

International Financial Reporting Standard 7

Financial Instruments: Disclosures

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

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

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Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

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

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

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

The following Interpretations refer to IFRS 7:

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

* effective date 1 January 2009

† effective date 1 July 2009

§ effective date 1 July 2008

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APPROVAL BY THE BOARD OF AMENDMENTS TO IFRS 7:

Reclassification of Financial Assets

(Amendments to IAS 39 and IFRS 7) issued in October 2008

Reclassification of Financial Assets—Effective Date and Transition

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

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Introduction

Reasons for issuing the IFRS

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

Main features of the IFRS

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

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

- IN6 The IFRS includes in Appendix B mandatory application guidance that explains how to apply the requirements in the IFRS. The IFRS is accompanied by non-mandatory Implementation Guidance that describes how an entity might provide the disclosures required by the IFRS.
- IN7 The IFRS supersedes IAS 30 and the disclosure requirements of IAS 32. The presentation requirements of IAS 32 remain unchanged.
- IN8 The IFRS is effective for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

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Objective

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

Scope

- 3 This IFRS shall be applied by all entities to all types of financial instruments, except:
 - (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the requirements of this IFRS. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.
 - (b) employers' rights and obligations arising from employee benefit plans, to which IAS 19 *Employee Benefits* applies.
 - (c) [deleted]
 - (d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.
 - (e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, except that this IFRS applies to contracts within the scope of paragraphs 5–7 of IAS 39.
 - (f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.

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- 4 This IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of IAS 39. Unrecognised financial instruments include some financial instruments that, although outside the scope of IAS 39, are within the scope of this IFRS (such as some loan commitments).
- 5 This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IAS 39 (see paragraphs 5–7 of IAS 39).

Classes of financial instruments and level of disclosure

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

Significance of financial instruments for financial position and performance

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

Statement of financial position

Categories of financial assets and financial liabilities

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

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

9 If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:

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

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

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

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

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

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

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

11 The entity shall disclose:

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

Reclassification

12 If the entity has reclassified a financial asset (in accordance with paragraphs 51–54 of IAS 39) as one measured:

- (a) at cost or amortised cost, rather than at fair value; or
- (b) at fair value, rather than at cost or amortised cost,

it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of IAS 39 or out of the available-for-sale category in accordance with paragraph 50E of IAS 39, it shall disclose:

- (a) the amount reclassified into and out of each category;
- (b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;
- (c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;
- (d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;
- (e) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and
- (f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.