International Accounting Standards Board®

Press Release

FOR IMMEDIATE RELEASE 18 August 2005

IASB issues standards to improve disclosures about financial instruments and capital

The International Accounting Standards Board (IASB) today issued International Financial Reporting Standard (IFRS) 7 *Financial Instruments: Disclosures* and a complementary Amendment to IAS 1 Presentation of Financial Statements—*Capital Disclosures*. The IFRS introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. It replaces IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and some of the requirements in IAS 32 *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduces requirements for disclosures about an entity's capital.

In developing these proposals, the IASB worked with an expert advisory group, the Financial Activities Advisory Committee. The Committee's members have experience and expertise in banks, finance companies and insurance companies and include auditors, preparers and regulators. Their role was to provide input from the perspective of preparers and auditors of financial statements of entities that have large exposures to financial instruments and to assist the IASB in developing an IFRS and Implementation Guidance for risk disclosures arising from financial instruments and for other related disclosures.

Introducing the new standard, Sir David Tweedie, IASB Chairman, said:

> The Board believes that the introduction of IFRS 7 will lead to greater transparency about the risks that entities run from the use of financial instruments. This, combined with the new requirements in IAS 1, will provide better information for investors and other users of financial statements to make informed judgements about risk and return.

The IFRS requires disclosures about the significance of financial instruments for an entity's financial position and performance. These disclosures incorporate many of the requirements previously in IAS 32 (whose title has been shortened to reflect the change). The IFRS also requires information about the extent to which the entity is exposed to risks arising from financial instruments, and a description of management's objectives, policies and processes for managing those risks. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The primary means of publishing proposed standards and amendments to standards is by electronic format through the IASB's subscriber Website. Subscribers are able to access today's publications through 'online services'. Those wishing to subscribe should contact:

> IASCF Publications Department,
> 30 Cannon Street, London EC4M 6XH, United Kingdom.
> Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
> email: publications@iasb.org Web: www.iasb.org

Printed copies of IFRS 7 *Financial Instruments: Disclosures* and the Amendment to IAS 1 Presentation of Financial Statements—*Capital Disclosures* (ISBN for the set 1-904230-85-7) are available from IASCF Publications Department at £15.00 for the set of four booklets.

END

Press enquiries:

Sir David Tweedie, Chairman, IASB
telephone: +44 (0)20 7246 6410, email: dtweedie@iasb.org

Elizabeth Hickey, Director of Technical Activities, IASB
telephone: +44 (0)20 7246 6458, email: ehickey@iasb.org

Andrea Pryde, Project Manager, IASB
telephone: +44 (0)20 7246 6473, email: apryde@iasb.org

NOTES TO EDITORS

About the Standards

IFRS 7 *Financial Instruments: Disclosures*

1 IFRS 7 applies to all risks arising from all financial instruments, except those covered by another more specific standard such as interests in subsidiaries, associates and joint venture, post-employment benefits, share-based payment and insurance contracts. Although IFRS 7 applies to all entities, the extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk.

2 IFRS 7 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, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

3 IFRS 7 includes mandatory application guidance that explains how to apply the requirements in the IFRS. It is accompanied by Implementation Guidance that describes how an entity might provide the disclosures required by the IFRS.

4 IFRS 7 is effective for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

5 IFRS 7 amends the disclosure requirements of IFRS 4 *Insurance Contracts* to be consistent with those in IFRS 7. Amendments to the Implementation Guidance accompanying IFRS 4 will be made in due course, after further consultation.

Amendment to IAS 1 Presentation of Financial Statements—*Capital Disclosures*

6 The Amendment to IAS 1 adds requirements for all entities to disclose:

(a) the entity's objectives, policies and processes for managing capital;

(b) quantitative data about what the entity regards as capital;

(c) whether the entity has complied with any capital requirements; and

(d) if it has not complied, the consequences of such non-compliance.

These disclosures provide information about level of an entity's capital and how it manages capital, which are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events.

About the IASB

7 The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB. The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general

purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

8 A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project.