as at fair value through profit or loss, if specified conditions are met. If entities do so, they are required to provide the disclosures in paragraphs 10 and 11. The Board's reasons for these disclosures are set out in the Basis for Conclusions on IFRS 9, paragraphs BCZ5.29–BCZ5.34.
- BC17 The requirements in paragraphs 9, 11 and B5(a) are related to the Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option*, issued in June 2005.⁵ The reasons for those requirements are discussed in the Basis for Conclusions on those Amendments.
- BC18 Paragraph 10(a) requires disclosure of the change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the liability's credit risk. The Board previously considered this disclosure in its deliberations on the fair value measurement of financial liabilities in IAS 39.
- BC19 Although quantifying such changes might be difficult in practice, the Board concluded that disclosure of such information would be useful to users of financial statements and would help alleviate concerns that users may misinterpret the profit or loss effects of changes in credit risk, especially in the absence of disclosures. Therefore, in finalising the revisions to IAS 32 in 2003, it decided to require disclosure of the change in fair value of the financial liability that is not attributable to changes in a benchmark interest rate. The Board believed that this is often a reasonable proxy for the change in fair value that is attributable to changes in the liability's credit risk, in particular when such changes are large, and would provide users with information with which to understand the profit or loss effect of such a change in credit risk.
- BC20 However, some respondents to ED 7 stated that they did not agree that the IAS 32 disclosure provided a reasonable proxy, except for straightforward debt instruments. In particular, there could be other factors involved in the change in an instrument's fair value unrelated to the benchmark interest rate, such as the effect of an embedded derivative. Respondents also cited difficulties for unit-linked insurance contracts, for which the amount of the liability reflects the performance of a defined pool of assets. The Board noted that the proxy that was developed in IAS 32 assumed that it is not practicable for entities to determine directly the change in fair value arising from changes in credit risk. However, the Board acknowledged and shared these concerns.
- BC21 As a result, the Board amended this requirement to focus directly on the objective of providing information about the effects of changes in credit risk:
- (a) by permitting entities to provide a more faithful representation of the amount of change in fair value that is attributable to changes in credit risk if they could do so. However, such entities are also required to disclose the methods used and provide their justification for concluding that those methods give a more faithful representation than the proxy in paragraph 10(a)(i).
 - (b) by amending the proxy disclosure to be the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk. For example, some entities may be able to identify part of the change in the fair value of the liability as attributable to a change in an index. In these cases, the proxy disclosure would exclude the amount of change attributable to a change in an index. Similarly, excluding the amount attributable to a change in an internal or external investment fund makes the proxy more suitable for unit-linked insurance contracts.
- BC22 The Board decided that when an entity has designated a financial liability as at fair value through profit or loss, it should disclose the difference between the carrying amount and the amount the entity would contractually be required to pay at maturity to the holders of the liability (see paragraph 10(b)). The fair value may differ significantly from the settlement amount, in particular for financial liabilities with a long duration when an entity has experienced a significant deterioration in creditworthiness since their issue. The Board concluded that knowledge of this difference would be useful to users of financial statements. Also, the settlement amount is important to some financial statement users, particularly creditors.

Reclassification (paragraphs 12B–12D)

- BC23 IAS 32 required disclosure of the reason for reclassification of financial assets at cost or amortised cost rather than at fair value. The Board extended this requirement to include disclosure of the reason for reclassifications and of the amount reclassified into and out of each category. As noted in paragraph BC14, the Board regards such information as useful because the categorisation of financial instruments has a significant effect on their measurement.

⁴ IFRS 9 *Financial Instruments* deleted paragraph B4 of IFRS 7.

⁵ IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IFRS 7 was issued.

- BC23A In October and November 2008 the Board amended IAS 39⁶ to permit reclassification of particular financial assets in some circumstances. The Board decided to require additional disclosures about the situations in which any such reclassification is made, and the effects on the financial statements. The Board regards such information as useful because the reclassification of a financial asset can have a significant effect on the financial statements.
- BC23B The Board issued the requirements relating to the reclassification of financial assets in IFRS 9 *Financial Instruments* and revised accordingly the disclosure requirements relating to the reclassification of financial assets.
- BC24 [Deleted]

Offsetting financial assets and financial liabilities

Background

- BC24A Following requests from users of financial statements and recommendations from the Financial Stability Board, in June 2010 the IASB and the FASB added a project to their respective agendas to improve and potentially achieve convergence of the requirements for offsetting financial assets and financial liabilities. The different requirements result in a significant difference between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities.
- BC24B Consequently, in January 2011 the IASB and the FASB published the exposure draft *Offsetting Financial Assets and Financial Liabilities*. The exposure draft proposed common offsetting requirements for IFRSs and US GAAP and proposed disclosures about financial assets and financial liabilities that are subject to rights of set-off and related arrangements.
- BC24C Most respondents to the exposure draft supported the boards' efforts towards achieving convergence, but their responses to the proposals varied. Many IFRS preparers agreed with the proposals, stating that the underlying principle and proposed criteria were similar to those in IAS 32 and reflect an entity's credit and liquidity exposure to such instruments. Some US GAAP preparers indicated that offsetting in the statement of financial position in accordance with the proposed criteria provided more relevant information than the current model, except for derivatives and repurchase or reverse repurchase agreements.
- BC24D There was no consensus among users of financial statements regarding if, or when, to present gross or net information in the statement of financial position. However, there was consensus that both gross and net information are useful and necessary for analysing financial statements. Users of financial statements supported achieving convergence of the IFRS and US GAAP requirements, and also supported improving disclosures so that financial statements prepared in accordance with IFRSs and US GAAP would be more comparable. Comparable information is important to investors for calculating their ratios and performing their analyses.
- BC24E As a result of the feedback received on the exposure draft, the IASB and the FASB decided to maintain their respective offsetting models. However, the boards noted that requiring common disclosures of gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position, would be helpful for users of financial statements. Accordingly, the boards agreed on common disclosure requirements by amending and finalising the disclosures initially proposed in the exposure draft.

Scope (paragraph 13A)

- BC24F The disclosures in the exposure draft would have applied to all recognised financial assets and recognised financial liabilities subject to a right of set-off, and/or for which an entity had either received or pledged cash or other financial instruments as collateral.
- BC24G Respondents to the exposure draft noted that paragraphs 14, 15 and 36(b) of IFRS 7 already require disclosures of financial instrument collateral received and pledged and other credit enhancements. US GAAP has similar disclosure requirements. Consequently, if an entity has no financial assets or financial liabilities subject to a right of set-off (other than collateral agreements or credit enhancements), the boards concluded that there would be no incremental value in providing additional disclosure information for such instruments.

⁶ IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IFRS 7 was issued.

- BC24H For example, some respondents were concerned that providing disclosure of conditional rights to set off loans and customer deposits at the same financial institution would be a significant operational burden. Such rights are often a result of statute, and entities do not typically manage their credit risk related to such amounts based on these rights of set-off. In addition, entities that have contractual rights to set off customer deposits with loans only in situations such as events of default see these rights as a credit enhancement and not as the primary source of credit mitigation. Respondents argued that the cost of including these amounts in the amended disclosures would outweigh the benefit because users of financial statements did not request information related to these instruments when discussing the offsetting disclosure requirements.
- BC24I The boards agreed and decided to limit the scope of the disclosures to all financial instruments that meet the boards' respective offsetting models and recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement or a similar agreement. The boards specifically excluded loans and customer deposits with the same financial institution from the scope of these requirements (except in the limited cases when the respective offsetting model is satisfied). This reduced scope still responds to the needs of users of financial statements for information about amounts that have been set off in accordance with IFRSs and amounts that have been set off in accordance with US GAAP. The types of instruments that fall within the scope of these disclosures include the instruments that cause significant differences between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP.
- BC24J If there is an associated collateral agreement for such instruments, an entity would disclose amounts subject to such agreements in order to provide full information about its exposure in the normal course of business, as well as in the events of default and insolvency or bankruptcy.
- BC24K Other respondents requested that the scope of the proposed disclosures be further amended to exclude financial instruments for which the lender has the right to set off the related non-financial collateral in the event of default. Although non-financial collateral agreements may exist for some financial instruments, those preparers do not necessarily manage the credit risk related to such financial instruments on the basis of the non-financial collateral held.
- BC24L The disclosures focus on the effects of recognised financial instruments and financial instrument set-off agreements on an entity's financial position. The boards also noted that a comprehensive reconsideration of credit risk disclosures was not within the scope of this project. They therefore restricted the scope of the disclosures to exclude financial instruments with rights of set-off only for non-financial collateral.
- BC24M A few respondents were concerned that the proposals seem to be designed for financial institutions and would impose requirements on non-financial institutions. They questioned the benefit that such disclosures would provide to investors in non-financial entities.
- BC24N Although the boards acknowledged that financial institutions would be among those most affected, they did not agree that the disclosures are only relevant for financial institutions. Other industries have similar financial instrument activities and use enforceable master netting arrangements and similar agreements to mitigate exposure to credit risks. Consequently, the boards concluded that the required disclosures provide useful information about an entity's arrangements, irrespective of the nature of the entity's business.

Disclosure of quantitative information for recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C)

- BC24O The boards understood that recognised financial instruments included in the disclosure requirements in paragraph 13C of IFRS 7 may be subject to different measurement requirements. For example, a payable related to a repurchase agreement may be measured at amortised cost, while a derivative asset or derivative liability subject to the same disclosure requirements (for example, in paragraph 13C(a) of IFRS 7) will be measured at fair value. In addition, the fair value amount of any financial instrument collateral received or pledged and subject to paragraph 13C(d)(ii) of IFRS 7 should be included in the disclosures to provide users of financial statements with the best information about an entity's exposure. Consequently, a financial asset or financial liability disclosure table may include financial instruments measured at different amounts. To provide users of financial statements with the information they need to evaluate the amounts disclosed in accordance with paragraph 13C of IFRS 7, the boards decided that an entity should describe any resulting measurement differences in the related disclosures.

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

- BC24P When providing feedback on the proposals in the exposure draft, users of financial statements emphasised that information in the notes should be clearly reconciled back to the amounts in the statement of financial position. The boards therefore decided that if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information when disclosing amounts in accordance with paragraph 13C of IFRS 7, the entity must still reconcile the amounts disclosed in paragraph 13C(c) of IFRS 7 back to the individual line item amounts in the statement of financial position.

Disclosure of the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b) (paragraph 13C(d))

- BC24Q Paragraph 13C(d)(i) of IFRS 7 requires disclosure of amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32. This may include current rights of set-off that do not meet the criterion in paragraph 42(b) of IAS 32, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties. Although such rights do not qualify for set-off in accordance with IAS 32, users of financial statements are interested in arrangements that an entity has entered into that mitigate the entity's exposure to such financial instruments in the normal course of business and/or in the events of default and insolvency or bankruptcy.
- BC24R Paragraph 13C(d)(ii) of IFRS 7 requires disclosure of amounts of cash and financial instrument collateral (whether recognised or unrecognised) that do not meet the criteria for offsetting in the statement of financial position but that relate to financial instruments within the scope of these disclosure requirements. Depending on the terms of the collateral arrangement, collateral will often reduce an entity's exposure in the events of default and insolvency or bankruptcy of a counterparty to the contract. Collateral received or pledged against financial assets and financial liabilities may often be liquidated immediately upon an event of default. Consequently, the boards concluded that the amounts of collateral that are not set off in the statement of financial position but that are associated with other netting arrangements should be included in the amounts disclosed as required by paragraph 13C(d)(ii) of IFRS 7.

Limits on the amounts disclosed in paragraph 13C(d) (paragraph 13D)

- BC24S The boards concluded that an aggregate disclosure of the amount of cash collateral and/or the fair value of collateral in the form of other financial instruments would be misleading when some financial assets and financial liabilities are over-collateralised and others have insufficient collateral. To prevent an entity from inappropriately obscuring under-collateralised financial instruments with others that are over-collateralised, paragraph 13D of IFRS 7 restricts the amounts of cash and/or financial instrument collateral to be disclosed in respect of a recognised financial instrument to more accurately reflect an entity's exposure. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 13D of IFRS 7. At no point in time should under-collateralisation be obscured.

Disclosure by type of financial instrument or by counterparty

- BC24T The exposure draft proposed disclosures by class of financial instrument. An entity would have been required to group financial assets and financial liabilities separately into classes that were appropriate to the nature of the information disclosed, taking into account the characteristics of those financial instruments and the applicable rights of set-off. Many preparers were concerned that the cost of disclosing amounts related to rights of set-off in the events of default and insolvency or bankruptcy by class of financial instrument would outweigh the benefit. They also indicated that they often manage credit exposure by counterparty and not necessarily by class of financial instrument.
- BC24U Many users of financial statements indicated that disclosure of recognised amounts subject to enforceable master netting arrangements and similar agreements (including financial collateral) that were not set off in the statement of financial position would be useful irrespective of whether the amounts are disclosed by counterparty or by type or by class of financial instrument, as long as they can reconcile these amounts back to the statement of financial position. In evaluating whether the disclosures should be provided by type or by class of financial instrument or by counterparty, the boards noted that the objective of these disclosures (paragraph 13B of IFRS 7) is that an entity should disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

- BC24V The boards decided to reduce the burden on preparers by requiring disclosure by type of financial instrument rather than by class. Disclosure by type of financial instrument may (or may not) differ from the class of financial instrument used for other disclosures in IFRS 7, but is appropriate in circumstances where a difference would better achieve the objective of the disclosures required by these amendments. The boards also decided to provide flexibility as to whether the information required by paragraph 13C(c)–(e) of IFRS 7 is presented by type of financial instrument or by counterparty. This would allow preparers to present the disclosures in the same way that they manage their credit exposure.
- BC24W The Board also noted that paragraph 31 of IFRS 7 requires an entity to 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. In addition, paragraph 34 of IFRS 7 requires the disclosure of concentrations of risk for each type of risk. Consequently, the Board noted that, irrespective of whether the disclosures were required to be provided by type or by class of financial instrument or by counterparty, entities are already required to disclose information about risks and how they are managed, including information about concentrations of credit risk.

Other considerations

Reconciliation between IFRSs and US GAAP

- BC24X Some users of financial statements asked for information to help them reconcile between the amounts set off in accordance with IFRSs and the amounts set off in accordance with US GAAP. The boards recognised that the amounts disclosed in accordance with paragraph 13C(b), (c) and (d) of IFRS 7 will probably be different for financial statements prepared in accordance with IFRSs and those prepared in accordance with US GAAP. However, the amounts disclosed in accordance with paragraph 13C(a) and (e) of IFRS 7 are generally not affected by the offsetting criteria applied in the statement of financial position. These amounts are important for users of financial statements to understand the effects of netting arrangements on an entity's financial position in the normal course of business and in the events of default and insolvency or bankruptcy.
- BC24Y Consequently, while the amended disclosure requirements do not directly reconcile the IFRS and US GAAP amounts, they provide both gross and net information on a comparable basis. The boards considered that requiring a full reconciliation between IFRSs and US GAAP was unnecessary, particularly given the relative costs and benefits. Such reconciliation would have required preparers to apply two sets of accounting requirements and to track any changes to the related accounting standards and to contracts in the related jurisdictions.

Tabular information

- BC24Z The disclosures require amounts to be presented in a tabular format (ie a table) unless another format is more appropriate. The boards believe that a tabular format best conveys an overall understanding of the effect of any rights of set-off and other related arrangements on an entity's financial position and improves the transparency of such information.

Transition and effective date

- BC24AA The boards identified two transition approaches in the exposure draft—prospective and retrospective.
- BC24AB Prospective transition is generally appropriate only in situations where it is not practicable to apply a standard to all prior periods. The boards did not believe that this was the case with the proposed disclosure requirements. Retrospective transition would require an entity to apply the new requirements to all periods presented. This would maximise consistency of financial information between periods. Retrospective transition would enable analysis and understanding of comparative accounting information among entities. In addition, the scope of the disclosures was reduced and the disclosures amended to require less detailed information than originally proposed, which would make them less burdensome for preparers to apply retrospectively.
- BC24AC The exposure draft did not propose an effective date, but instead asked respondents for information about the time and effort that would be involved in implementing the proposed requirements. The boards indicated that they would use such feedback, as well as the responses in their *Request for Views on Effective Dates and Transition Methods*, and the timing of other planned accounting and reporting standards, to determine an appropriate effective date for the proposals in the exposure draft.
- BC24AD Some respondents suggested that the offsetting proposals should have the same effective date as the other components of the IASB's project to replace IAS 39 with IFRS 9 *Financial Instruments*. If an earlier date was required, it was suggested that application should be restricted only to the accounting period being presented, rather than providing comparative information, because of the potential burden of applying the proposed disclosure requirements.

- BC24AE At the time the amended disclosure requirements were issued (December 2011), IFRS 9 was not yet mandatorily effective. However, the Board did not believe that the IFRS 9 project would change the offsetting disclosures. Aligning the effective date of these amendments with the effective date of the financial instruments project could result in postponing the effective date of the common disclosure requirements, which would mean a delay in providing users of financial statements the information that they need. For users of financial statements to benefit from the increased comparability, and because the offsetting and IFRS 9 projects are independent of one another, the boards decided that common disclosures should be effective as early as possible.
- BC24AF In addition, the boards did not think that a long transition period was needed, because the amended disclosures had a reduced scope and less detailed information than originally proposed in the exposure draft and were related to the presentation of instruments that entities have already recognised and measured. The boards therefore decided that the effective date for the amended disclosures should be for annual periods beginning on or after 1 January 2013, and interim periods within those annual periods.
- BC24AG As described in greater detail in other sections of this Basis for Conclusions, the disclosures required by paragraphs 13B–13E of IFRS 7 are a result of requests from users of financial statements for information to enable them to compare statements of financial position prepared in accordance with IFRSs with statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities.
- BC24AH The information required in paragraphs 13B–13E of IFRS 7 will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position for financial statements presented in accordance with IFRSs and those presented in accordance with US GAAP.
- BC24AI The Board noted that paragraph 10(f) of IAS 1 *Presentation of Financial Statements* requires an entity to provide a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. In the case of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), because the change relates only to disclosures and there is no associated change in accounting policy, or a resulting restatement or reclassification, it was noted that paragraph 10(f) of IAS 1 does not apply for these amendments to IFRS 7.

Cost-benefit considerations

- BC24AJ Before issuing an IFRS or an amendment to an IFRS, the Board seeks to ensure that it will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. As described in greater detail in other sections of this Basis for Conclusions on *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), the Board considered that there is significant benefit to market participants in providing these disclosures. The disclosures address a significant difference between the amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities. The disclosures therefore make the amounts presented in accordance with both sets of standards more comparable.
- BC24AK During redeliberations, the Board considered feedback related to the costs of providing the disclosures proposed in the exposure draft. As described in greater detail in other sections of this Basis for Conclusions, the Board decided to limit the scope of the disclosures because these changes would reduce the cost to preparers while still providing the information that users of financial statements had requested.
- BC24AL On the basis of the considerations described in the Basis for Conclusions on these amendments, and summarised in paragraphs BC24AJ and BC24AK, the Board concluded that the benefits of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) outweigh the costs to preparers of applying these amendments.

Collateral (paragraphs 14 and 15)

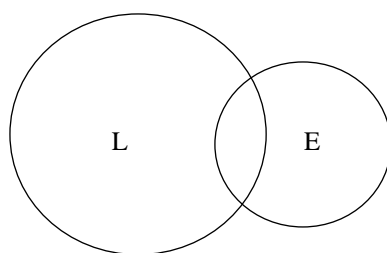
- BC25 Paragraph 15 requires disclosures about collateral that the entity holds if it is permitted to sell or repledge the collateral in the absence of default by the owner. Some respondents to ED 7 argued for an exemption from this disclosure if it is impracticable to obtain the fair value of the collateral held. However, the Board concluded that it is reasonable to expect an entity to know the fair value of collateral that it holds and can sell even if there is no default.

Allowance account for credit losses (paragraph 16)⁷

- BC26 When a separate account is used to record impairment losses (such as an allowance account or similar account used to record a collective impairment of assets), paragraph 16 requires a reconciliation of that account to be disclosed. The Board was informed that analysts and other users find this information useful in assessing the adequacy of the allowance for impairment losses for such entities and when comparing one entity with another. However, the Board decided not to specify the components of the reconciliation. This allows entities flexibility in determining the most appropriate format for their needs.
- BC27 Respondents to ED 7 asked the Board to require entities to provide equivalent information if they do not use an allowance account. The Board decided not to add this disclosure in finalising the IFRS. It concluded that, for virtually all entities, IAS 39's requirement to consider impairment on a group basis would necessitate the use of an allowance or similar account. The accounting policy disclosures required by paragraph B5(d) also include information about the use of direct adjustments to carrying amounts of financial assets.

Compound financial instruments with multiple embedded derivatives (paragraph 17)

- BC28 IAS 32 requires the separation of the liability and equity components of a compound financial instrument. The Board notes that this is more complicated for compound financial instruments with multiple embedded derivative features whose values are interdependent (for example, a convertible debt instrument that gives the issuer a right to call the instrument back from the holder, or the holder a right to put the instrument back to the issuer) than for those without such features. If the embedded equity and non-equity derivative features are interdependent, the sum of the separately determined values of the liability and equity components will not equal the value of the compound financial instrument as a whole.
- BC29 For example, the values of an embedded call option feature and an equity conversion option feature in a callable convertible debt instrument depend in part on each other if the holder's equity conversion option is extinguished when the entity exercises the call option or vice versa. The following diagram illustrates the joint value arising from the interaction between a call option and an equity conversion option in a callable convertible bond. Circle L represents the value of the liability component, ie the value of the straight debt and the embedded call option on the straight debt, and Circle E represents the value of the equity component, ie the equity conversion option on the straight debt. The total area of the two circles represents the value of the callable convertible bond. The difference between the value of the callable convertible bond as a whole and the sum of the separately determined values for the liability and equity components is the joint value attributable to the interdependence between the call option feature and the equity conversion feature. It is represented by the intersection between the two circles.



- BC30 Under the approach in IAS 32, the joint value attributable to the interdependence between multiple embedded derivative features is included in the liability component. A numerical example is set out as Illustrative Example 10 accompanying IAS 32.
- BC31 Even though this approach is consistent with the definition of equity as a residual interest, the Board recognises that the allocation of the joint value to either the liability component or the equity component is arbitrary because it is, by its nature, joint. Therefore, the Board concluded that it is important to disclose the existence of issued compound financial instruments with multiple embedded derivative features that have interdependent values. Such disclosure highlights the effect of multiple embedded derivative features on the amounts recognised as liabilities and equity.

⁷ IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IFRS 7 was issued.

Defaults and breaches (paragraphs 18 and 19)

- BC32 Paragraphs 18 and 19 require disclosures about defaults and breaches of loans payable and other loan agreements. The Board concluded that such disclosures provide relevant information about the entity's creditworthiness and its prospects of obtaining future loans.

Income statement and equity (paragraph 20)

Items of income, expenses, gains or losses (paragraph 20(a))

- BC33 Paragraph 20(a) requires disclosure of income statement gains and losses by the measurement classifications in IFRS 9 (which complement the balance sheet disclosure requirement described in paragraph BC14). The Board concluded that the disclosure is needed for users to understand the financial performance of an entity's financial instruments, given the different measurement bases in IFRS 9.
- BC34 Some entities include interest and dividend income in gains and losses on financial assets and financial liabilities measured at fair value through profit or loss and others do not. To assist users in comparing income arising from financial instruments across different entities, the Board decided that an entity should disclose how the income statement amounts are determined. For example, an entity should disclose whether net gains and losses on financial assets or financial liabilities measured at fair value through profit or loss include interest and dividend income (see Appendix B, paragraph B5(e)).

Fee income and expense (paragraph 20(c))

- BC35 Paragraph 20(c) requires disclosure of fee income and expense (other than amounts included in determining the effective interest rate) arising from financial assets or financial liabilities and from trust and other fiduciary activities that result in the entity holding or placing assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. This information indicates the level of such activities and helps users to estimate possible future income of the entity.

Other Disclosures—Accounting Policies

Amendments to IAS 1 (see paragraphs BC76H–BC76AB of IAS 1)

- BC35ZA In February 2021 the Board amended IAS 1 to require an entity to disclose its material accounting policy information rather than its significant accounting policies.
- BC35ZB As part of the amendments to IAS 1, the Board deleted from paragraph 117 of that Standard the description of what an accounting policy comprises, including the reference to 'measurement basis (or bases)'. The Board expects that, for financial instruments, information about the measurement basis (or bases) used for the recognition and measurement of financial instruments is likely to be material to an entity's financial statements. Consequently, the Board decided to retain the reference in paragraph 21 to 'measurement basis (or bases)' in describing what accounting policy information relating to financial instruments could be assessed as material to an entity's financial statements.

Other Disclosures—Hedge Accounting

- BC35A The Board divided its project to replace IAS 39 into three phases. As the Board completed each phase, it deleted the relevant portions in IAS 39 and replaced it with chapters in IFRS 9. The third phase of the project to replace IAS 39 related to hedge accounting. As a consequence of the decisions the Board made when it replaced the hedge accounting guidance in IAS 39, the Board also considered changes to the disclosure requirements related to hedge accounting contained in IFRS 7.
- BC35B During its deliberations, the Board engaged in outreach activities with users of financial statements. This outreach included soliciting views on presentation and disclosures. The Board used the responses received from those outreach activities to develop the proposed hedge accounting disclosures.
- BC35C The Board was told that many users did not find the hedge accounting disclosures in financial statements helpful. Many also think that the hedge accounting disclosures that were originally in IFRS 7 did not provide transparency on an entity's hedging activities.
- BC35D To provide relevant information that enhances the transparency on an entity's hedging activities, the Board proposes hedge accounting disclosures that meet particular objectives. Clear disclosure objectives allow an

entity to apply its judgement when it provides information that is useful and relevant to users of financial statements.

- BC35E The following sub-sections set out the Board's considerations regarding the proposed hedge accounting disclosures.

General considerations

Scope of the hedge accounting disclosures

- BC35F An entity might enter into a transaction to manage an exposure to a particular risk that might not qualify for hedge accounting (for various reasons), for example, an item that is not eligible to be designated as a hedged item or hedging instrument. Information on such transactions might enable users to understand why an entity has entered into a transaction and how it manages the particular risk, even though those transactions do not qualify for hedge accounting.
- BC35G However, the Board thought that mandating such disclosures would require it to determine the part of an entity's risk management that was relevant for the purpose of this disclosure and then define that part to make the disclosure requirement operational. The Board did not believe that this would be feasible as part of its hedge accounting project as it requires a much wider scope because the disclosures would not depend on the accounting treatment.
- BC35H Furthermore, users of financial statements can often obtain information on an entity's hedging activities from information in management reports and sources outside the financial reporting context. That often gives a reasonable overview of why hedge accounting might be difficult to achieve. Consequently, the Board decided not to propose in its 2010 Exposure Draft *Hedge Accounting* (the '2010 Hedge Accounting Exposure Draft') disclosures about hedging when hedge accounting does not apply.
- BC35I Most respondents to the 2010 Hedge Accounting Exposure Draft agreed with the Board's proposed scope for hedge accounting disclosures (ie to provide information about risk exposures that an entity hedges and for which hedge accounting is applied). However, some did raise concerns about the potential lack of information that will be available to users of financial statements about those risk exposures an entity hedges but for which hedge accounting is not applied.
- BC35J The Board noted that IFRS 7 requires entities to provide qualitative and quantitative disclosure about the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period and how those risks are being managed. The Board believes that, as part of these disclosures, entities would provide information for users of financial statements to understand how it manages risk exposures for which hedge accounting is not applied.
- BC35K Consequently, the Board decided to retain the scope of the hedge accounting disclosures as proposed in the 2010 Hedge Accounting Exposure Draft, that is, to provide information to users of financial statements on exposures that an entity hedges and for which hedge accounting is applied.

Location of disclosures

- BC35L The Board decided that all hedge accounting disclosures should be presented in one location within an entity's financial statements. However, if such information is already presented elsewhere the Board decided that, in order to avoid duplication, an entity should be allowed to incorporate that information by cross-reference, which is similar to the approach used by IFRS 7 for some disclosures that can be incorporated by reference. The Board thinks that the information will be more transparent and easier to understand if it is presented in one location within the entity's financial statements

Disclosures by risk category

- BC35M The Board noted that recognition and measurement requirements allow for only a partial reflection of the economic hedging activities in the financial statements, which results in a limitation of an entity's reporting of its hedging activities. Hence, the Board considered that the transparency of an entity's hedging activities could be enhanced by an approach that considers:
- (a) information that provides a clear picture of those risk management activities of an entity that are captured by hedge accounting (this information is not necessarily provided in the primary financial statements); and
 - (b) information that is included in the primary financial statements.

BC35N To provide information that is useful to users of financial statements, there should be a clear link between the hedge accounting information that is outside the primary financial statements and the hedge accounting within those. To provide such a link, the Board decided that an entity should provide hedge accounting disclosures by risk category. Consequently, an entity should disclose by risk category:

- (a) information that is not included in the primary financial statements (see paragraphs BC35P–BC35BB); and
- (b) information that is included in the primary financial statements (see paragraphs BC35CC–BC35SS).

BC35O The Board decided not to prescribe the risk categories by which the disclosures need to be disaggregated. In the Board's view an entity should apply judgement and categorise risks on the basis of how it manages its risks through hedging. For example, an entity manages its floating interest rate risk using interest rate swaps (to change it to a fixed interest rate) for some hedging relationships (cash flow hedges), while it also uses cross-currency interest rate swaps to manage both the floating interest rate and foreign exchange risk of other hedging relationships (cash flow hedges). Consequently, the entity would have one risk category for floating interest rate risk and another risk category for foreign exchange risk combined with floating interest rate risk. However, an entity should apply its risk categories consistently throughout all the proposed hedge accounting disclosures.

The risk management strategy

BC35P Users of financial statements need to understand how an entity's risk management strategy is applied. Understanding an entity's risk management strategy for each risk helps users to understand the accounting information disclosed.

BC35Q Consequently, in its 2010 Hedge Accounting Exposure Draft, the Board proposed that an entity should provide an explanation of its risk management strategy for each category of risk.

BC35R Most respondents to the 2010 Hedge Accounting Exposure Draft agreed with this proposal. However, some raised concerns that the 2010 Hedge Accounting Exposure Draft was not clear enough on how much detail should be provided by entities to comply with the disclosure requirement.

BC35S The Board noted that an entity will identify and ultimately describe their risk management strategies based on how it manages risk. Because entities manage risk in different ways, the Board did not think that users of financial statements would necessarily understand an entity's risk management strategy if it required a specific list of information to be disclosed. Instead, the Board decided to add additional guidance on the type of information that should be included in a risk management description.

The amount, timing and uncertainty of future cash flows

BC35T The Board decided that, in order to meet the objectives of hedge accounting disclosures, an entity would have to provide sufficient quantitative information to help users of financial statements understand how its risk management strategy for each particular risk affects the amount, timing and uncertainty of future cash flows. In this context, risk exposure refers only to risks that the entity has decided to hedge and for which hedge accounting is applied.

BC35U Consequently, in its 2010 Hedge Accounting Exposure Draft, the Board proposed that an entity should provide:

- (a) quantitative information on the risk exposure that the entity manages and the extent to which the entity hedges that exposure; and
- (b) a breakdown of that information for each future period that a hedging relationship (which exists at the reporting date) covers.

BC35V The Board also proposed that an entity should disclose information about the sources of hedge ineffectiveness of hedging relationships for each particular risk category. In the Board's view this would assist users in identifying the reasons for hedge ineffectiveness that is recognised in profit or loss. It would also help users to determine how hedging relationships will affect profit or loss.

BC35W Most respondents disagreed with the Board's proposal to require entities to disclose information on the risk exposure and the hedged rate. They commented that this would result in the disclosure of commercially sensitive information (ie the risk exposure and the hedged rate). They believed that those who do not elect to apply hedge accounting would potentially have an unfair advantage because although they do not have to disclose anything, they could nonetheless gain insight into their competitor's hedge positions. Commercial sensitivity was also of concern to those entities whose competitors are not listed companies or who do not report under IFRSs.

- BC35X The Board noted that the proposal in the 2010 Hedge Accounting Exposure Draft focused on the hedged risk (ie the hedged item). Consequently, it would result in disclosures about forward looking information and the rates at which future transactions are hedged. The Board acknowledged that this would potentially provide competitors with insight into an entity's costing structure. Consequently, the Board decided not to require information to be disclosed about the total risk exposure because of the potential forward looking nature of this information. The Board also decided to change the focus of the proposed disclosure from the hedged item to the hedging instrument. In other words, the disclosure would require information on some of the terms and conditions of the hedging instrument to be provided. The Board believes that this information will still be relevant and useful for users of financial statements in inferring the exposure that an entity is exposed to and what the effects will be on future cash flows as a result of how the entity manages the particular risk.
- BC35Y The Board also discussed situations in which an entity uses a 'dynamic' hedging process, ie a situation in which entities assess their overall exposure to a particular risk and then designate hedging relationships for constantly evolving exposures that require frequent discontinuations and restarts of hedging relationships. This is particularly the case for hedges of open portfolios. The Board noted that, because the general hedge accounting model allows hedge accounting for hedges of groups and net positions in relation to closed portfolios, entities need to use a 'dynamic' hedging process for an open portfolio. This means that entities designate hedging relationships for an open portfolio as if it were a closed portfolio for a short period and at the end of that period look at the open portfolio as the next closed portfolio for another short period. The dynamic nature of this process involves frequent discontinuations and restarts of hedging relationships.
- BC35Z The Board considered that, in those circumstances, providing information about the terms and conditions of the hedging instruments would not be useful given that the hedging instruments are part of a particular hedging relationship for only a short period at a time and are then designated into a new hedging relationship or left undesignated. In contrast, the disclosure requirement related to the terms and conditions of the hedging instrument was designed to provide information for situations in which an entity hedges a risk that remains broadly the same over the entire hedged period. Consequently, the Board decided to exempt entities from the requirement to disclose the terms and conditions of the hedging instruments in situations in which they use a 'dynamic' hedging process that involves frequent discontinuations and restarts of hedging relationships.
- BC35AA The Board was of the view that it was more important for users to understand why entities use hedge accounting in the context of 'dynamic' hedging processes than to provide users with information about the terms and conditions of a hedging instrument that is part of a hedging relationship for only a short period at a time (and the designation of which changes frequently). Consequently, the Board decided that, in such circumstances, an entity should expand its discussion of the risk management strategy by providing the following information about how the entity uses hedge accounting to reflect its risk management strategy:
- (a) information about what the ultimate risk management strategy is (for the dynamic hedging process);
 - (b) a description of how it reflects its risk management strategy by using hedge accounting and designating the particular hedging relationships; and
 - (c) an indication of how frequently the hedging relationships are discontinued and restarted as part of the dynamic hedging process.
- BC35BB The Board also noted that, because the designated hedging relationships change frequently, the specific relationships at the reporting date might not be representative of the normal volumes during the period. The Board therefore decided to require entities to disclose when the volumes at the reporting date are unrepresentative of normal volumes during the period (similar to the disclosure requirement on sensitivity analyses for market risk in paragraph 42).
- BC35CC One function of hedge accounting is to mitigate the recognition and measurement anomalies between the accounting for hedging instruments and the accounting for hedged items. Hedge accounting disclosures should therefore increase the transparency of how an entity has mitigated these recognition and measurement anomalies. Doing so will help users identify how hedge accounting has affected the entity's statement of profit or loss and other comprehensive income and statement of financial position.

The effects of hedge accounting on financial position and performance

- BC35DD To provide information on the effects of hedge accounting on the statement of profit or loss and other comprehensive income and the statement of financial position, the Board proposed disclosures that should be presented in a tabular format that separates the information by risk category and by type of hedge. Providing disclosures in a tabular format allows users to identify clearly the relevant numbers and their effects on the entity's statement of profit or loss and other comprehensive income and statement of financial position.
- BC35EE During the Board's initial outreach, users said that they do not analyse an entity's hedging activities by type of hedging relationship (for example, a cash flow hedge or a fair value hedge). They said that it is more important to understand the risks that the entity manages and the results after hedging. However, to provide

information effectively on the effects of hedge accounting on the statement of profit or loss and other comprehensive income and the statement of financial position, the information should reflect the accounting that was applied (for example, cash flow hedge accounting or fair value hedge accounting). The Board believed that if the proposed table is prepared by risk category and by type of hedge, the table would provide sufficient links between the accounting information and the risk management information.

- BC35FF The Board did not propose prescribing levels of aggregation or disaggregation for the information that should be disclosed in a tabular format. An entity should apply judgement when it determines the appropriate level of aggregation or disaggregation. However, the Board proposed that an entity should consider other disclosure requirements in IFRS 7 when it considers the appropriate level of aggregation or disaggregation. For example, users should be able to take amounts that are disclosed and measured at fair value and make comparisons between the fair value disclosures and the proposed hedge accounting disclosures.
- BC35GG Cash flow hedge accounting requires an entity to defer gains or losses on the hedging instrument in other comprehensive income. The deferred amounts are reflected in the statement of changes in equity in the cash flow hedge reserve. IAS 1 requires an entity to prepare a reconciliation for each component of equity between the carrying amount at the beginning and at the end of the period. In conformity with its objectives for hedge accounting disclosures, the Board proposed that the reconciliation required by IAS 1 should have the same level of detail as the information that identifies the effects of hedge accounting on the statement of profit or loss and other comprehensive income. The Board also proposed that the reconciliation should be by type of risk. The Board considered that such a disclosure would allow users of financial statements to evaluate the effects of hedge accounting on equity and the statement of profit or loss and other comprehensive income.
- BC35HH Many respondents to the 2010 Hedge Accounting Exposure Draft agreed with the Board's proposal to explain the effects of hedge accounting disclosures using a tabular disclosure format. However, some respondents raised concerns that the proposal seems too prescriptive. Some also commented that they did not think that the tabular disclosure, as proposed, provided a clear enough link between hedged items and hedging instruments for the purpose of explaining hedge ineffectiveness. A few respondents also commented that the disclosures did not allow them to differentiate between financial instruments that have been designated as hedging instruments and those that have not. These respondents believe that it is helpful to understand the purpose and effect of financial instruments if their designation is made clear through disclosures.
- BC35II The Board thinks that providing a tabular disclosure format separated by type of hedge (ie fair value hedges or cash flow hedge), risk category and by risk management strategy provides a sufficient link between the accounting information and the risk management information.
- BC35JJ The Board did not propose any more specific format other than requiring information to be disclosed in a tabular format. The Board thought that entities should have the freedom to present the disclosures that require a tabular format however they feel is best in order to provide users with the most useful information.
- BC35KK While the 2010 Hedge Accounting Exposure Draft was open for public comment, the Board issued IFRS 13 *Fair Value Measurement*. As a consequence of issuing that IFRS, the Board moved the fair value disclosures in IFRS 7 to IFRS 13. To improve the usefulness of the hedge accounting disclosures, the Board decided to require entities to use the same level of aggregation or disaggregation it used for other IFRS 7 or IFRS 13 disclosures related to the same underlying information.
- BC35LL In its redeliberations of the 2010 Hedge Accounting Exposure Draft, the Board also considered a disclosure that would allow understanding how the hedge ineffectiveness that is recognised in the statement of comprehensive income relates to the changes in the values of the hedging instruments and the hedged items. The Board decided to require disclosure of the change in fair value of the hedging instruments and the change in the value of the hedged items on the basis that is used to calculate the hedge ineffectiveness that is recognised in the statement of comprehensive income. Those are the changes in value during the period (after taking into account the effect of the 'lower of' test for cash flow hedges and hedges of a net investment in a foreign operation). This means that the difference between the amount included in the table for hedged items and the amount included in the table for hedging instruments equals the hedge ineffectiveness recognised in the statement of comprehensive income.
- BC35MM The Board also did not think that it was necessary to provide a specific disclosure that indicates which financial instruments have been designated as hedging instruments and which have not. The Board thought that such a disclosure would provide potentially misleading information to users of financial statements. This is because users of financial statements might think that all financial instruments not designated as hedging instruments might be held for speculative purposes. This is not necessarily the case. Entities might hold financial instruments for hedging purposes but may decide not to elect hedge accounting. In addition to this, the Board thought that, because entities need to provide the information that requires a tabular format based on the same level of aggregation or disaggregation as in IFRS 13, users of financial statements should be able to identify the financial instruments not designated as hedging instruments by simply comparing the disclosures with each other. In addition, users should be able to understand how an entity manages the risks it is exposed to as

a result of financial instruments using the disclosure requirements in IFRS 7 that are not related to the hedge accounting disclosures.

Time value of options accumulated through other comprehensive income

- BC35NN The Board proposed accounting requirements that involve other comprehensive income for the time value of an option when an entity elects to separate the time value of the option and designate (as the hedging instrument) only its intrinsic value. Consequently, the Board also considered disclosures regarding the amounts that would be recognised in other comprehensive income under these proposals.
- BC35OO The Board noted that IAS 1 requires an entity to prepare a reconciliation for each component of equity between the carrying amount at the beginning and at the end of the period. Consequently, as a result of IAS 1, an entity would disclose the amounts in relation to the time value of options that would be accumulated in other comprehensive income and the movements in that balance.
- BC35PP However, in its 2010 Hedge Accounting Exposure Draft, the Board proposed that an entity should differentiate between transaction related hedged items and time-period related hedged items when providing the reconciliation of the accumulated other comprehensive income. This disaggregation would provide additional information about what cumulative amount in other comprehensive income would become an expense item over time and what amount would be transferred when a particular transaction occurs.
- BC35QQ Most respondents agreed with the Board's proposal and consequently, the Board decided to retain the proposal from its 2010 Hedge Accounting Exposure Draft. However, as a consequence of the Board's decision to also allow an alternative accounting treatment for forward elements and foreign currency basis spreads, the Board also required that for the purpose of the IAS 1, amounts recognised in accumulated other comprehensive income that relate to forward elements and foreign currency basis spreads should be reconciled separately from amounts in relation to time value of options.

Hedging credit risk using credit derivatives

- BC35RR For situations in which entities hedge credit risk using credit derivatives the Board decided to mitigate accounting mismatches in relation to credit derivatives accounted for at fair value through profit or loss by also using fair value through profit or loss accounting for the hedged credit exposure. Consequently, the Board also considered disclosures to provide transparency when entities apply that accounting.
- BC35SS The Board considered that the following information would be useful for understanding the accounting in such situations:
- (a) a reconciliation of amounts at the beginning and end of the period for the nominal amount and for the fair value of the credit derivatives;
 - (b) the gain or loss recognised in profit or loss as a result of changing the accounting for a credit exposure to fair value through profit or loss; and
 - (c) when an entity discontinues fair value through profit or loss accounting for credit exposures, the fair value that becomes the new deemed cost or amortisable amount (for loan commitments) and the related nominal or principal amount.

Uncertainty arising from interest rate benchmark reform

- BC35TT In May 2019 the Board published the Exposure Draft *Interest Rate Benchmark Reform* (2019 Exposure Draft), which proposed exceptions to specific hedge accounting requirements in IFRS 9 and IAS 39 to provide relief in the period before the reform of interest rate benchmarks. The Board issued the final amendments to IFRS 9 and IAS 39 in September 2019. Paragraphs BC6.546–BC6.603 of the Basis for Conclusions on IFRS 9 and paragraphs BC223–BC288 of the Basis for Conclusions on IAS 39 provide the background to these amendments.
- BC35UU In the 2019 Exposure Draft, the Board proposed that entities applying the exceptions provide disclosure about the magnitude of the hedging relationships to which the exceptions apply. As explained in paragraph BC44 of the Basis for Conclusions on the 2019 Exposure Draft, the Board noted that IFRS 7 already requires specific disclosures about hedge accounting. The Board proposed that for some specifically identified disclosures, information be provided separately for hedging relationships to which the proposed exceptions apply. Specifically, the Board proposed that an entity provide separately the information required by paragraphs 24A(a), 24A(c)–(d), 24B(a) (i)–(ii), 24B(a)(iv) and 24B(b) of IFRS 7 for hedging relationships affected by interest rate benchmark reform.
- BC35VV Most respondents to the 2019 Exposure Draft agreed that information about the magnitude of the hedging relationships to which the proposed exceptions apply would be useful to users of financial statements.

However, respondents had mixed views on whether the proposed disclosure requirements struck the right balance between the expected benefits for users of financial statements and the expected cost for preparers. As a result, these respondents suggested simplifying the proposed disclosure requirements.

BC35WW In addition, users of financial statements told the Board that, since the proposed amendments to IFRS 9 and IAS 39 would be mandatory, information about the extent to which an entity's hedging relationships are within the scope of the exceptions would provide useful information. Such information could be provided by requiring entities to disclose the nominal amounts of hedging instruments in hedging relationships in the scope of the amendments, supplemented with an explanation about how the entity is managing the process to transition to alternative benchmark rates. These disclosures would help users of financial statements understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform.

BC35XX On the basis of respondents' comments and feedback from users of financial statements, the Board decided to require entities to provide the disclosures set out in paragraph 24H of IFRS 7 for hedging relationships directly affected by interest rate benchmark reform.

BC35YY Specific to the disclosure requirement in paragraph 24H(d) of IFRS 7, the Board acknowledged that given the objective and specificity of the amendments to IFRS 9 and IAS 39, there may be limited additional assumptions or judgements in the context of applying those exceptions. For example, the exceptions specify the assumptions to make about the interest rate benchmark-based cash flows. Nevertheless, the Board observed that if an entity makes significant assumptions or judgements in applying the exceptions in those amendments (for example, to determine when the uncertainty arising from interest rate benchmark reform is no longer present), that would be useful information for the users of financial statements. Accordingly, the Board decided to require entities to disclose information about any significant assumptions or judgements that the entity makes in applying the exceptions in the amendments.

BC35ZZ The Board noted that the requirement in paragraph 24H(e) of IFRS 7 is intended to provide users of financial statements with information about the quantum of hedging relationships which are directly affected by the uncertainties arising from the reform. That paragraph requires disclosure of the nominal amount of the hedging instruments in a hedging relationship directly affected by the uncertainties arising from the reform so that the information is disclosed on a gross basis rather than on a net basis (that is, offsetting hedging instruments in a liability position against those in an asset position).

BC35AAA Some respondents to the 2019 Exposure Draft raised concerns about the disclosure requirement in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This paragraph requires an entity, on the initial application of an IFRS (or amendments to an IFRS), to disclose, for the current period and each prior period presented, the amount of any adjustment for each financial statement line item affected.

BC35BBB These respondents said that requiring such disclosure for the amendments to IFRS 9 and IAS 39 would not provide useful information to users of financial statements and also would be onerous for preparers. This is because it would require an entity to maintain parallel systems in order to determine the amount of the adjustment for each financial statement line item affected. Furthermore, disclosing this information would be inconsistent with the Board's observation in paragraph BC6.550 of IFRS 9 and paragraph BC227 of IAS 39, that discontinuing hedge accounting solely due to uncertainties arising from the reform would not provide useful information to users of financial statements.

BC35CCC The Board agreed with these comments and decided to exempt entities from the requirement in paragraph 28(f) of IAS 8 in the reporting period in which an entity first applies the amendments to IFRS 9 and IAS 39.

Other Disclosures—Additional disclosures related to interest rate benchmark reform

BC35DDD In April 2020 the Board published the Exposure Draft *Interest Rate Benchmark Reform—Phase 2* (2020 Exposure Draft), which proposed amendments to specific requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address issues that might affect financial reporting during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate. The term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2 of IFRS 9 (the reform). The Board issued the final amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in August 2020 (Phase 2 amendments). Paragraphs BC5.287–BC5.320, BC6.604–BC6.660 and BC7.86–BC7.99 of the Basis for Conclusions on IFRS 9 and paragraphs BC289–BC371 of the Basis for Conclusions on IAS 39 discuss the background to these amendments.

BC35EEE In deciding whether disclosures should accompany the Phase 2 amendments, the Board acknowledged that it was important to balance the benefits of providing useful information to users of financial statements with the

costs for preparers to provide the information. To achieve this balance, the Board sought to develop disclosure requirements that would provide useful information to users of financial statements about the effects of the reform on an entity's financial instruments and risk management strategy without requiring disclosures for which the cost of providing that information would outweigh the benefits of the amendments. Consequently, the Board decided not to require quantitative disclosures of what the effects of the reform would have been in the absence of the Phase 2 amendments because the cost of providing such information could outweigh the benefits provided by the amendments. For the same reason, the Board decided not to require entities to provide the disclosure that would otherwise be required by paragraph 28(f) of IAS 8.

- BC35FFF In the 2020 Exposure Draft the Board proposed limited additional disclosure requirements by setting out the proposed disclosure objectives and the disclosure requirements to meet those objectives. Most respondents to the 2020 Exposure Draft supported the proposed disclosure objectives and broadly agreed with the proposed disclosures. However, respondents suggested that the Board should simplify aspects of the disclosure required by paragraph 24J(b) of IFRS 7. Furthermore, respondents asked the Board to reconsider whether disclosure of information about how an entity applied the requirements in paragraphs 5.4.6–5.4.8 of IFRS 9 would provide useful information to users of financial statements.
- BC35GGG Paragraph 24J(b) of IFRS 7 in the 2020 Exposure Draft proposed requiring that entities disclose the carrying amount of non-derivative financial assets, non-derivative financial liabilities and the nominal amount of derivatives, that continue to reference interest rate benchmarks subject to the reform. Respondents to the 2020 Exposure Draft agreed that providing quantitative information about the magnitude of remaining financial instruments that still need to transition to alternative benchmark rates would be useful for understanding the entity's progress towards completing the implementation of the reform. However, respondents said that the requirement to provide this quantitative information based on the carrying amounts of the relevant non-derivative financial instruments may require an entity to make costly enhancements to its reporting systems and implement additional controls and reconciliations. In the light of a limited time frame, this would be challenging for preparers, in particular those preparers that plan to early apply the Phase 2 amendments. These respondents asked the Board to permit entities to disclose quantitative information on alternative bases—for example, if information about the carrying amounts of relevant non-derivative financial instruments is not available without undue cost or effort, an entity would be able to disclose the quantitative information on the basis that is reported internally to management as part of implementing the reform.
- BC35HHH During outreach on the proposed disclosure requirements, users of financial statements told the Board that, while the quantitative information proposed in the 2020 Exposure Draft is a useful measure of an entity's progress in implementing the reform, they acknowledge the quantitative information for non-derivative financial assets and non-derivative financial liabilities is only a subset of the amounts already presented in the relevant line items of the entity's financial statements and therefore such quantitative information does not reconcile. These users of financial statements said that quantitative information would still be useful even if an entity selected another representative basis on which to disclose it.
- BC35III The Board considered that the underlying objective of the disclosure required by paragraph 24J(b) of IFRS 7 is to enable users of financial statements to understand the entity's progress towards completing the transition to alternative benchmark rates. Quantitative information about financial assets and financial liabilities that—as at the end of the reporting period—reference interest rate benchmarks that are subject to the reform would therefore assist users of financial statements to assess an entity's progress towards implementing the reform. The Board also considered that for this disclosure to be useful, the quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform should be provided in the context of the total non-derivative financial assets, total non-derivative financial liabilities and total derivatives as at the end of the reporting period.
- BC35JJJ The Board agreed that an entity could still meet the underlying objective of this disclosure requirement by providing the relevant quantitative information in different ways. Furthermore, the Board considered that permitting entities to select a basis on which to provide relevant quantitative information to achieve the disclosure objective would allow entities to leverage information that is already available and therefore would reduce the costs of providing the information.
- BC35KKK Accordingly, the Board amended paragraph 24J(b) of IFRS7 to require an entity to disclose quantitative information that enables users of financial statements to understand the extent of financial assets and financial liabilities that, as at the end of the reporting period, have yet to transition to alternative benchmark rates. This information would be disaggregated by significant interest rate benchmark. An entity would select the basis for disclosing the quantitative information and explain which basis was applied. For example, the quantitative information may be based on:
- (a) the carrying amounts of non-derivative financial assets, the carrying amount of non-derivative financial liabilities and the nominal amount of derivatives;

- (b) the amounts related to recognised financial instruments (for example, the contractual par amount of non-derivative financial assets and non-derivative financial liabilities, and nominal amounts of derivatives); or
- (c) the amounts provided internally to key management personnel (as defined in IAS 24) of the entity about these financial instruments, for example, the entity's board of directors or chief executive officer.

BC35LLL Furthermore, the Board clarified that the disclosure in paragraph 24J(b) of IFRS 7 does not require disclosure of financial instruments that are referenced to an interest rate benchmark subject to the reform at the reporting date, but which will expire prior to transitioning to an alternative benchmark rate. This is because, to meet the objective of this disclosure requirement (see paragraph BC35III), an entity is required to provide information about financial instruments that would be required to transition to alternative benchmark rates (ie before their maturity).

BC35MMM The 2020 Exposure Draft proposed requiring a description of how an entity determined the base rate and relevant adjustments to that rate, including any significant judgements the entity made to assess whether the conditions for applying the practical expedient in paragraph 5.4.7 of IFRS 9 were met. Respondents to the 2020 Exposure Draft said that in the light of the regulatory nature of the reform, entities might be unable to provide this information in a way that would be sufficiently detailed and entity-specific for it to be useful to users of financial statements. Respondents often described the potential challenges in disclosing this information in a meaningful way by reference to multinational entities that are exposed to different alternative benchmark rates. These respondents said that if the proposed disclosure was intended to confirm that the changes were economically equivalent, then the disclosure was unnecessary. The fact that an entity has applied the practical expedient would automatically inform users of financial statements that the entity has assessed that the conditions for applying the practical expedient were met. These respondents also said that, if applying those conditions required significant judgement, paragraph 122 of IAS 1 would require an entity to disclose those judgements.

BC35NNN During outreach on the proposed disclosure requirements in the 2020 Exposure Draft, users of financial statements expressed mixed views on this proposed disclosure requirement. While some users of financial statements said the proposed disclosure could be useful for understanding the extent of changes to financial instruments to which the practical expedient is being applied, others were sceptical about whether entities would be able to disclose information in sufficient detail for it to be meaningful. In particular, they highlighted the risk that the disclosures would be summarised at such an aggregated level that the information would not be useful. They also said that they would regard a requirement for an entity to explain how it has determined that it met the conditions to apply the practical expedient in paragraph 5.4.7 of IFRS 9 to be an audit or regulatory enforcement matter, rather than a matter for disclosure in the financial statements. The Board therefore decided to omit this proposed disclosure requirement from the final amendments to IFRS 7.

BC35OOO Some respondents to the 2020 Exposure Draft asked the Board to clarify whether paragraphs 24I and 24J of IFRS 7 are required for comparative periods, ie periods before the date of initial application of these amendments, even if the entity does not restate prior periods. The Board noted that the transition requirements for the Phase 2 amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 specify that an entity is not required (but is permitted if, and only if, it is possible without the use of hindsight) to restate prior periods to reflect the application of these amendments. Therefore, if the entity does not restate prior periods, paragraphs 24I and 24J of IFRS 7 need not be applied to prior reporting periods.

Other disclosures—fair value (paragraphs 25–30)⁸

BC36 Many entities use fair value information internally in determining their overall financial position and in making decisions about individual financial instruments. It is also relevant to many decisions made by users of financial statements because, in many circumstances, it reflects the judgement of the financial markets about the present value of expected future cash flows relating to an instrument. Fair value information permits comparisons of financial instruments having substantially the same economic characteristics, regardless of why they are held and when and by whom they were issued or acquired. Fair values provide a neutral basis for assessing management's stewardship by indicating the effects of its decisions to buy, sell or hold financial assets and to incur, maintain or discharge financial liabilities. The Board decided that when an entity does not measure a financial asset or financial liability in its balance sheet at fair value, it should provide fair value information through supplementary disclosures to assist users to compare entities on a consistent basis.

⁸ IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains requirements for measuring fair value and for disclosing information about fair value measurements. As a consequence, paragraphs 27–27B of IFRS 7 have been deleted.

- BC37 Disclosure of fair value is not required for investments in unquoted equity instruments⁹ and derivatives linked to such equity instruments if their fair value cannot be measured reliably.¹⁰ Similarly, IFRS 4¹¹ does not specify the accounting required for contracts containing a discretionary participation feature pending phase II of the Board's project on insurance contracts. Accordingly, disclosure of fair value is not required for contracts containing a discretionary participation feature, if the fair value of that feature cannot be measured reliably. For all other financial assets and financial liabilities, it is reasonable to expect that fair value can be determined with sufficient reliability within constraints of timeliness and cost. Therefore, the Board concluded that there should be no other exception from the requirement to disclose fair value information for financial assets or financial liabilities.
- BC38 To provide users of financial statements with a sense of the potential variability of fair value estimates, the Board decided that information about the use of valuation techniques should be disclosed, in particular the sensitivities of fair value estimates to the main valuation assumptions.¹² In forming this conclusion, the Board considered the view that disclosure of sensitivities could be difficult, particularly when there are many assumptions to which the disclosure would apply and these assumptions are interdependent. However, the Board noted that a detailed quantitative disclosure of sensitivity to all assumptions is not required (only those that could result in a significantly different estimate of fair value are required) and that the disclosure does not require the entity to reflect interdependencies between assumptions when making the disclosure. Additionally, the Board considered whether this disclosure might imply that a fair value established by a valuation technique is less reliable than one established by other means. However, the Board noted that fair values estimated by valuation techniques are more subjective than those established from an observable market price, and concluded that users need information to help them assess the extent of this subjectivity.
- BC39 Paragraph 28 requires disclosure about the difference that arises if the transaction price differs from the fair value of a financial instrument that is determined in accordance with paragraph B5.4.8 of IFRS 9.¹³ Those disclosures relate to matters addressed in the December 2004 amendment to IAS 39 *Transition and Initial Recognition of Financial Assets and Financial Liabilities*. That amendment does not specify how entities should account for those initial differences in subsequent periods. The disclosures required by paragraph 28 inform users about the amount of gain or loss that will be recognised in profit or loss in future periods. The Board noted that the information required to provide these disclosures would be readily available to the entities affected.
- BC39A Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board requires disclosures that are based on a three-level fair value hierarchy for the inputs used in valuation techniques to measure fair value. The Board was asked by some users of financial statements to include similar disclosure requirements in IFRS 7 to provide more information about the relative reliability of the inputs to fair value measurements. The Board concluded that such a hierarchy would improve comparability between entities about the effects of fair value measurements as well as increase the convergence of IFRSs and US generally accepted accounting principles (GAAP). Therefore, the Board decided to require disclosures for financial instruments on the basis of a fair value hierarchy.¹⁴
- BC39B Because its own fair value measurement project was not yet completed, the Board decided not to propose a fair value hierarchy for measurement but only for disclosures. The fair value hierarchy for disclosures is the same as that in SFAS 157 but uses IFRS language pending completion of the fair value measurement project. Although the implicit fair value hierarchy for measurement in IFRS 9 is different from the fair value hierarchy in SFAS 157, the Board recognised the importance of using a three-level hierarchy for disclosures that is the same as that in SFAS 157.
- BC39C The Board noted the following three-level measurement hierarchy implicit in IFRS 9:
- (a) financial instruments quoted in an active market;

⁹ IFRS 13, issued in May 2011, defines a Level 1 input as a quoted price in an active market for an identical asset or liability. Level 2 inputs include quoted prices for identical assets or liabilities in markets that are not active. As a result IAS 39 and IFRS 9 refer to such equity instruments as 'an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input)'.

¹⁰ IFRS 9 changed the measurement requirements for investments in equity instruments.

¹¹ In developing IFRS 17, the Board concluded that fair value could be determined for such financial instruments. The disclosure requirements for contracts within the scope of IFRS 17 are provided in IFRS 17.

¹² IFRS 13, issued in May 2011, resulted in paragraph 27B(e) of IFRS 7 being deleted.

¹³ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraph B5.4.8 of IFRS 9 was deleted. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraph B5.4.8 of IFRS 9 now contains requirements related to amortised cost measurement.

¹⁴ IFRS 13, issued in May 2011, contains a three-level fair value hierarchy for the inputs used in the valuation techniques used to measure fair value and for the related disclosures.

- (b) financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets; and
- (c) financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data.

BC39D For example, the Board acknowledged that some financial instruments that for measurement purposes are considered to have an active market in accordance with paragraphs B5.4.3–B5.4.5 of IFRS 9 might be in Level 2 for disclosure purposes. Also, the application of paragraph B5.4.9 of IFRS 9 might result in no gain or loss being recognised on the initial recognition of a financial instrument that is in Level 2 for disclosure purposes.¹⁵

BC39E The introduction of the fair value disclosure hierarchy does not affect any measurement or recognition requirements of other IFRSs. In particular, the Board noted that the recognition of gains or losses at inception of a financial instrument (as required by paragraph B5.4.8 of IFRS 9¹⁶) would not change as a result of the fair value disclosure hierarchy.

BC39F The Board decided to require additional disclosures for instruments with fair value measurements that are in Level 3 of the fair value hierarchy.¹⁷ These disclosures inform users of financial statements about the effects of those fair value measurements that use the most subjective inputs.

BC39G After reviewing comments received on the exposure draft, the Board decided not to require disclosure by level of the fair value hierarchy for financial instruments that are not measured at fair value in the statement of financial position. The Board noted that paragraphs 25 and 27 of IFRS 7, which require the disclosure of the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount, and the methods and assumptions applied in determining fair values, were retained.¹⁸

Disclosures about the nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)

BC40 The Board was informed that users of financial statements value information about the risks arising from financial instruments, such as credit risk, liquidity risk and market risk, to which entities are exposed, and the techniques used to identify, measure, monitor and control those risks. Therefore, the Board decided to require disclosure of this information. The Board also decided to balance two objectives:

- (a) consistent requirements should apply to all entities so that users receive comparable information about the risks to which entities are exposed.
- (b) the disclosures provided should depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks. Entities with many financial instruments and related risks should provide more disclosure to communicate those risks to users of financial statements. Conversely, entities with few financial instruments and related risks may provide less extensive disclosure.

BC41 The Board decided to balance these two objectives by developing an IFRS that sets out principles and minimum requirements applicable to all entities, supported by guidance on implementing the IFRS. The requirements in paragraphs 33–42 combine qualitative disclosures of the entity's exposure to risks arising from financial instruments, and the way in which management views and manages these risks, with quantitative disclosures about material risks arising from financial instruments. The extent of disclosure depends on the extent of the entity's exposure to risks arising from financial instruments. The guidance on implementing the IFRS illustrates how an entity might apply the IFRS. This guidance is consistent with the disclosure requirements for banks developed by the Basel Committee (known as Pillar 3), so that banks can prepare, and users receive, a single co-ordinated set of disclosures about financial risk.

¹⁵ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraphs B5.4.3–B5.4.5 of IFRS 9 were deleted and paragraph B5.4.9 of IFRS 9 was relocated to paragraphs B5.1.2A and B5.2.2A. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraphs B5.4.3–B5.4.5 and paragraph B5.4.9 of IFRS 9 now contain requirements related to amortised cost measurement.

¹⁶ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraph B5.4.8 of IFRS 9 was deleted. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraph B5.4.8 of IFRS 9 now contains requirements related to amortised cost measurement.

¹⁷ IFRS 13, issued in May 2011, requires disclosures about fair value measurements. As a consequence paragraphs 27–27B of IFRS 7 have been deleted.

¹⁸ IFRS 13, issued in May 2011, resulted in paragraph 27 of IFRS 7 being deleted.

- BC42 The Board noted that because entities view and manage risk in different ways, disclosures based on how an entity manages risk are unlikely to be comparable between entities. In addition, for an entity that undertakes limited management of risks arising from financial instruments, such disclosures would convey little or no information about the risks the entity has assumed. To overcome these limitations, the Board decided to specify disclosures about risk exposures applicable to all entities. These disclosures provide a common benchmark for financial statement users when comparing risk exposures across different entities and are expected to be relatively easy for entities to prepare. Entities with more developed risk management systems would provide more detailed information.

Interaction between qualitative and quantitative disclosures (paragraph 32A)

- BC42A In *Improvements to IFRSs* issued in May 2010, the Board addressed a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments. The Board emphasised the interaction between qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments. This enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The Board concluded that an explicit emphasis on the interaction between qualitative and quantitative disclosures will contribute to disclosure of information in a way that better enables users to evaluate an entity's exposure.

Location of disclosures of risks arising from financial instruments (paragraph B6)

- BC43 Many respondents to ED 7 argued that disclosures about risks in paragraphs 31–42 should not be part of the financial statements for the following reasons:
- (a) the information would be difficult and costly to audit.
 - (b) the information is different from information generally included in financial statements because it is subjective, forward-looking and based on management's judgement. Thus, the information does not meet the criteria of comparability, faithful representation and completeness.
 - (c) inclusion of such information in a management commentary section outside the financial statements would be consistent with practice in other jurisdictions, including the US. Having this information in the financial statements would put IFRS preparers at a disadvantage relative to their US peers.
- BC44 Respondents raised concerns that the disclosure of sensitivity analysis in particular should not be part of the financial statements. Respondents stated that sensitivity analysis cannot be prepared with the degree of reliability expected of information in the financial statements, and that the subjectivity in the sensitivity analysis and the hypothetical alternative values could undermine the credibility of the fair values recognised in the financial statements.
- BC45 The Board considered whether the disclosures should be part of the information provided by management outside the financial statements. The Board noted that respondents generally regarded the disclosures proposed in ED 7 as useful, even if they did not agree that they should be located in the financial statements. The Board's view is that financial statements would be incomplete and potentially misleading without disclosures about risks arising from financial instruments. Hence, it concluded that such disclosures should be part of the financial statements. The Board rejected the argument that increased transparency puts an entity at a disadvantage; greater certainty on the part of investors can provide a significant advantage by lowering the entity's cost of capital.
- BC46 The Board also noted that some entities might prefer to present the information required by the IFRS together with material such as a management commentary or risk report that is not part of the financial statements. Some entities might be required by regulatory authorities to provide in a separate report information similar to that required by the IFRS. Accordingly, the Board decided these disclosures should be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time.

Quantitative disclosures (paragraphs 34–42 and B7–B28)

Information based on how the entity manages risk (paragraphs 34 and B7)

- BC47 The Board concluded that disclosures about an entity's exposure to risks arising from financial instruments should be required, and should be based on how the entity views and manages its risks, ie using the information provided to key management personnel (for example, its board of directors or chief executive officer). This approach:
- provides a useful insight into how the entity views and manages risk;
 - results in information that has more predictive value than information based on assumptions and methods that management does not use, for instance, in considering the entity's ability to react to adverse situations;
 - is more effective in adapting to changes in risk measurement and management techniques and developments in the external environment;
 - has practical advantages for preparers of financial statements, because it allows them to use the data they use in managing risk; and
 - is consistent with the approach used in IAS 14 *Segment Reporting*.¹⁹
- BC47A In *Improvements to IFRSs* issued in May 2010, the Board removed the reference to materiality from paragraph 34(b) of IFRS 7. The Board noted that the reference could imply that disclosures in IFRS 7 are required even if those disclosures are not material, which was not the Board's intention.

Information on averages

- BC48 The Board considered whether it should require quantitative information about average risk exposures during the period. It noted that information about averages is more informative if the risk exposure at the reporting date is not typical of the exposure during the period. However, information about averages is also more onerous to prepare. On balance, the Board decided to require disclosure of the exposures at the reporting date in all cases and to require additional information only if the information provided at the reporting date is unrepresentative of the entity's exposure to risk during the period.

Credit risk (paragraphs 36–38, B9 and B10)

Disclosure objectives

- BC48A In developing the impairment disclosure requirements in this IFRS, the Board sought to supplement the existing disclosures to meet the additional information needs of users of financial statements that will arise specifically from an impairment model based on expected credit losses. When relevant, the Board has considered the comments received on the disclosure requirements proposed in the original Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (the '2009 Impairment Exposure Draft') and the Board-only appendix to the Supplementary Document *Financial Instruments: Impairment*.
- BC48B During the development of the expected credit loss requirements, the Board acknowledged that any approach that attempts to reflect expected credit losses will be subject to measurement uncertainty and will place greater emphasis on management's judgement and the quality of the information used.
- BC48C However, the Board believes that this level of judgement is necessary given the differences in how entities approach credit risk management. The Board considered that information is useful and relevant when it enables users of financial statements to predict the likely amounts, timing and uncertainty of future cash flows. Accordingly, the Board identified three objectives for the disclosure requirements and this IFRS requires both qualitative and quantitative disclosures to assist users of financial statements to understand and identify:
- an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses;
 - the amounts in the financial statements that arise from expected credit losses that are measured in accordance with IFRS 9, including the changes in the estimate of expected credit losses and the reasons for the changes; and
 - an entity's credit risk profile (ie the credit risk inherent in an entity's financial instruments), including significant credit concentrations at the reporting date.

¹⁹ In 2006 IAS 14 was replaced by IFRS 8 *Operating Segments*.

Credit risk management practices

- BC48D Requiring entities to estimate expected credit losses will increase the significance of forecasts and the use of an entity's judgement. In addition, IFRS 9 requires entities to incorporate new types of information into the measurement of expected credit losses as compared to IAS 39. In the Board's view it is helpful for users of financial statements to understand the information entities use to estimate expected credit losses.
- BC48E When developing the proposals in the 2013 Exposure Draft *Financial Instruments: Expected Credit Losses* (the '2013 Impairment Exposure Draft') the Board noted that disclosures about the methods, assumptions and information used to estimate expected credit losses have been a core part of the disclosure package since the 2009 Impairment Exposure Draft, and are important for understanding how an entity applies the expected credit loss requirements. However, the Board acknowledges that different entities will use different information and techniques for assessing whether they should recognise lifetime expected credit losses. The information and techniques that an entity uses will depend on the nature of its financial instruments and other factors.
- BC48F The 2013 Impairment Exposure Draft acknowledged and permitted this. The Board considered that to understand how an entity has applied the proposed expected credit loss requirements, the following information would be relevant and useful:
- (a) how significant increases in credit risk are assessed and identified;
 - (b) how default is defined and the reasons for selecting that definition;
 - (c) how an entity assesses that financial assets are credit-impaired; and
 - (d) the write-off policy applied.
- BC48G Respondents to the 2013 Impairment Exposure Draft supported the disclosure of that qualitative information, with a few respondents requesting the disclosure of more qualitative information about the modification of financial instruments and how an entity has incorporated macroeconomic information in its estimates of expected credit losses.
- BC48H As noted in paragraph BC5.252 of IFRS 9, the notion of default is fundamental to the application of the impairment model, particularly because it affects the population that is subject to the 12-month expected credit loss measure. The Board noted during redeliberations on the 2013 Impairment Exposure Draft that default can be interpreted in various ways, ranging from broad judgemental definitions based on qualitative factors to narrower non-judgemental definitions focusing only on non-payment. The appropriate definition also depends on the nature of the financial instrument in question. Given the various interpretations of default, the Board decided to require the disclosure of an entity's definition of default and the reasons for its selection.
- BC48I The Board considered that an explanation of how forward-looking information, including macroeconomic information, has been incorporated in the measurement of expected credit losses would provide relevant and useful information, given the requirement in IFRS 9 to consider all reasonable and supportable information that is available without undue cost and effort when determining whether there has been a significant increase in credit risk since initial recognition. The Board also considered that an explanation of how an entity has applied the requirements in paragraph 5.5.12 of IFRS 9 for the modification of contractual cash flows of financial assets, including how an entity determines whether the credit risk of modified financial assets has improved so that is not considered to be significantly increased compared to initial recognition, would enhance the understanding of how an entity manages credit risk through modifications and restructurings.
- BC48J The 2013 Impairment Exposure Draft proposed that an entity should disclose the nominal amount of financial assets that have been written off but that are still subject to enforcement activity. This was included because feedback from users of financial statements indicated users would like to understand the extent to which recoveries of written off assets are still possible. The Board acknowledged this desire, however it determined that the disclosure of the aggregate amount of financial assets that have been written off but that remain subject to enforcement activity would not provide the most relevant information for this purpose. For example, the nominal amount could be very high (particularly as time passes, if the asset legally continues to accrue interest) even though the prospect of recovering any amounts outstanding might be extremely low. In addition, the Board received feedback from preparers that tracking these amounts for an extended period would be operationally burdensome. As a result, the Board decided to modify the disclosure and require that entities disclose the amount of financial assets that have been written off during the period, while narrative information is provided about financial assets that have previously been written off but that are still subject to enforcement activity.
- BC48K The Board also proposed narrative disclosures to complement the quantitative disclosures. In the Board's view, users of financial statements would further benefit from a qualitative explanation of changes in estimates of expected credit losses. Estimates of expected credit losses may change, for example, because of changes in the volume of financial instruments, changes in overall market conditions or as a result of a significant event

(for example, a sovereign debt crisis, weather-related events or other disasters). The disclosures should therefore include a qualitative narrative describing how significant events have affected the entity's estimate of expected credit losses.

Financial instruments evaluated on an individual basis

- BC48L Previously paragraph 37(b) of IFRS 7 required an analysis of financial instruments that are individually determined to be credit-impaired as at the end of the reporting period, including an analysis of the factors that the entity considered when determining that those financial instruments are credit-impaired. Many entities already disclose the loan balance and loss allowance amount for both collectively and individually assessed credit-impaired loans. Consequently, the 2013 Impairment Exposure Draft proposed amendments to those requirements to limit them to financial instruments that an entity assesses individually for recognition of lifetime expected credit losses.
- BC48M During outreach activities, users of financial statements noted that it is important for them to understand which financial instruments an entity assesses on an individual basis, especially when that individual assessment is because of an increase in credit risk and closer management of the instrument. While these financial instruments may not have experienced an increase in credit risk greater than those evaluated on a group basis, the Board concluded that this distinction helps users of financial statements to understand how an entity is monitoring and managing credit risk, so it is useful even when the difference is not attributable to differences in credit risk.
- BC48N However, several respondents to the 2013 Impairment Exposure Draft argued that a disclosure of the gross carrying amount of financial assets (and the amount recognised as a loss allowance for loan commitments and financial guarantee contracts) that are assessed on an individual basis is not relevant in an impairment model based on expected credit losses. These respondents argued that unlike in IAS 39, the loss allowance does not result from objective evidence of impairment on an individual asset.
- BC48O The Board noted that conceptually, an assessment on an individual or collective basis should render the same result. However, as noted in paragraph B5.5.2 of IFRS 9, an entity may not have access to reasonable and supportable information that enables it to identify significant increases in credit on an individual basis prior to financial assets becoming past due. Furthermore, an entity may only be able to incorporate forward-looking information in its estimates of expected credit losses on a collective basis. The Board therefore decided instead to require the disclosure of information about how an entity has grouped financial instruments if they are assessed or measured on a collective basis.

Amounts arising from expected credit losses

Reconciliation of the gross carrying amount and loss allowance

- BC48P The Supplementary Document proposed the mandatory use of a loss allowance account for credit losses, with separate disclosure of reconciliations for the two groups of financial assets that an entity would distinguish for the purpose of determining the loss allowance (ie assets in the 'good book' and assets in the 'bad book'). Almost all respondents supported the mandatory use of a loss allowance account. Consequently, the 2013 Impairment Exposure Draft retained that proposal.
- BC48Q The 2013 Impairment Exposure Draft also retained the proposal in the Supplementary Document to show a reconciliation of the gross carrying amount of financial assets separately for each of the groups of financial assets that an entity would distinguish between for the purpose of determining the loss allowance (ie 12-month expected credit losses and lifetime expected credit losses) and each of the related loss allowances. Respondents (including preparers) generally supported disclosing a reconciliation (ie flow information) of changes in the loss allowance and stated that it was operational and useful. However, similar to the feedback received on the Supplementary Document, respondents to the 2013 Impairment Exposure Draft commented that showing separate reconciliations of the gross carrying amount of financial assets was onerous, especially when they were required to disclose the effect of the change of financial assets between those with loss allowances measured at amounts equal to 12-month and lifetime expected credit losses. They noted that when loss allowances are determined on a collective (ie portfolio) basis, an entity does not allocate loss allowances to individual financial assets. Preparers also stated that the costs associated with the disclosure, and any disclosure about flow information, would be substantial. In order to provide this information for open portfolios, an entity would be required to track changes in the credit risk of individual financial instruments and calculate the change in the loss allowance that results from new loans, derecognised assets, changes between 12-month and lifetime loss allowances and changes in estimates of credit losses. They noted that this would be contrary to the requirement in IFRS 9 which requires lifetime expected credit losses to be recognised even if a significant increase in credit risk cannot be identified on an individual financial instrument basis.

- BC48R During outreach, users of financial statements have consistently and strongly expressed the view that the change in the gross carrying amount of financial assets and the effect on the loss allowance are critical elements in understanding the credit quality of an entity's financial instruments and its credit risk management practices. They held the view that the reconciliation of the gross carrying amount of financial instruments would greatly enhance transparency of an entity's financial asset portfolio. While these disclosures would require systems changes and the cost of providing the information would be high, the Board noted that such reconciliations provide key information about movements between 12-month and lifetime loss allowances and about the causes of changes in expected credit losses and about the effect of changes in volume and credit quality.
- BC48S The Board therefore decided to retain the requirement to provide a reconciliation of the changes in the loss allowance. However, in the light of the feedback about the operational burden of reconciling the changes in the gross carrying amount of financial assets, the Board clarified that the objective of that reconciliation is to provide information about the key drivers for changes in the gross carrying amount to the extent that it contributes to changes in the loss allowance during the period. Examples of such key drivers for change could include new originations and purchases, deterioration of existing financial instruments resulting in the loss allowance changing to lifetime expected credit losses and financial assets being written off during the period. The Board also acknowledged that although the most relevant and useful information will be provided by disclosing the gross movements between loss allowance measurement categories, in some circumstances, or for some types of financial assets, information will be more useful if the movements are disclosed on a net basis (for example trade receivables accounted for in accordance with the general approach in IFRS 9).

Loan commitments and financial guarantee contracts

- BC48T The 2013 Impairment Exposure Draft proposed that expected credit losses on loan commitments and financial guarantee contracts should be recognised as a provision in the statement of financial position. The Board noted that it would be inappropriate to recognise a loss allowance for such financial instruments because there is no corresponding asset with which to present that loss allowance.
- BC48U The Board noted feedback on the 2013 Impairment Exposure Draft that indicated that for most loan commitments and financial guarantee contracts, entities estimate expected credit losses on an instrument (facility) level and are therefore not able to distinguish the expected credit losses related to the drawn component (the financial asset) and the undrawn component (the loan commitment). Consequently, it would not seem appropriate to attempt to allocate expected credit losses to each of these components for the purposes of presenting the loss allowance on each component separately and any allocation would probably be arbitrary.
- BC48V The Board therefore decided that the loss allowance on a loan commitment or a financial guarantee contract should be presented together with the loss allowance for expected credit losses on the associated financial asset, if an entity cannot separately identify the expected credit losses related to the separate components. To the extent that the amount of expected credit losses on a loan commitment or a financial guarantee contract exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the remaining balance should be presented as a provision.

Purchased or originated credit-impaired assets

- BC48W The Board sought to enhance the comparability of financial assets that are credit-impaired on initial recognition with those that are not. Consequently, the Board decided that an entity should disclose the undiscounted expected credit losses that are implicit in the pricing at initial recognition for purchased or originated credit-impaired financial assets. Users of financial statements have indicated that such a disclosure would be helpful in alleviating some of the complexity in this area of accounting and would allow them to see the possible contractual cash flows that an entity could collect if there was a favourable change in expectations of credit losses for such assets.

Modifications

- BC48X Throughout the Impairment project, users of financial statements have noted that an area in which current disclosures and information is insufficient is that of restructurings and modifications. Particularly during the global financial crisis, users have expressed frustration at the difficulty of understanding the extent of restructuring activity that entities are undertaking in respect of their financial assets.
- BC48Y The 2013 Impairment Exposure Draft proposed to require the disclosure of the gross carrying amount of financial assets that have been modified during their life at a time when the loss allowance was measured at lifetime expected credit losses and for which the measurement of the loss allowance had subsequently changed back to 12-month expected credit losses. This proposed requirement resulted from users of financial

statements requesting information to enable them to understand the amount of financial assets that have been modified and that have subsequently improved in credit quality. During redeliberations the Board noted operational concerns raised in feedback from preparers about the need to meet such a requirement by tracking individual financial assets, particularly even long after such assets have returned to a performing status and are no longer closely monitored for credit risk management purposes. The Board noted that the usefulness of the information would decrease over time as an increasing number of assets are required to be included in the disclosure. The Board therefore decided to limit the requirement to financial assets that have previously been modified at a time when the loss allowance was measured at lifetime expected credit losses and for which the loss allowance has changed back to 12-month expected credit losses during the reporting period.

- BC48Z During redeliberations of the 2013 Impairment Exposure Draft the Board received feedback that the modification guidance in IFRS 9 should be limited to modifications of credit-impaired assets or modifications undertaken for credit risk management purposes. The Board rejected these views and confirmed that the scope of this guidance applies to all modifications of contractual cash flows, regardless of the reason for the modification. In making this decision, the Board noted that an amortised cost carrying amount equates to the present value of the expected contractual cash flows, discounted at the effective interest rate. Consequently, the carrying amount should reflect changes in those contractual cash flows, irrespective of the reason for the modification occurring. In addition, it was noted that any change in contractual terms will have an impact on credit risk, even if small. Furthermore, the Board noted that it has been told previously that identifying those modifications that have been performed for credit risk management (ie non-commercial) purposes is operationally challenging. Consequently, the disclosures in paragraph 35J of IFRS 7 apply to all modifications of contractual cash flows.

Collateral and credit risk mitigation disclosures

- BC48AA Collateral and other credit risk mitigants are important factors in an entity's estimate of expected credit losses. For instance, an entity with more heavily collateralised loans will, all other things being equal, record a smaller loss allowance for credit losses than an entity with unsecured loans. The previous requirements of paragraph 36(b) of IFRS 7 required the disclosure of information similar to that proposed in the 2013 Impairment Exposure Draft. However, the Board received feedback that these collateral disclosures were too onerous and costly to prepare, and therefore proposed to limit the quantitative collateral disclosure requirements to those financial instruments that become credit-impaired subsequent to initial recognition.
- BC48BB Feedback on the 2013 Impairment Exposure Draft indicated that respondents remained concerned about the disclosure of quantitative information about collateral for financial instruments that become credit-impaired subsequent to initial recognition. The Board maintained the view that information about the financial effect of collateral is useful. However, the Board noted that it did not intend to require providing information about the fair value of collateral. In addition, the Board decided that qualitative information should be disclosed about how collateral and other credit enhancements have been incorporated into the measurement of expected credit losses on all financial instruments.

Credit risk exposure

- BC48CC Because the recognition of lifetime expected credit losses is based on a significant increase in credit risk since initial recognition, there could be a wide range of initial credit risk for which 12-month expected credit losses is recognised (for example, loans that are originated with a high credit risk but have not increased in credit risk subsequently would have a loss allowance based on 12-month expected credit losses as would high quality loans that have not significantly increased in credit risk since initial recognition). To provide users of financial statements with information about the changes in the loss allowance and the entity's exposure to credit risk on financial instruments, the 2013 Impairment Exposure Draft proposed a disaggregation of the carrying amounts of financial instruments into credit risk categories, for both 12-month and lifetime expected credit losses.
- BC48DD Disaggregating by credit risk shows the entity's exposure to credit risk and its credit risk profile at a given point in time (ie the reporting date). Users of financial statements indicated that they were concerned about the relative nature of the disclosure that is based on the range of credit risk relevant to the entity's portfolio and that it would lack comparability as a result (ie a high risk for one entity may only be a medium risk for another). Furthermore, without vintage information, a user would not be able to determine whether changes in the risk profile are a result of changes in the credit risk of existing financial instruments or a result of the credit risk of new instruments recognised during the period. However, they believed that risk disaggregation would still provide insight into an entity's exposure to credit risk and were therefore in favour of including it in the notes to the financial statements. The Board required the disclosure because changes in risk will affect the measurement of expected credit losses and it would therefore provide users of financial statements with information about the drivers of the change in the measurement. The Board also noted that this disclosure, particularly when considered together with the reconciliation of the gross carrying amount and loss allowance,

provides relevant and useful information about credit risk migration and changes in overall credit risk over time.

- BC48EE The Board considered adding language to the proposed disclosure that would have required an entity to reconcile this disclosure to internal credit rating grades. However, responses to the Supplementary Document considered this internal risk-rating information to be proprietary and therefore objected to this level of specificity. Consequently, the Board decided not to propose this reconciliation.
- BC48FF Some respondents to the 2013 Impairment Exposure Draft also commented that the disclosure was incompatible with the credit risk management practices for some asset classes and for non-financial entities, and noted that the disclosure should be aligned with an entity's internal credit risk approach. In the light of this feedback the Board decided to remove the requirement to provide a disaggregation across a minimum of three credit risk rating grades, and instead require that the disaggregation to be aligned with how credit risk is managed internally. The Board additionally decided to permit the use of an ageing analysis for financial assets for which delinquency information is the only borrower-specific information available to assess significant increases in credit risk.

Simplified approach for trade receivables, contract assets and lease receivables

- BC48GG This IFRS includes exceptions to the general disclosures for trade receivables, contract assets and lease receivables when an entity applies the simplified approach. The Board noted that these exemptions provide relief that is consistent with the intention to simplify the application of the impairment model for these categories of financial assets to alleviate some of the practical concerns of tracking changes in credit risk.

Maximum exposure to credit risk (paragraphs 36(a), B9 and B10)

- BC49 Paragraph 36(a) requires disclosure of an entity's maximum exposure to credit risk at the reporting date. Some respondents to ED 7 stated that these disclosures would not provide useful information when there are no identified problems in a loan portfolio, and it is not likely that collateral would be called on. However, the Board disagreed because it believes that such information:
- (a) provides users of financial statements with a consistent measure of an entity's exposure to credit risk; and
 - (b) takes into account the possibility that the maximum exposure to loss may differ from the amount recognised in the balance sheet.
- BC49A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that the disclosure requirement in paragraph 36(a) applies only to financial assets whose carrying amounts do not show the reporting entity's maximum exposure to credit risk. Such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.
- BC50 Some respondents to ED 7 questioned whether the maximum exposure to credit risk for a derivative contract is its carrying amount because fair value does not always reflect potential future exposure to credit risk (see paragraph B10(b)). However, the Board noted that paragraph 36(a) requires disclosure of the amount that best represents the maximum exposure to credit risk *at the reporting date*, which is the carrying amount.

Collateral held as security and other credit enhancements (paragraphs 36(b) and 37(c))

- BC51 ED 7 proposed that, unless impracticable, the entity should disclose the fair value of collateral held as security and other credit enhancements, to provide information about the loss the entity might incur in the event of default. However, many respondents to ED 7 disagreed with this proposal on cost/benefit grounds. Respondents indicated that fair value information might not be available for:
- (a) small entities and entities other than banks, which may find it onerous to acquire information about collateral;
 - (b) banks that collect precise information on the value of collateral only on origination, for loans whose payments are made on time and in full (for example a mortgage portfolio secured by properties, for which valuations are not kept up to date on an asset-by-asset basis);
 - (c) particular types of collateral, such as a floating charge on all the assets of an entity; and

- (d) insurers that hold collateral for which fair value information is not readily available.
- BC52 The Board also noted respondents' concerns that an aggregate disclosure of the fair value of collateral held would be misleading when some loans in a portfolio are over-collateralised, and other loans have insufficient collateral. In these circumstances, netting the fair value of the two types of collateral would under-report the amount of credit risk. The Board agreed with respondents that the information useful to users is not the total amount of credit exposure less the total amount of collateral, but rather is the amount of credit exposure that is left after available collateral is taken into account.
- BC53 Therefore, the Board decided not to require disclosure of the fair value of collateral held, but to require disclosure of only a description of collateral held as security and other credit enhancements. The Board noted that such disclosure does not require an entity to establish fair values for all its collateral (in particular when the entity has determined that the fair value of some collateral exceeds the carrying amount of the loan) and, thus, would be less onerous for entities to provide than fair values.

Credit quality of financial assets that are neither past due nor impaired (paragraph 36(c))²⁰

- BC54 The Board noted that information about credit quality gives a greater insight into the credit risk of assets and helps users assess whether such assets are more or less likely to become impaired in the future. Because this information will vary between entities, the Board decided not to specify a particular method for giving this information, but rather to allow each entity to devise a method that is appropriate to its circumstances.

Financial assets with renegotiated terms (paragraph 36(d))

- BC54A In *Improvements to IFRSs* issued in May 2010, the Board addressed a practical concern relating to the disclosure requirements for renegotiated financial assets. The Board deleted the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the original requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered. Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired.

Financial assets that are either past due or impaired (paragraph 37)²¹

- BC55 The Board decided to require separate disclosure of financial assets that are past due or impaired to provide users with information about financial assets with the greatest credit risk (paragraph 37). This includes:
- (a) an analysis of the age of financial assets, including trade receivables, that are past due at the reporting date, but not impaired (paragraph 37(a)). This information provides users with information about those financial assets that are more likely to become impaired and helps users to estimate the level of future impairment losses.
 - (b) an analysis of financial assets that are individually determined to be impaired at the reporting date, including the factors the entity considered in determining that the financial assets are impaired (paragraph 37(b)). The Board concluded that an analysis of impaired financial assets by factors other than age (eg nature of the counterparty, or geographical analysis of impaired assets) would be useful because it helps users to understand why the impairment occurred.
- BC55A In *Improvements to IFRSs* issued in May 2010, the Board addressed a concern that the disclosure of the fair value of collateral was potentially misleading. Within a class of assets some might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board removed from paragraph 37(c) the requirement to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board included in paragraph 36(b) a requirement to disclose a description of collateral held as security and of other credit enhancements and to disclose their financial effect.

²⁰ IFRS 9 *Financial Instruments* deleted paragraph 36(c) of IFRS 7.

²¹ IFRS 9 *Financial Instruments* deleted paragraph 37 of IFRS 7.

Collateral and other credit enhancements obtained (paragraph 38)

- BC56 Paragraph 38 requires the entity to disclose the nature and carrying amount of assets obtained by taking possession of collateral held as security or calling on other credit enhancements and its policy for disposing of such assets. The Board concluded that this information is useful because it provides information about the frequency of such activities and the entity's ability to obtain and realise the value of the collateral. ED 7 had proposed that the entity should disclose the fair value of the assets obtained less the cost of selling them, rather than the carrying amount. The Board noted that this amount might be more relevant in the case of collateral obtained that is expected to be sold. However, it also noted that such an amount would be included in the impairment calculation that is reflected in the amount recognised in the balance sheet and the purpose of the disclosure is to indicate the amount recognised in the balance sheet for such assets.
- BC56A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that paragraph 38 requires entities to disclose the amount of foreclosed collateral held at the reporting date. This is consistent with the objective in IFRS 7 to disclose information that enables users 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.

Liquidity risk (paragraphs 34(a), 39, B10A and B11–B11F)

- BC57 The Board decided to require disclosure of a maturity analysis for financial liabilities showing the remaining earliest contractual maturities (paragraph 39(a) and paragraphs B11–B16 of Appendix B).²² Liquidity risk, ie the risk that the entity will encounter difficulty in meeting commitments associated with financial liabilities, arises because of the possibility (which may often be remote) that the entity could be required to pay its liabilities earlier than expected. The Board decided to require disclosure based on the earliest contractual maturity date because this disclosure shows a worst case scenario.
- BC58 Some respondents expressed concerns that such a contractual maturity analysis does not reveal the expected maturity of liabilities, which, for some entities—eg banks with many demand deposits—may be very different. They suggested that a contractual maturity analysis alone does not provide information about the conditions expected in normal circumstances or how the entity manages deviations from expected maturity. Therefore, the Board decided to require a description of how the entity manages the liquidity risk portrayed by the contractual maturity analysis.
- BC58A In March 2009 the Board amended the disclosure requirements on the nature and extent of liquidity risk by:
- amending the definition of liquidity risk to clarify that paragraph 39 applies only to financial liabilities that will result in the outflow of cash or another financial asset. This clarifies that the disclosure requirements would not apply to financial liabilities that will be settled in the entity's own equity instruments and to liabilities within the scope of IFRS 7 that are settled with non-financial assets.
 - emphasising that an entity must provide summary quantitative data about its exposure to liquidity risk based on information provided internally to key management personnel of the entity as required by paragraph 34(a). This reinforces the principles of IFRS 7.
 - amending the requirement in paragraph 39 to disclose a contractual maturity analysis.
- BC58B The requirements in paragraph 39(a) and (b) relate to minimum benchmark disclosures as set out in paragraph 34(b) and are expected to be relatively easy to apply. However, the Board noted that the requirement to provide disclosures based on the remaining contractual maturities was difficult to apply for some derivative financial liabilities and did not always result in information that reflects how many entities manage liquidity risk for such instruments. Hence, for some circumstances the Board eliminated the previous requirement to disclose contractual maturity information for derivative financial liabilities. However, the Board retained minimum contractual maturity disclosures for non-derivative financial liabilities (including issued financial guarantee contracts within the scope of the IFRS) and for some derivative financial liabilities.
- BC58C The Board noted that for non-derivative financial liabilities (including issued financial guarantee contracts within the scope of the IFRS) and some derivative financial liabilities, contractual maturities are essential for an understanding of the timing of cash flows associated with the liabilities. Therefore, this information is useful to users of financial statements. The Board concluded that disclosures based on the remaining contractual maturities of these financial liabilities should continue to be required.
- BC58D The Board also emphasised the existing requirement to disclose a maturity analysis for financial assets held for managing liquidity risk, if that information is required to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Board also emphasised that an entity must explain the relationship

²² Amendments to IFRS 7 issued in March 2009 amended paragraph 39 and paragraphs B11–B16. The paragraph references in paragraph BC57 have not been amended as a result of these amendments.

between qualitative and quantitative disclosures about liquidity risk so that users of financial statements can evaluate the nature and extent of liquidity risk.

- BC58E In *Supplier Finance Arrangements* issued in May 2023, the IASB added supplier finance arrangements as an example within the liquidity risk disclosure requirements in paragraph B11F of IFRS 7. Supplier finance arrangements might provide an entity with access to funds to meet its liquidity needs. However, by entering into supplier finance arrangements, an entity might concentrate a portion of its liabilities with one or a few finance providers, instead of a diverse group of suppliers. If finance providers withdraw one or more arrangements during times of financial stress, which could occur at short notice, that withdrawal could increase pressure on an entity's cash flows and affect its ability to settle liabilities when they are due. A supplier might also be able or inclined to renegotiate payment terms with its customer (the entity) during times of financial stress, whereas finance providers—subject to capital requirements—might not be able or inclined to do so. Users of financial statements need information to enable them to assess the effect of supplier finance arrangements on an entity's exposure to liquidity risk and understand how the entity manages this risk. The amendments to paragraph B11F of IFRS 7 emphasise the importance of an entity providing liquidity risk information about its supplier finance arrangements.

Market risk (paragraphs 40–42 and B17–B28)

- BC59 The Board decided to require disclosure of a sensitivity analysis for each type of market risk (paragraph 40) because:
- users have consistently emphasised the fundamental importance of sensitivity analysis;
 - a sensitivity analysis can be disclosed for all types of market risk and by all entities, and is relatively easy to understand and calculate; and
 - it is suitable for all entities—including non-financial entities—that have financial instruments. It is supported by disclosures of how the entity manages the risk. Thus, it is a simpler and more suitable disclosure than other approaches, including the disclosures of terms and conditions and the gap analysis of interest rate risk previously required by IAS 32.

The Board noted that information provided by a simple sensitivity analysis would not be comparable across entities. This is because the methodologies used to prepare the sensitivity analysis and the resulting disclosures would vary according to the nature of the entity and the complexity of its risk management systems.

- BC60 The Board acknowledged that a simple sensitivity analysis that shows a change in only one variable has limitations. For example, the analysis may not reveal non-linearities in sensitivities or the effects of interdependencies between variables. The Board decided to meet the first concern by requiring additional disclosure when the sensitivity analysis is unrepresentative of a risk inherent in a financial instrument (paragraph 42). The Board noted that it could meet the second concern by requiring a more complex sensitivity analysis that takes into account the interdependencies between risks. Although more informative, such an analysis is also more complex and costly to prepare. Accordingly, the Board decided not to require such an analysis, but to permit its disclosure as an alternative to the minimum requirement when it is used by management to manage risk.
- BC61 Respondents to ED 7 noted that a value-at-risk amount would not show the effect on profit or loss or equity. However, entities that manage on the basis of value at risk would not want to prepare a separate sensitivity analysis solely for the purpose of this disclosure. The Board's objective was to require disclosures about sensitivity, not to mandate a particular form of sensitivity disclosure. Therefore, the Board decided not to require disclosure of the effects on profit or loss and equity if an alternative disclosure of sensitivity is made.
- BC62 Respondents to ED 7 requested the Board to provide more guidance and clarification about the sensitivity analysis, in particular:
- what is a reasonably possible change in the relevant risk variable?
 - what is the appropriate level of aggregation in the disclosures?
 - what methodology should be used in preparing the sensitivity analysis?
- BC63 The Board concluded that it would not be possible to provide comprehensive guidance on the methodology to be used in preparing the sensitivity analysis. The Board noted that more comparable information would be obtained if it imposed specific requirements about the inputs, process and methodology of the analysis, for example disclosure of the effects of a parallel shift of the yield curve by 100 basis points. However, the Board decided against such a specific requirement because a reasonably possible change in a relevant risk variable (such as interest rates) in one economic environment may not be reasonably possible in another (such as an economy with higher inflation). Moreover, the effect of a reasonably possible change will vary depending on

the entity's risk exposures. As a result, entities are required to judge what those reasonably possible changes are.

BC64 However, the Board decided that it would provide high level application guidance about how the entity should assess what is a reasonably possible change and on the appropriate level of aggregation in the disclosures. In response to comments received on ED 7, the Board also decided to clarify that:

- (a) an entity should not aggregate information about material exposures to risk from significantly different economic environments. However, if it has exposure to only one type of market risk in only one economic environment, it might not show disaggregated information.
- (b) the sensitivity analysis does not require entities to determine what the profit or loss for the period would have been had the relevant risk variable been different. The sensitivity analysis shows the effect on current period profit or loss and equity if a reasonably possible change in the relevant risk variable had been applied to the risk exposures in existence at the balance sheet date.
- (c) a reasonably possible change is judged relative to the economic environments in which the entity operates, and does not include remote or 'worst case' scenarios or 'stress tests'.
- (d) entities are required to disclose only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.
- (e) the time frame for which entities should make an assessment about what is reasonably possible is the period until the entity next presents these disclosures, usually its next annual reporting period.

The Board also decided to add a simple example of what a sensitivity analysis might look like.

Operational risk

BC65 The Board discussed whether it should require disclosure of information about operational risk. However, the Board noted that the definition and measurement of operational risk are in their infancy and are not necessarily related to financial instruments. It also decided that such disclosures would be more appropriately located outside the financial statements. Therefore, the Board decided to defer this issue to its research project on management commentary.

Disclosures relating to transfers of financial assets

Background

BC65A In March 2009, in conjunction with the Memorandum of Understanding between the IASB and the US Financial Accounting Standards Board (FASB) to improve and achieve convergence of IFRS and US standards for derecognition, the IASB published an exposure draft to replace the derecognition requirements of IAS 39²³ and to improve the disclosure requirements in IFRS 7 relating to the transfer of financial assets and liabilities. In response to feedback received on the exposure draft the IASB developed more fully the alternative model described in the exposure draft and the boards discussed the alternative model.

BC65B In May 2010 the boards reconsidered their strategies and plans for the derecognition project in the light of:

- (a) their joint discussions of the alternative derecognition model described in the exposure draft;
- (b) the June 2009 amendments to the US GAAP derecognition guidance by the FASB, which reduced the differences between IFRSs and US GAAP by improving requirements relating to derecognition of financial assets and liabilities; and
- (c) the feedback the IASB received from national standard-setters on the largely favourable effects of the IFRS derecognition requirements during the financial crisis.

BC65C As a result, in June 2010 the IASB and the FASB agreed that their near-term priority was on increasing the transparency and comparability of their standards by improving and aligning the disclosure requirements in IFRSs and US GAAP for financial assets transferred to another entity. The boards also decided to conduct additional research and analysis, including a post-implementation review of some of the FASB's recently amended requirements, as a basis for assessing the nature and direction of any further efforts to improve or align IFRSs and US GAAP.

²³ IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

- BC65D As a result, the Board decided to finalise the derecognition disclosures and related objectives, proposed in the exposure draft. Accordingly, in October 2010 the Board issued *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7), requiring disclosures to help users of 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.

Transferred financial assets that are not derecognised in their entirety

- BC65E When financial assets are transferred but not derecognised, there has been an exchange transaction that is not reflected as such in the financial statements as a result of the accounting requirements. The Board concluded that in those situations, users of financial statements need to understand the relationship between those transferred financial assets and the associated liabilities that an entity recognises. Understanding that relationship helps users of financial statements in assessing an entity's cash flow needs and the cash flows available to the entity from its assets.
- BC65F The Board observed that IFRS 7 required disclosures about transferred financial assets that are not derecognised in their entirety. The Board decided to continue requiring those disclosures because they provide information that is useful in understanding the relationship between transferred financial assets that are not derecognised and associated liabilities.
- BC65G However, the Board also decided that the following additional disclosures were necessary:
- (a) a qualitative description of the nature of the relationship between transferred assets and associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets; and
 - (b) a schedule that sets out the fair value of the transferred financial assets, the associated liabilities and the net position when the counterparty to the associated liabilities has recourse only to the transferred assets.
- BC65H The Board concluded that these disclosures would provide information that is useful in assessing the extent to which the economic benefits generated by assets of an entity cannot be used in an unrestricted manner, as is implied when assets are recognised in an entity's statement of financial position. In addition, the disclosures would provide information about liabilities that will be settled entirely from the proceeds received from the transferred assets, and thus identify liabilities for which the counterparties do not have claims on the assets of the entity in general. For those assets for which the underlying cash flows are committed to be used to satisfy related liabilities, the Board noted that a schedule that sets out the fair value of the transferred financial assets, the associated liabilities and the net position (in addition to showing the cash flow relationship between those assets and liabilities) also provides a means of understanding the net exposure of an entity following a transfer transaction that fails derecognition.

Transferred financial assets that are derecognised

- BC65I The Board was asked by users of financial statements, regulators and others to review the disclosure requirements for what are often described as 'off balance sheet' activities. Transfers of financial assets, particularly securitisation of financial assets, were identified as forming part of such activities.
- BC65J The Board was asked by users of financial statements, regulators and others to review the disclosure requirements for what are often described as 'off balance sheet' activities. Transfers of financial assets, particularly securitisation of financial assets, were identified as forming part of such activities.
- BC65K The Board observed that IFRS 7 already requires certain disclosures by class of financial instrument or by type of risk. However, the IFRS requires the information at an aggregated level, so information specific to derecognition transactions is often not available. In response to requests from users and others the Board concluded that disclosures specific to derecognition transactions were necessary.
- BC65L The Board concluded that the disclosures should focus on the risk exposure of an entity, and should provide information about the timing of the return and the cash outflow that would or may be required to repurchase the derecognised financial assets in the future. The Board reasoned that a combination of disclosures about the strike price or repurchase price to repurchase assets, the fair value of its continuing involvement, the maximum exposure to loss and qualitative information about an entity's obligations to provide financial support are relevant in understanding an entity's exposure to risks.

- BC65M In addition, the Board concluded that information about an entity's gain or loss on derecognition and the timing of recognition of that gain or loss provides information about the proportion of an entity's profit or loss that arises from transferring financial assets in which the entity also retains continuing involvement. Such information is useful in assessing the extent to which an entity generates profits from transferring financial assets while retaining some form of continuing involvement and thus exposure to risk.
- BC65N The Board observed that the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period may not be 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). The Board decided that if transfer activity is concentrated around the end of reporting periods, disclosure of this fact provides an indication of whether transfer transactions are undertaken for the purpose of altering the appearance of the statement of financial position rather than for an ongoing commercial or financing purpose. In such cases, the amendments require disclosure of when the greatest transfer activity took place within that reporting period, the amount recognised from the transfer activity in that part of the reporting period, and the total amount of proceeds from transfer activity in that part of the reporting period.

Application of the disclosure requirements to a servicing contract

- BC65O Paragraphs 42A–42H of IFRS 7 require an entity to provide disclosures for all transferred financial assets that are not derecognised in their entirety and for any continuing involvement in a transferred asset that is derecognised in its entirety, existing at the reporting date, irrespective of when the related transfer transaction occurred.
- BC65P The Board received a request to clarify whether servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7. The question raised was whether paragraph 42C(c) of IFRS 7 excludes servicing contracts from the scope of those disclosure requirements.
- BC65Q The Board observed that paragraph 42C(c) of IFRS 7 discusses arrangements 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 3.2.5(a)–(c) of IFRS 9 are met; ie it is a 'pass-through arrangement'.²⁴ Paragraph 42C(c) of IFRS 7 confirms that the cash flows collected to be passed through are not themselves continuing involvement for the purposes of the transfer disclosure requirements. Consequently, the Board observed that the servicer's obligation to pass through to one or more entities the cash flows that it collects from a transferred financial asset is not in itself continuing involvement for the purposes of the disclosure requirements, because the activity of passing through cash flows does not in itself constitute an interest in the future performance of the transferred financial asset. The Board observed, however, that a servicing contract is generally continuing involvement for the purposes of the transfer disclosure requirements because, in most cases, the servicer has an interest in the future performance of the transferred financial assets as a result of that contract. That would be the case if the amount and/or timing of the servicing fee depended on the amount and/or timing of the cash flows collected from the transferred financial asset. This would be true irrespective of how the servicer receives its servicing fee; ie whether the servicer retains a portion of the cash flows collected from the transferred financial asset as its fee or it passes through all of the cash flows collected and receives its fee separately from the transferee or another entity.
- BC65R On the basis of these observations, the Board noted that paragraphs 42C and B30 of IFRS 7 are considered to determine whether a servicing contract gives rise to continuing involvement for the purposes of the transfer disclosure requirements. The Board decided to add guidance to the Application Guidance of IFRS 7 to clarify how the guidance in paragraph 42C of IFRS 7 is applied to servicing contracts.
- BC65S During its discussions on this issue, the Board noted that for the purpose of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7, continuing involvement as described in paragraph 42C of IFRS 7 has a different meaning from that used in paragraphs 3.2.6(c)(ii) and 3.2.16 of IFRS 9.²⁵ The Board considered, but decided against, making a clarification in respect of this point because it thought that this difference was already clear from the description of continuing involvement in the two IFRSs.

Effective date and transition (paragraphs 43–44A)

- BC66 The Board is committed to maintaining a 'stable platform' of substantially unchanged Standards for annual periods beginning on or before 1 January 2005, when many entities will adopt IFRSs for the first time. In addition, some preparers will need time to make the system changes necessary to comply with the IFRS.

²⁴ If IFRS 9 has not been applied early, the equivalent reference is paragraph 19(a)–(c) of IAS 39.

²⁵ If IFRS 9 has not been applied early, the equivalent references are paragraphs 20(c)(ii) and 30 of IAS 39.

Therefore, the Board decided that the effective date of IFRS 7 should be annual periods beginning on or after 1 January 2007, with earlier application encouraged.

- BC67 The Board noted that entities that apply IFRS 7 only when it becomes mandatory will have sufficient time to prepare comparative information. This conclusion does not apply to entities that apply IFRS 7 early. In particular, the time would be extremely short for those entities that would like to apply IFRS 7 when they first adopt IFRSs in 2005, to avoid changing from local GAAP to IAS 32 and IAS 30 when they adopt IFRSs and then changing again to IFRS 7 only one or two years later. Therefore, the Board gave an exemption from providing comparative disclosure in the first year of application of IFRS 7 to any entity that both (a) is a first-time adopter of IFRSs and (b) applies IFRS 7 before 1 January 2006. The Board noted that such an exemption for first-time adopters exists in IAS 32 and IFRS 4 and that the reasons for providing the exemption apply equally to IFRS 7.
- BC68 The Board also considered whether it should provide an exemption from presenting all or some of the comparative information to encourage early adoption of IFRS 7 by entities that already apply IFRSs.
- BC69 The Board noted that IFRS 7 contains two types of disclosures: accounting disclosures (in paragraphs 7–30) that are based on requirements previously in IAS 32 and new risk disclosures (in paragraphs 31–42). The Board concluded that existing users of IFRSs already will have complied with the requirements of IAS 32 and will not encounter difficulty in providing comparative information for the accounting disclosures.
- BC70 The Board noted that most of the risk disclosures, in particular those about market risk, are based on information collected at the end of the reporting period. The Board concluded that although IFRS 7 was published in August 2005, it will still be possible for entities to collect the information that they require to comply with IFRS 7 for accounting periods beginning in 2005. However, it would not always be possible to collect the information needed to provide comparative information about accounting periods that began in 2004. As a result, the Board decided that entities that apply IFRS 7 for accounting periods beginning in 2005 (ie before 1 January 2006) need not present comparative information about the risk disclosures.
- BC71 The Board also noted that comparative disclosures about risk are less relevant because these disclosures are intended to have predictive value. As a result information about risk loses relevance more quickly than other types of disclosure, and any disclosures required by previous GAAP are unlikely to be comparable with those required by IFRS 7. Accordingly, the Board decided that an entity that is not a first-time adopter and applies IFRS 7 for annual periods beginning before 1 January 2006 need not present comparative disclosures about the nature and extent of risks arising from financial instruments. In reaching this conclusion, the Board noted that the advantages of encouraging more entities to apply IFRS 7 early outweighed the disadvantage of the reduced information provided.
- BC72 The Board considered and rejected arguments that it should extend the exemption:
- (a) from providing comparative information to first-time adopters that applied IFRS 7 before 1 January 2007 (rather than only those that applied IFRS 7 before 1 January 2006). The Board concluded that an entity that intends to adopt IFRSs for the first time on or after 1 January 2006 will have sufficient time to collect information for its accounting period beginning on or after 1 January 2005 and, thus, should not have difficulty in providing the comparative disclosures for accounting periods beginning on or after 1 January 2006.
 - (b) from providing comparative disclosures about the significance of financial instruments to all entities adopting the IFRS for annual periods beginning before 1 January 2006 (rather than only to first-time adopters). The Board concluded that only first-time adopters warranted special relief so that they would be able to adopt IFRS 7 early without first having to adopt IAS 32 and IAS 30 for only one period. Entities that are not first-time adopters already apply IAS 32 and IAS 30 and have no particular need to adopt IFRS 7 before 1 January 2007.
 - (c) from providing comparative disclosures about risk to periods beginning before 1 January 2007 (rather than 2006). The Board noted that entities adopting IFRS 7 after 1 January 2006 would have a full calendar year to prepare after the publication of the IFRS.
- BC72A *Annual Improvements to IFRSs 2012–2014 Cycle*, issued in September 2014, amended paragraph B30 and added paragraph B30A of IFRS 7. The Board considered whether the amendment should apply to any period presented that begins before the annual period for which the entity first applies the amendment. The Board noted that paragraph 42E(b) of IFRS 7 requires disclosure of the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets. Application of the amendment to such a period might therefore require an entity to determine the fair value as at the end of the period for a servicing asset or servicing liability, which the entity might not have previously determined. It might be impracticable for an entity to determine the fair value of such a servicing asset or servicing liability without using hindsight. The Board also noted that paragraph 44M of IFRS 7 provides transition relief by which the entity need not apply the transfer disclosure requirements to comparative periods. Consequently, to avoid the risk of hindsight being applied, the Board decided to require the application of the amendment only

to annual periods beginning on or after the beginning of the annual period for which the amendment is applied for the first time. Furthermore, for the same reason, the Board observed that those transition provisions should be available to first-time adopters.²⁶ The Board has characterised the transition provisions in paragraph 44AA of IFRS 7 as retrospective despite this relief, because entities are required to look back to past derecognition events to determine whether a servicing asset or servicing liability needs to be disclosed.

Applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements (paragraph 44R)

BC72B The Board was asked to clarify the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* (the ‘amendments to IFRS 7 concerning offsetting’), issued in December 2011, to condensed interim financial statements. It was asked to clarify the meaning of the reference to ‘interim periods within those annual periods’, used in paragraph 44R of IFRS 7. There was uncertainty about whether the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 were required to be included in condensed interim financial statements prepared in accordance with IFRS and, if so, whether those disclosures should be presented in every set of condensed interim financial statements, or only in those interim financial statements presented in the first year in which the disclosure requirements are effective or for which disclosure would be required under the principles in IAS 34 *Interim Financial Reporting*.

BC72C The Board noted that IAS 34 was not consequentially amended upon issue of the amendments to IFRS 7 concerning offsetting and that when the Board intends to require an entity to provide a disclosure in condensed interim financial statements in all circumstances it amends IAS 34. Consequently, the Board decided to amend paragraph 44R of IFRS 7 within the *Annual Improvements to IFRSs 2012–2014 Cycle* in order to clarify that the additional disclosure required by the amendments to IFRS 7 concerning offsetting is not specifically required for all interim periods. However, when considering this amendment, the Board noted that the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the general requirements of that IFRS. IAS 34 requires the disclosure of information in condensed interim financial statements when its omission would make the condensed interim financial statements misleading. The Board noted that in accordance with paragraph 15 of IAS 34 “an entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period”. The Board further noted that in accordance with paragraph 25 of IAS 34: “The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity’s financial position and performance during the interim period”.

Summary of main changes from the Exposure Draft

BC73 The main changes to the proposals in ED 7 are:

- (a) ED 7 proposed disclosure of the amount of change in the fair value of a financial liability designated as at fair value through profit or loss that is not attributable to changes in a benchmark interest rate as a proxy for the amount of change in fair value attributable to changes in the instrument’s credit risk. The IFRS permits entities to determine the amount of change in fair value attributable to changes in the instrument’s credit risk using an alternative method if the entity believes that its alternative method gives more faithful representation. The proxy disclosure has been amended to be the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk. As a result, entities may exclude factors other than a change in a benchmark interest rate when calculating the proxy.
- (b) a requirement has been added for disclosures about the difference between the transaction price at initial recognition (used as fair value in accordance with paragraph B5.4.8²⁷ of IFRS 9) and the results of a valuation technique that will be used for subsequent measurement.
- (c) no disclosure is required of the fair value of collateral pledged as security and other credit enhancements as was proposed in ED 7.

²⁶ *Annual Improvements to IFRS Standards 2014–2016 Cycle*, issued in December 2016, amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* by deleting the short-term exemption for first-time adopters (see paragraph BC99 of IFRS 1), because it was no longer applicable.

²⁷ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraph B5.4.8 of IFRS 9 was deleted. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraph B5.4.8 of IFRS 9 now contains requirements related to amortised cost measurement.

- (d) the sensitivity analysis requirements have been clarified.
- (e) the exemption from presenting comparatives has been widened.
- (f) the capital disclosures are a stand-alone amendment to IAS 1, rather than part of the IFRS. No disclosure is required of whether the entity has complied with capital targets set by management and of the consequences of any non-compliance with those targets.
- (g) the amendments to IFRS 4 related to IFRS 7 have been modified to reduce systems changes for insurers.

Appendix

Amendments to Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs that are necessary in order to ensure consistency with IFRS 7. In the amended paragraphs, new text is underlined and deleted text is struck through.

The amendments contained in this appendix when IFRS 7 was issued in 2005 have been incorporated into the text of the Basis of Conclusions on IFRS 4 and on IASs 32, 39 and 41 as issued at 18 August 2005.

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**GUIDANCE ON IMPLEMENTING
IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES**

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Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

This guidance accompanies, but is not part of, IFRS 7.

Introduction

- IG1 This guidance suggests possible ways to apply some of the disclosure requirements in IFRS 7. The guidance does not create additional requirements.
- IG2 For convenience, each disclosure requirement in the IFRS is discussed separately. In practice, disclosures would normally be presented as an integrated package and individual disclosures might satisfy more than one requirement. For example, information about concentrations of risk might also convey information about exposure to credit or other risk.
- IG3–IG4 [Deleted]

Classes of financial instruments and level of disclosure (paragraphs 6 and B1–B3)

- IG5 Paragraph B3 states that ‘an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics.’ To satisfy the requirements, an entity may not need to disclose all the information suggested in this guidance.
- IG6 Paragraph 17(c) of IAS 1 requires an entity to ‘provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.’

Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)²⁸

IG7–IG11 [Deleted]

Defaults and breaches (paragraphs 18 and 19)

- IG12 Paragraphs 18 and 19 require disclosures when there are any defaults or breaches of loans payable. Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with IAS 1.

Total interest expense (paragraph 20(b))²⁹

- IG13 Total interest expense disclosed in accordance with paragraph 20(b) is a component of the finance costs, which paragraph 82(b) of IAS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts associated with non-financial liabilities.
- IG13A–IG13B [Deleted]

²⁸ IFRS 9 *Financial Instruments* deleted paragraph B4 of IFRS 7.

²⁹ In *Improvements to IFRSs* issued in May 2008, the Board amended paragraph IG13 and removed ‘total interest income’ as a component of finance costs. This amendment removed an inconsistency with paragraph 32 of IAS 1 *Presentation of Financial Statements*, which precludes the offsetting of income and expenses (except when required or permitted by an IFRS).

Hedge accounting (paragraphs 24A–24C)

IG13C Paragraph 24A of IFRS 7 requires that an entity discloses amounts related to items designated as hedging instruments in a tabular format. The following example illustrates how that information might be disclosed.

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20X1
		Assets	Liabilities		
Cash flow hedges					
Commodity price risk - Forward sales contracts	xx	xx	xx	Line item XX	xx
Fair value hedges					
Interest rate risk - Interest rate swaps	xx	xx	xx	Line item XX	xx
Foreign exchange risk - Foreign currency loan	xx	xx	xx	Line item XX	xx

IG13D Paragraph 24B of IFRS 7 requires that an entity discloses amounts related to items designated as hedged items in a tabular format. The following example illustrates how that information might be disclosed.

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness for 20X1	Cash flow hedge reserve
	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Commodity price risk - Forecast sales - Discontinued hedges (forecast sales)	n/a n/a	n/a n/a	n/a n/a	n/a n/a	n/a n/a	xx n/a	xx xx
Fair value hedges							
Interest rate risk - Loan payable - Discontinued hedges (Loan payable)	- -	xx xx	- -	xx xx	Line item XX Line item XX	xx n/a	n/a n/a
Foreign exchange risk - Firm commitment	xx	xx	xx	xx	Line item XX	xx	n/a

IG13E Paragraph 24C of IFRS 7 requires that an entity discloses amounts that have affected the statement of comprehensive income as a result of applying hedge accounting in a tabular format. The following example illustrates how that information might be disclosed.

Cash flow hedges ^(a)	Separate line item recognised in profit or loss as a result of a hedge of a net position ^(b)	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
Commodity price risk Commodity X - Discontinued hedge	n/a n/a	xx n/a	xx n/a	Line item XX n/a	xx xx	Line item XX Line item XX

(a) The information disclosed in the statement of changes in equity (cash flow hedge reserve) should have the same level of detail as these disclosures.

(b) This disclosure only applies to cash flow hedges of foreign currency risk.

Fair value hedges	Ineffectiveness recognised in profit or loss	Line item(s) in profit or loss (that include(s) hedge ineffectiveness)
Interest rate risk	xx	Line item XX
Foreign exchange risk	xx	Line item XX

IG14 At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

Background

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to measure the financial assets' fair value. This valuation technique uses inputs other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at 1 January 20X1.

Application of requirements

The entity's 20X2 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IFRS 9, is generally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IFRS 9, the fair value of an instrument at inception is normally the transaction price. If the transaction price differs from the amount determined at reception using the valuation technique, that difference is [description of the entity's accounting policy].

The differences yet to be recognised in profit or loss are as follows:

	31 Dec X2	31 Dec X1
	CU million	CU million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognised in profit or loss during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	<u>4.5</u>	<u>5.3</u>

Nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)

Qualitative disclosures (paragraph 33)

IG15 The type of qualitative information an entity might disclose to meet the requirements in paragraph 33 includes, but is not limited to, a narrative description of:

- (a) the entity's exposures to risk and how they arose. Information about risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions.
- (b) the entity's policies and processes for accepting, measuring, monitoring and controlling risk, which might include:
 - (i) the structure and organisation of the entity's risk management function(s), including a discussion of independence and accountability;
 - (ii) the scope and nature of the entity's risk reporting or measurement systems;
 - (iii) the entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and
 - (iv) the entity's processes for monitoring the continuing effectiveness of such hedges or mitigating devices.
- (c) the entity's policies and procedures for avoiding excessive concentrations of risk.

IG16 Information about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.

IG17 In accordance with paragraph 33(c), entities disclose any change in the qualitative information from the previous period and explain the reasons for the change. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed.

Quantitative disclosures (paragraphs 34–42 and B7–B28)

IG18 Paragraph 34 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

- (a) industry sectors. Thus, if an entity's counterparties are concentrated in one or more industry sectors (such as retail or wholesale), it would disclose separately exposure to risks arising from each concentration of counterparties.

- (b) credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans or unsecured loans) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (c) geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical markets (such as Asia or Europe), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (d) a limited number of individual counterparties or groups of closely related counterparties.

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

IG19 In accordance with paragraph B8, disclosure of concentrations of risk includes a description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries.

IG20 When quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 35 requires further disclosure. To meet this requirement, an entity might disclose the highest, lowest and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures.

Credit risk (paragraphs 35A–36, B8A–B10)

IG20A The following examples illustrate possible ways in which an entity might provide the disclosures required by paragraphs 35A–35N of IFRS 7. However, these illustrations do not address all possible ways of applying the disclosure requirements.

Illustrating the application of paragraphs 35H and 35I

IG20B The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 35H–35I. This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.

Mortgage loans–loss allowance	12-month expected credit losses	Lifetime expected credit losses (collectively assessed)	Lifetime expected credit losses (individually assessed)	Credit-impaired financial assets (lifetime expected credit losses)
CU'000				
Loss allowance as at 1 January	X	X	X	X
Changes due to financial instruments recognised as at 1 January:				
- Transfer to lifetime expected credit losses	(X)	X	X	–
- Transfer to credit-impaired financial assets	(X)	–	(X)	X
- Transfer to 12-month expected credit losses	X	(X)	(X)	–
- Financial assets that have been derecognised during the period	(X)	(X)	(X)	(X)
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Changes in models/risk parameters	X	X	X	X
Foreign exchange and other movements	X	X	X	X
Loss allowance as at 31 December	X	X	X	X

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of the ABC prime mortgage portfolio increased the residential mortgage book by x per cent, with a corresponding increase in the loss allowance measured on a 12-month basis.
- The write off of the CUXX DEF portfolio following the collapse of the local market reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.

The significant changes in the gross carrying amount of mortgage loans are further explained below:

Mortgage loans—gross carrying amount	12-month expected credit losses	Lifetime expected credit losses (collectively assessed)	Lifetime expected credit losses (individually assessed)	Credit-impaired financial assets (lifetime expected credit losses)
CU'000				
Gross carrying amount as at 1 January	X	X	X	X
Individual financial assets transferred to lifetime expected credit losses	(X)	—	X	—
Individual financial assets transferred to credit-impaired financial assets	(X)	—	(X)	X
Individual financial assets transferred from credit-impaired financial assets	X	—	X	(X)
Financial assets assessed on collective basis	(X)	X	—	—
New financial assets originated or purchased	X	—	—	—
Write-offs	—	—	(X)	(X)
Financial assets that have been derecognised	(X)	(X)	(X)	(X)
Changes due to modifications that did not result in derecognition	(X)	—	(X)	(X)
Other changes	X	X	X	X
Gross carrying amount as at 31 December	X	X	X	X

Illustrating the application of paragraphs 35M and 35N

IG20C The following example illustrates some ways of providing information about an entity's credit risk exposure and significant credit risk concentrations in accordance with paragraph 35M of IFRS 7. The number of grades used to disclose the information in accordance with paragraph 35M of IFRS 7 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 5.5.11 of IFRS 9, the entity shall provide an analysis by past due status for those financial assets.

Consumer loan credit risk exposure by internal rating grades				
20XX CU'000	Consumer—credit card		Consumer—automotive	
	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
Internal Grade 1–2	X	X	X	X
Internal Grade 3–4	X	X	X	X
Internal Grade 5–6	X	X	X	X
Internal Grade 7	X	X	X	X
Total	X	X	X	X

Corporate loan credit risk profile by external rating grades				
20XX CU'000	Corporate—equipment		Corporate—construction	
	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
AAA-AA	X	X	X	X
A	X	X	X	X
BBB-BB	X	X	X	X
B	X	X	X	X
CCC-CC	X	X	X	X
C	X	X	X	X
D	X	X	X	X
Total	X	X	X	X

Corporate loan risk profile by probability of default				
20XX CU'000	Corporate—unsecured		Corporate—secured	
	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
0.00 – 0.10	X	X	X	X
0.11 – 0.40	X	X	X	X
0.41 – 1.00	X	X	X	X
1.01 – 3.00	X	X	X	X
3.01 – 6.00	X	X	X	X
6.01 – 11.00	X	X	X	X
11.01 – 17.00	X	X	X	X
17.01 – 25.00	X	X	X	X
25.01 – 50.00	X	X	X	X
50.01+	X	X	X	X
Total	X	X	X	X

IG20D Entity A manufactures cars and provides financing to both dealers and end customers. Entity A discloses its dealer financing and customer financing as separate classes of financial instruments and applies the simplified approach to its trade receivables so that the loss allowance is always measured at an amount equal to lifetime

expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

20XX CU'000	Trade receivables days past due				
	Current	More than 30 days	More than 60 days	More than 90 days	Total
Dealer financing Expected credit loss rate Estimated total gross carrying amount at default	0.10% CU20,777	2% CU1,416	5% CU673	13% CU235	CU23,101
Lifetime expected credit losses—dealer financing	CU21	CU28	CU34	CU31	CU114
Customer financing Expected credit loss rate Estimated total gross carrying amount at default	0.20% CU19,222	3% CU2,010	8% CU301	15% CU154	CU21,687
Lifetime expected credit losses—customer financing	CU38	CU60	CU24	CU23	CU145

IG21 Paragraph 36 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured consumer loans, and commercial loans each have different economic characteristics.

Collateral and other credit enhancements pledged (paragraph 36(b))

IG22 Paragraph 36(b) requires an entity to describe collateral available as security for assets it holds and other credit enhancements obtained. An entity might meet this requirement by disclosing:

- (a) the policies and processes for valuing and managing collateral and other credit enhancements obtained;
- (b) a description of the main types of collateral and other credit enhancements (examples of the latter being guarantees, credit derivatives, and netting agreements that do not qualify for offset in accordance with IAS 32);
- (c) the main types of counterparties to collateral and other credit enhancements and their creditworthiness; and
- (d) information about risk concentrations within the collateral or other credit enhancements.

IG23–IG31 [Deleted]

Liquidity risk disclosures (paragraph 39(a))

IG31A The following examples illustrate how an entity might meet the disclosure requirement in paragraph 39(a).

Illustrating the application of paragraph 39(a)

Undiscounted cash flows: Non-derivative financial liabilities								
Maturity								
	Total	less than 1 month	1–3 months	3–6 months	6 months–1 year	1–3 years	3–5 years	more than 5 years
Bank borrowings	1,625				285	740	600	
Lease liabilities	2,300	70	140	210	400	750	620	110
Trade and other payables	350	70	190	90				

Illustrating the application of paragraph 39(a)

Undiscounted cash flows: Non-derivative financial liabilities									
Maturity									
	Total	less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5–7 years	7–10 years	more than 10 years
Bank borrowings	3,100	40	300	38	280	2,442			
Lease liabilities	4,400	500	500	480	430	430	790	800	470
Trade and other payables	95	95							

Illustrating the application of paragraph 39(a)

Undiscounted cash flows: Non-derivative financial liabilities							
Maturity							
	Total	less than 1 month	1–6 months	6 months–1 year	1–2 years	2–3 years	more than 3 years
Bonds	2,100	7	34	40	79	1,940	
Lease liabilities*	4,970			340	310	290	4,030
Trade and other payables	980	280	700				

*Further information about the maturity of lease liabilities is provided in the table below:

Maturity							
	Total	less than 1 year	1–5 years	5–10 years	10–15 years	15–20 years	20–25 years
Lease liabilities	4,970	340	1,200	1,110	1,050	970	300

Market risk (paragraphs 40–42 and B17–B28)

- IG32 Paragraph 40(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. There are three types of market risk: interest rate risk, currency risk and other price risk. Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (ie the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk (eg a lessor of motor cars that writes residual value guarantees is exposed to residual value risk). Risk variables that are relevant to disclosing market risk include, but are not limited to:
- the yield curve of market interest rates. It may be necessary to consider both parallel and non-parallel shifts in the yield curve.
 - foreign exchange rates.
 - prices of equity instruments.
 - market prices of commodities.
- IG33 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. For example, relevant risk variables might include:
- prevailing market interest rates, for interest-sensitive financial instruments such as a variable-rate loan; or
 - currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.
- IG34 For interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:
- interest income and expense;
 - other line items of profit or loss (such as trading gains and losses); and
 - when applicable, equity.
- An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk.
- IG35 Because the factors affecting market risk vary depending on the specific circumstances of each entity, the appropriate range to be considered in providing a sensitivity analysis of market risk varies for each entity and for each type of market risk.

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

Interest rate risk

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings. Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X).^(a)

At 31 December 20X2, if the CU had weakened 10 per cent against the US dollar with all other variables held constant, post-tax profit for the year would have been CU2.8 million (20X1—CU6.4 million) lower, and other comprehensive income would have been CU1.2 million (20X1—CU1.1 million) higher. Conversely, if the CU had strengthened 10 per cent against the US dollar with all other variables held constant, post-tax profit would have been CU2.8 million (20X1—CU6.4 million) higher, and other comprehensive income would have been CU1.2 million (20X1—CU1.1 million) lower. The lower foreign currency exchange rate sensitivity in profit in 20X2 compared with 20X1 is attributable to a reduction in foreign currency denominated debt. Equity is more sensitive in 20X2 than in 20X1 because of the increased use of hedges of foreign currency purchases, offset by the reduction in foreign currency debt.

(a) Paragraph 39(a) requires disclosure of a maturity analysis of liabilities.

Other market risk disclosures (paragraph 42)

IG37 Paragraph 42 requires the disclosure of additional information when the sensitivity analysis disclosed is unrepresentative of a risk inherent in a financial instrument. For example, this can occur when:

- (a) a financial instrument contains terms and conditions whose effects are not apparent from the sensitivity analysis, eg options that remain out of (or in) the money for the chosen change in the risk variable;
- (b) financial assets are illiquid, eg when there is a low volume of transactions in similar assets and an entity finds it difficult to find a counterparty; or
- (c) an entity has a large holding of a financial asset that, if sold in its entirety, would be sold at a discount or premium to the quoted market price for a smaller holding.

IG38 In the situation in paragraph IG37(a), additional disclosure might include:

- (a) the terms and conditions of the financial instrument (eg the options);
- (b) the effect on profit or loss if the term or condition were met (ie if the options were exercised); and
- (c) a description of how the risk is hedged.

For example, an entity may acquire a zero-cost interest rate collar that includes an out-of-the-money leveraged written option (eg the entity pays ten times the amount of the difference between a specified interest rate floor and the current market interest rate). The entity may regard the collar as an inexpensive economic hedge against a reasonably possible increase in interest rates. However, an unexpectedly large decrease in interest rates might trigger payments under the written option that, because of the leverage, might be significantly larger than the benefit of lower interest rates. Neither the fair value of the collar nor a sensitivity analysis based on reasonably possible changes in market variables would indicate this exposure. In this case, the entity might provide the additional information described above.

IG39 In the situation described in paragraph IG37(b), additional disclosure might include the reasons for the lack of liquidity and how the entity hedges the risk.

IG40 In the situation described in paragraph IG37(c), additional disclosure might include:

- (a) the nature of the security (eg entity name);
- (b) the extent of holding (eg 15 per cent of the issued shares);
- (c) the effect on profit or loss; and
- (d) how the entity hedges the risk.

Derecognition (paragraphs 42D and 42E)

- IG40A The following examples illustrate some possible ways to meet the quantitative disclosure requirements in paragraphs 42D and 42E.
- IG40B The following examples illustrate how an entity that has adopted IFRS 9 might meet the quantitative disclosure requirements in paragraphs 42D and 42E.

Transferred financial assets that are not derecognised in their entirety

Illustrating the application of paragraph 42D(d) and (e)

	Financial assets at fair value through profit or loss		Financial assets at amortised cost		Financial assets at fair value through other comprehensive income
	CU million		CU million		CU million
	Trading assets	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognised in their entirety

Illustrating the application of paragraph 42E(a)–(d)

Type of continuing involvement	Cash outflows to repurchase transferred (derecognised) assets	Carrying amount of continuing involvement in statement of financial position			Fair value of continuing involvement		Maximum exposure to loss
	CU million	CU million			CU million		CU million
		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Assets	Liabilities	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X

Securities lending	(X)	(X)	X	(X)	X
Total	X	(X)	X	(X)	X

Illustrating the application of paragraph 42E(e)

Undiscounted cash flows to repurchase transferred assets								
	Maturity of continuing involvement CU million							
Type of continuing involvement	Total	less than 1 month	1–3 months	3–6 months	6 months –1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

IG40C The following examples illustrate how an entity that has not adopted IFRS 9 might meet the quantitative disclosure requirements in paragraphs 42D and 42E.

Transferred financial assets that are not derecognised in their entirety

Illustrating the application of paragraph 42D(d) and (e)

	Financial assets at fair value through profit or loss		Loans and receivables		Available-for-sale financial assets
	CU million		CU million		CU million
	Trading securities	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognised in their entirety

Illustrating the application of paragraph 42E(a)–(d)

Type of continuing involvement	Cash outflows to repurchase transferred (derecognised) assets	Carrying amount of continuing involvement in statement of financial position			Fair value of continuing involvement		Maximum exposure to loss
	CU million	CU million			CU million		CU million
		Held for trading	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Assets	Liabilities	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)		X	(X)	X	(X)	X
Total		X	X	(X)	X	(X)	X

Illustrating the application of paragraph 42E(e)

Undiscounted cash flows to repurchase transferred assets								
Maturity of continuing involvement CU million								
Type of continuing involvement	Total	less than 1 month	1–3 months	3–6 months	6 months – 1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

Disclosures (paragraphs 13A–13F and B40–B53)

IG40D The following examples illustrate ways in which an entity might provide the quantitative disclosures required by paragraph 13C. However, these illustrations do not address all possible ways of applying the disclosure requirements as set out in paragraphs 13B–13E.

Background

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties. The entity has the following recognised financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 13A.

Counterparty A:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty A that meet the offsetting criteria in paragraph 42 of IAS 32. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of CU20 million in the entity's statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (CU10 million). The cash collateral of CU10 million does not meet the offsetting criteria in paragraph 42 of IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty B:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty B that do not meet the offsetting criteria in paragraph 42 of IAS 32, but which the entity has the right to set off in the case of default and insolvency or bankruptcy. Consequently, the gross amount of the derivative asset (CU100 million) and the gross amount of the derivative liability (CU80 million) are presented separately in the entity's statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (CU20 million). The cash collateral of CU20 million does not meet the offsetting criteria in paragraph 42 of IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

continued...

...continued

Counterparty C:

The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralised borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is CU79 million and their fair value is CU85 million. The carrying amount of the collateralised borrowing (repo payable) is CU80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralised lending. The fair value of the financial assets (bonds) received as collateral (and not recognised in the entity's statement of financial position) is CU105 million. The carrying amount of the collateralised lending (reverse repo receivable) is CU90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in paragraph 42 of IAS 32. Consequently, the related repo payable and repo receivable are presented separately in the entity's statement of financial position.

Illustrating the application of paragraph 13C(a)–(e) by type of financial instrument

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)	(d)	(e)=(c)-(d)	
Description	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not setoff in the statement of financial position (d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral received	Net amount
Derivatives	200	(80)	120	(80)	(30)	10
Reverse repurchase, securities borrowing and similar agreements	90	-	90	(90)	-	-
Other financial instruments	-	-	-	-	-	-
Total	290	(80)	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)	(d)	(e)=(c)-(d)	
Description	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral pledged	
Derivatives	160	(80)	80	(80)	-	-
Repurchase, securities lending and similar agreements	80	-	80	(80)	-	-
Other financial instruments	-	-	-	-	-	-
Total	240	(80)	160	(160)	-	-

Illustrating the application of paragraph 13C(a)–(c) by type of financial instrument and paragraph 13C(c)–(e) by counterparty

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)
Description	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position
Derivatives	200	(80)	120
Reverse repurchase, securities borrowing and similar agreements	90	-	90
Other financial instruments	-	-	-
Total	290	(80)	210

Net financial assets subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at 31 December 20XX	(c)	(d)		(e)=(c)-(d)
	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
		(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral received	
Counterparty A	20	-	(10)	10
Counterparty B	100	(80)	(20)	-
Counterparty C	90	(90)	-	-
Other	-	-	-	-
Total	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)
Description	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position
Derivatives	160	(80)	80
Repurchase, securities lending and similar agreements	80	-	80
Other financial instruments	-	-	-
Total	240	(80)	160

Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at 31 December 20XX	(c)	(d)		(e)=(c)-(d)
	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
		(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral pledged	
Counterparty A	-	-	-	-
Counterparty B	80	(80)	-	-
Counterparty C	80	(80)	-	-
Other	-	-	-	-
Total	160	(160)	-	-

Transition from IAS 39 to IFRS 9 (paragraphs 42K–42O)

IG40E The following illustration is an example of one possible way to meet the quantitative disclosure requirements in paragraphs 42K–42O of IFRS 7 at the date of initial application of IFRS 9. However, this illustration does not address all possible ways of applying the disclosure requirements of this IFRS.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

Financial assets	(i)	(ii)	(iii)	(iv) = (i) + (ii) + (iii)	(v) = (iii)
	IAS 39 carrying amount 31 December 2017 (1)	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018	Retained earnings effect on 1 January 2018 (2), (3)
Fair value through profit or loss					
Additions:					
From available for sale (IAS 39)		(a)			(c)
From amortised cost (IAS 39) – required reclassification		(b)			
From amortised cost (IAS 39) – fair value option elected at 1 January 2018					
Subtractions:					
To amortised cost (IFRS 9)					
To fair value through other comprehensive income – debt instruments (IFRS 9)					
To fair value through other comprehensive income – equity instruments (IFRS 9)					
Total change to fair value through profit or loss					

continued...

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Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018**Fair value through other comprehensive income**

Additions – debt instruments:	
From available for sale (IAS 39)	(g)
From amortised cost (IAS 39)	(h)
From fair value through profit or loss (IAS 39) – required reclassification based on classification criteria	(i)
From fair value through profit or loss (fair value option under IAS 39) – fair value option criteria not met at 1 January 2018	(j)
From fair value through profit or loss (IAS 39) – fair value option revoked at 1 January 2018 by choice	(k)
Additions – equity instruments:	
From available-for-sale (IAS 39)	
From fair value through profit or loss (fair value option under IAS 39)–fair value through other comprehensive income elected at 1 January 2018	
From cost (IAS 39)	
Subtractions – debt and equity instruments:	
Available for sale (IAS 39) to fair value through profit or loss (IFRS 9) – required reclassification based on classification criteria	(d)
Available for sale (IAS 39) to fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2018	
Available for sale (IAS 39) to amortised cost (IFRS 9)	(e)
Total change to fair value through other comprehensive income	

continued...

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Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

Amortised cost

Additions:

From available for sale (IAS 39)	(f)
From fair value through profit or loss (IAS 39) – required reclassification	
From fair value through profit or loss (fair value option under IAS 39) – fair value option criteria not met at 1 January 2018	
From fair value through profit or loss (IAS 39) – fair value option revoked at 1 January 2018 by choice	

Subtractions:

To fair value through other comprehensive income (IFRS 9)	(l)
To fair value through profit or loss (IFRS 9) – required reclassification based on classification criteria	
To fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2018	

Total change to amortised cost**Total financial asset balances, reclassifications and remeasurements at 1 January 2018**

(i)	Total (ii) = 0	(iii)	(iv) = (i) + (ii) + (iii)
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- 1 Includes the effect of reclassifying hybrid instruments that were bifurcated under IAS 39 with host contract components of (a), which had associated embedded derivatives with a fair value of X at 31 December 2017, and (b), which had associated embedded derivatives with a fair value of Y at 31 December 2017.
- 2 Includes (c), (d), (e) and (f), which are amounts reclassified from other comprehensive income to retained earnings at the date of initial application.
- 3 Includes (g), (h), (i), (j), (k) and (l), which are amounts reclassified from retained earnings to accumulated other comprehensive income at the date of initial application.

Transition (paragraph 44)

IG41 The following table summarises the effect of the exemption from presenting comparative accounting and risk disclosures for accounting periods beginning before 1 January 2006, before 1 January 2007, and on or after 1 January 2007. In this table:

- (a) a **first-time adopter** is an entity preparing its first IFRS financial statements (see IFRS 1 *First-time Adoption of International Financial Reporting Standards*).
- (b) an **existing IFRS user** is an entity preparing its second or subsequent IFRS financial statements.

	Accounting disclosures (paragraphs 7–30)	Risk disclosures (paragraphs 31–42)
Accounting periods beginning before 1 January 2006		
First-time adopter not applying IFRS 7 early	Applies IAS 32 but exempt from providing IAS 32 comparative information	Applies IAS 32 but exempt from providing IAS 32 comparative information
First-time adopter applying IFRS 7 early	Exempt from presenting IFRS 7 comparative information	Exempt from presenting IFRS 7 comparative information
Existing IFRS user not applying IFRS 7 early	Applies IAS 32. Provides full IAS 32 comparative information	Applies IAS 32. Provides full IAS 32 comparative information
Existing IFRS user applying IFRS 7 early	Provides full IFRS 7 comparative information	Exempt from presenting IFRS 7 comparative information^(a)
Accounting periods beginning on or after 1 January 2006 and before 1 January 2007		
First-time adopter not applying IFRS 7 early	Applies IAS 32. Provides full IAS 32 comparative information	Applies IAS 32. Provides full IAS 32 comparative information
First-time adopter applying IFRS 7 early	Provides full IFRS 7 comparative information	Provides full IFRS 7 comparative information
Existing IFRS user not applying IFRS 7 early	Applies IAS 32. Provides full IAS 32 comparative information	Applies IAS 32. Provides full IAS 32 comparative information
Existing IFRS user applying IFRS 7 early	Provides full IFRS 7 comparative information	Provides full IFRS 7 comparative information
Accounting periods beginning on or after 1 January 2007 (mandatory application of IFRS 7)		
First-time adopter	Provides full IFRS 7 comparative information	Provides full IFRS 7 comparative information
Existing IFRS user	Provides full IFRS 7 comparative information	Provides full IFRS 7 comparative information

(a) See paragraph 44 of IFRS 7

Appendix

Amendments to guidance on other IFRSs

This appendix contains amendments to guidance on IFRSs other than IFRS 4 that are necessary in order to ensure consistency with IFRS 7. Amendments to the Guidance on Implementing IFRS 4 will be published at a later date. In the amended paragraphs, new text is underlined and deleted text is struck through.

The amendments contained in this appendix when IFRS 7 was issued in 2005 have been incorporated into the text of the Guidance on Implementing IAS 39 as issued at 18 August 2005. The revised Guidance on Implementing IFRS 4 was published in December 2005.