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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting: 2 October 2008, London**

**Project: Disclosures**

**Subject: IFRS 7 *Financial Instruments: Disclosures*, Proposed amendments – Improving Disclosures about Financial Instruments (Agenda paper 1)**

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### **Background**

1. Attached is an early draft of proposed amendments to IFRS 7. These proposed amendments reflect the Board discussions at the September meeting about:
  - a. fair value measurement disclosures, and
  - b. liquidity disclosures.
2. Disclosures relating to off-balance sheet activities will be addressed separately.
3. It is not the intention to discuss drafting at the October 2<sup>nd</sup> additional board meeting. Please provide such comments to the staff off-line. However, should Board members identify any significant issues, the October 2<sup>nd</sup> meeting provides an opportunity to address them. To make such a discussion productive, please make the staff aware of any such issues *before* the October 2<sup>nd</sup> meeting.
4. There are three (related) issues that the Board do need to address:

- a. how and when to issue an ED;
- b. comment period; and
- c. transition arrangements.

## **How and when to issue an ED**

5. The Board needs to decide how, and when, to issue an ED. Alternatives include:
  - a. issuing an Exposure Draft in the next 2 to 3 weeks addressing only fair value measurement and liquidity disclosures (as per the attached draft);  
or
  - b. only issuing an exposure draft once the consolidation proposals have been finalised. This will mean that it will be November (at the earliest) before such an ED is ready for publication.
6. Issuing all of the disclosure proposals in one package is appealing for a number of reasons. However, if the consolidation proposals take more time to finalise than expected, this could significantly delay publishing proposals on fair value measurement and liquidity disclosures. In addition, the staff note that the fair value and liquidity disclosures are separate from the consolidation-related disclosures.
7. One other consideration is that the consolidation proposals are likely to require a longer comment period than is the case for the fair value and liquidity disclosure proposals (see below).

## **Comment period**

8. Paragraph 98 of the IASB Due Process Handbook sets out the requirements for comment periods for exposure drafts. That paragraph states that:
  - a. a comment period of 120 days is normally allowed, but
  - b. for exposure drafts, if the matter is exceptionally urgent, the document short and the IASB believes that there is likely to be broad consensus on the topic, a comment period of no less than 30 days may be allowed.
  
9. Factors to consider include:
  - a. this ED will be out for comment over the financial year-end for many entities;
  - b. the consolidation proposals are likely to require at least 120 days and perhaps more;
  - c. no comment deadline will be early enough for us to issue a final standard that could be mandatory for December 2008 or March 2009 year ends. If we set an exceptionally short comment period and there are no major problems, it might just be possible to issue a standard that entities could adopt early for March 2009 year ends.
  - d. much of the content of the proposed disclosure requirements is already publicly in the draft staff report on the discussions of the expert advisory panel. Entities can already use that material if they wish.
  - e. the effective date (see discussion below)
  - f. the time taken to turn the ED into a final amendment. Assuming publication in late October, a 120 day period would end in late February. If the draft is uncontroversial, we may be able to address all substantive issues by April and publish the final standard in, say, June.

## **Transition arrangements**

10. Another issue is the transition arrangements. The attached draft proposes retrospective application. This is consistent with the approach taken by IFRS 7. The staff believe that an entity should already have available all information required for complying with the additional and amended disclosures being proposed, and that it should not be impracticable to apply the changes retrospectively.
11. We do not normally include a proposed effective date in an ED. However, given the circumstances surrounding these disclosures, the staff suggest that a statement be included in the Basis for Conclusions of the ED that the Board will aim to have an effective date for annual periods beginning on or after 1 January 2010, with earlier application permitted. This is consistent with the IASB's policy of usually setting effective dates 6 to 18 months after publication of an amendment. The staff also believes that many entities (especially financial institutions) will apply the proposed amendments early.

## **Staff recommendations**

12. In summary, the staff recommend that:
  - a. the disclosure proposals relating to fair value and liquidity be published as soon as possible, and separately from the consolidation proposals;
  - b. the ED has a comment period of 120 days;
  - c. the Board include a statement in the Basis for Conclusions of the ED that the Board will aim to have an effective date for annual periods beginning on or after 1 January 2010, with earlier application permitted; and
  - d. the ED proposes retrospective application.

**Question to the Board: Does the Board agree with the staff recommendations set out in paragraph 12. If not, what does the Board wish to do, and why?**

**STAFF DRAFT FOR DISCUSSION AT  
OCTOBER 2<sup>nd</sup> 2008 IASB MEETING  
NOT APPROVED BY THE IASB**

**Exposure Draft**

**IMPROVING DISCLOSURES ABOUT FINANCIAL  
INSTRUMENTS**

**(PROPOSED AMENDMENTS TO IFRS 7)**

*Comments to be received by **1** 2009*

This exposure draft *Improving Disclosures about Financial Instruments* (proposed amendments to IFRS 7 *Financial Instruments: Disclosures*) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRS 7. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **15** 2009. Respondents are asked to send their comments electronically to the IASB Website ([www.iasb.org](http://www.iasb.org)), using the 'Open to Comment' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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## **CONTENTS**

**INTRODUCTION**

**INVITATION TO COMMENT**

**PROPOSED AMENDMENTS TO [ ]**

**APPENDIX:**

[ ]

[ ]

**GUIDANCE ON IMPLEMENTING**

**APPROVAL OF EXPOSURE DRAFT BY THE BOARD**

**BASIS FOR CONCLUSIONS**

## Introduction

- IN1 IFRS 7 *Financial Instruments: Disclosures* was issued in 2005 with mandatory application for annual periods beginning on or after 1 January 2007. This exposure draft contains proposals by the International Accounting Standards Board to amend IFRS 7. The proposed changes are in response to requests by users of financial statements and others to enhance disclosures about liquidity risk and fair value measurements of financial instruments in the light of market conditions.
- IN2 After the requirements were applied in 2007, the Board was informed that some of the disclosure requirements on the nature and extent of liquidity risk were unclear and difficult to apply and did not always result in useful information for users of the financial statements.
- IN3 This exposure draft proposes amendments that:
- (a) clarify that liquidity disclosures are required only for financial liabilities that result in the outflow of cash or another financial asset;
  - (b) require entities to provide quantitative disclosures based on how they manage liquidity risk for derivative financial liabilities;
  - (c) require entities to disclose the remaining expected maturities of non-derivative financial liabilities if they manage liquidity risk on the basis of expected maturities;
  - (d) strengthen the relationship between qualitative and quantitative disclosures about liquidity risk.
- IN4 The Board was also informed by users of financial statements and others that enhanced disclosures about fair value measurements were required, especially in the light of market conditions. Many suggested that the Board should consider disclosures similar to those included in Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board (FASB). Those disclosures are based on a three-level hierarchy for the inputs to the valuation techniques that are used to measure fair value.
- IN5 This exposure draft proposes amendments to disclosure requirements that are based on a three-level fair value hierarchy (similar to that used in SFAS 157). The exposure draft proposes amendments that would require disclosures about:
- (a) the level of the fair value hierarchy on which fair value measurements fall in their entirety both for fair values that are recognised in the statement of financial position and for fair values that are not recognised;
  - (b) the fair value measurements that use significant unobservable inputs to valuation techniques, including a reconciliation from the beginning balances to the ending balances;
  - (c) the movements between different levels of the fair value hierarchy, and the reasons for those movements.

## **Invitation to comment**

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The IASB invites comments on the amendments to IFRS 7 proposed in this exposure draft, particularly on the questions set out below. Comments are helpful if they:

- (a) comment on the questions as stated,
- (b) indicate the specific paragraph or group of paragraphs to which they relate,
- (c) contain a clear rationale, and
- (d) include any alternative the IASB should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant consideration.

The IASB is not requesting comments on matters  not addressed in this exposure draft.

Comments should be submitted in writing so as to be received no later than  2009.

### **Question 1 –**

*Question 1*

*[To be completed]*

# Draft amendments to International Financial Reporting Standard 7 *Financial Instruments: Disclosures*

Paragraph 27 is amended: new text is underlined and deleted text is struck through. Paragraphs 27A,–27D are added. Paragraphs 25, 26 and 28–30 are not proposed for amendment but are included here for ease of reference.

## Significance of financial instruments for financial position and performance

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### Other disclosures

#### Fair value

- 25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.
- 26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.
- 27 An entity shall disclose for each class of financial instruments:
- (a) The methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique for a class of financial instruments, the entity shall disclose that change and the reasons for making it.
  - ~~(b) — (d) [deleted] whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71–AG79 of IAS 39~~
  - ~~(c) — whether the fair values recognised or disclosed in the financial statements are 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. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.~~
  - ~~(d) — if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.~~

27A To make the disclosures required by paragraphs 27C and 27D an entity shall use a fair value hierarchy that prioritises the inputs used in valuation techniques. The fair value hierarchy shall have the following levels:

- (a) quoted prices in active markets for the same instrument (ie without modification or repackaging) (Level 1);
- (b) quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
- (c) valuation techniques for which any significant input is not based on observable market data (Level 3).

For the purposes of the fair value hierarchy, a significant input is an input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgement.

27B In some cases the inputs used to measure fair value might fall on different levels of the fair value hierarchy. A fair value measurement falls in its entirety on the same level as the lowest level input that is significant.

27C For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:

- (a) the level in the fair value hierarchy on which the fair value measurements fall in their entirety.
- (b) for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3) during the period, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
  - (i) total gains or losses for the period (realised and unrealised) recognised in profit or loss, and a description of where they are reported in the statement of comprehensive income;
  - (ii) total gains or losses recognised in other comprehensive income;
  - (iii) purchases, sales, issues and settlements (net); and
  - (iv) transfers into and/or out of Level 3 (eg transfers due to changes in the observability of market data).
- (c) the total amount of unrealised gains or losses for the period in (b)(i) included in profit or loss for those assets and liabilities still held at the end of the reporting period and a description of where those unrealised gains or losses are reported in the statement of comprehensive income.
- (d) for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes for each class of financial instrument. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

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\* For derivative assets and liabilities, the reconciliation disclosure required by paragraph (d) may be presented net.

- (e) any movements between the levels of the fair value hierarchy (excluding those required to be disclosed by paragraph 27C(b)(iv). The entity shall also disclose the reasons for all movements between the levels.

An entity shall provide this information in tabular format unless another format is more appropriate.

27D An entity shall disclose the fair value of the financial instruments or class of financial instruments that are not recognised in the statement of financial position and indicate the level of the fair value hierarchy on which the fair value measurements fall in their entirety

28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

- (a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and
- (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

29 Disclosures of fair value are not required:

- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
- (b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably; or
- (c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.

30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

- (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
- (c) information about the market for the instruments;
- (d) information about whether and how the entity intends to dispose of the financial instruments; and

- (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Paragraph 39 is amended: new text is underlined and deleted text is struck through. Paragraph 43A is added.

## **Liquidity risk**

39 An entity shall disclose:

- (a) a maturity analysis for derivative financial liabilities that is based on how the entity manages the liquidity risk associated with such instruments.
- ~~(a)~~(b) a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities for all items. If the entity manages liquidity on the basis of expected maturities, it also shall disclose the remaining expected maturities for those items.
- ~~(b)~~(c) a description of how it manages the liquidity risk inherent in (a) and (b).

...

## **Effective date and transition**

43A An entity shall apply amended paragraphs 27, 27A–27D, 39 and B11 and paragraphs B11A–B11E for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies those paragraphs for an earlier period, it shall disclose that fact.

## Appendix A

### Defined terms

The following term is amended: new text is underlined.

**liquidity risk**      The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

...

# Appendix B

## Application guidance

A heading and paragraph B11 are amended: new text is underlined and deleted text is struck through. Paragraphs B11A–B11E are added and paragraphs B12–B16 are deleted.

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

#### ~~Contractual maturity analysis~~ Maturity analyses (paragraph 39(a) ~~and (b)~~)

- B11 In preparing the ~~contractual maturity~~ analyses ~~analysis for financial liabilities~~ required by paragraph 39(a) ~~and (b)~~ an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:
- (a) not later than one month;
  - (b) later than one month and not later than three months;
  - (c) later than three months and not later than one year; and
  - (d) later than one year and not later than five years.
- B11A In meeting the requirements of paragraph 39, an entity shall not separate an embedded derivative from a hybrid instrument. For such an instrument, an entity shall apply the requirements of paragraph 39(b).
- B11B An entity shall explain how the estimates in the maturity analyses required by paragraph 39(a) and (b) are determined. For example, the entity shall explain how it determines the remaining expected maturities of those items for which liquidity risk is managed on that basis. If the estimated cash (or other financial asset) outflows included in the quantitative analysis could either:
- (a) occur significantly earlier than indicated in the maturity analysis, or
  - (b) be for significantly different amounts from those indicated in the maturity analysis (for example, for a derivative that is expected to be settled net but for which the counterparty has the option to require gross settlement),
- the entity shall state this fact and provide quantitative details that enables users of its financial statements to evaluate the extent of this risk.
- B11C Paragraph 39(a) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that is based on how the entity manages liquidity risk. For example:
- (a) when an entity manages liquidity risk for a trading portfolio of derivatives on the basis of fair value it shall disclose the total fair value of the derivative liabilities in the earliest time band because they can be settled net.
  - (b) when an entity manages the liquidity risk of interest rate swaps based on expected contractual cash flows it shall disclose the expected net cash flows of those swaps that are financial liabilities at the reporting date in each of the appropriate time bands.

- (c) when an entity manages the liquidity risk associated with loan commitments and financial guarantees based on expected cash outflows it shall disclose those expected cash outflows in the time bands when the entity expects the loan commitments or financial guarantees to be drawn.

B11D Paragraph 39(b) requires an entity to disclose a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities for all items. In this disclosure:

- (a) when a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.
- (b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay.
- (c) the contractual amounts disclosed in the maturity analysis for non-derivative financial liabilities are the contractual undiscounted cash flows.

B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the quantitative disclosures required in paragraph 39(a) and (b). If appropriate, the entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (for example, financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities). Other factors that the entity might consider in providing this disclosure include, but are not limited to, whether the entity:

- (a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;
- (b) holds deposits at central banks to meet liquidity needs;
- (c) has very diverse funding sources;
- (d) has significant concentrations of liquidity risk in either its assets or its funding sources;
- (e) has internal control processes and contingency plans for managing liquidity risk; or
- (f) has instruments that include accelerated repayment terms (for example, on the downgrade of the entity's credit rating) and how the entity would manage accelerated repayment.

~~B12–B16 [Deleted] When a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.~~

~~B13 When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.~~

~~B14—The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, for example:~~

- ~~(a) — gross finance lease obligations (before deducting finance charges);~~
- ~~(b) — prices specified in forward agreements to purchase financial assets for cash;~~
- ~~(c) — net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;~~
- ~~(d) — contractual amounts to be exchanged in a derivative financial instrument (eg a currency swap) for which gross cash flows are exchanged; and~~
- ~~(e) — gross loan commitments.~~

~~Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.~~

~~B15—If appropriate, an entity shall disclose the analysis of derivative financial instruments separately from that of non-derivative financial instruments in the contractual maturity analysis for financial liabilities required by paragraph 39(a). For example, it would be appropriate to distinguish cash flows from derivative financial instruments and non-derivative financial instruments if the cash flows arising from the derivative financial instruments are settled gross. This is because the gross cash outflow may be accompanied by a related inflow.~~

~~B16—When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the reporting period.~~

# Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

After paragraph IG13 a heading and paragraph IG13A and IG13B are added. Paragraph IG14 is not proposed for amendment but is included here for ease of reference.

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

### **Fair value (paragraphs 27–28)**

IG13A IFRS 7 requires disclosures about the level in the fair value hierarchy on which fair value measurements fall for assets and liabilities measured in the statement of financial position. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27C(a).

Description	31 Dec X1	Fair value measurement at end of the reporting period based on:		
		Quoted prices in active markets for the same instrument (Level 1)	Valuation techniques for which all significant inputs are based on observable market data (Level 2)	Valuation techniques for which any significant input is not based on observable market data (Level 3)
		CU million	CU million	CU million
Held-for-trading financial assets	115	105	10	-
Derivatives	60	25	15	20
Available-for-sale financial assets	<u>75</u>	<u>65</u>	-	<u>10</u>
Total	250	195	25	30

IG13B IFRS 7 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value and for which a valuation technique is used for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27C(b).

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3)	Fair value measurement at reporting date based on valuation techniques for which any significant input is not based on observable market data

<b>(Level 3)</b>			
	Derivatives	Available-for-sale financial assets	Total
	CU million	CU million	CU million
Beginning balance	14	11	25
Total gains or losses			
in profit or loss	11	(3)	8
in other comprehensive income	4	-	4
Purchases, issue and settlements (net)	(7)	2	(5)
Transfers into and/or out of Level 3	<u>(2)</u>	-	<u>(2)</u>
Ending balance	20	10	30
Total unrealised gains or losses for the period included in profit or loss for assets still held at the end of the reporting period	7	2	9
Gains and losses (realised and unrealised) included in profit or loss for the period (above) are reported in trading revenues and in other revenues as follows:			
		<u>Held for trading</u>	<u>Other revenues</u>
Total gains or losses included in profit or loss for the period (above)		<u>11</u>	<u>(3)</u>
Change in unrealised gains or losses for assets still held at the end of the reporting period		<u>7</u>	<u>2</u>

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG76 of IAS 39. 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 IAS 39 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

<p><b>Background</b></p> <p>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.</p> <p>The transaction price of CU15 million is the fair value at initial recognition.</p> <p>After initial recognition, the entity will apply a valuation technique to establish the financial assets' fair value. This valuation technique includes variables other than data from observable markets.</p> <p>At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.</p> <p>The entity has existing differences of CU5 million at 1 January 20X1.</p> <p><b>Application of requirements</b></p>
--

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

*Accounting policies*

The entity uses the following valuation technique to determine 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 IAS 39, 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 IAS 39, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception 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:

	<b>31 Dec X2</b>	<b>31 Dec X1</b>
	CU	CU
	million	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>

...

Two headings and paragraphs IG30 and IG31 are deleted.

## **Liquidity risk (paragraphs 39 and B11)**

### **Liquidity management (paragraph 39(b))**

~~IG30~~ If an entity manages liquidity risk on the basis of expected maturity dates, it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. If an entity discloses such an expected maturity analysis, it might clarify that expected dates are based on estimates made by management, and explain how the estimates are determined and the principal reasons for differences from the contractual maturity analysis that is required by paragraph 39(a).

~~IG31~~ Paragraph 39(b) requires the entity to describe how it manages the liquidity risk inherent in the maturity analysis of financial liabilities required in paragraph 39(a). The factors that the entity might consider in providing this disclosure include, but are not limited to, whether the entity:

- ~~(a)~~ expects some of its liabilities to be paid later than the earliest date on which the entity can be required to pay (as may be the case for customer deposits placed with a bank);
- ~~(b)~~ expects some of its undrawn loan commitments not to be drawn;
- ~~(c)~~ holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs;

- ~~(d) — has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;~~
- ~~(e) — holds financial assets for which there is not a liquid market, but which are expected to generate cash inflows (principal or interest) that will be available to meet cash outflows on liabilities;~~
- ~~(f) — holds deposits at central banks to meet liquidity needs;~~
- ~~(g) — has very diverse funding sources; or~~
- ~~(h) — has significant concentrations of liquidity risk in either its assets or its funding sources.~~

# Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IFRS 7.*

**[Not included in Observer Notes]**

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