



Project	Financial Instruments Recognition and Measurement
Topic	Consequential amendments to IFRS 7 <i>Financial Instruments: Disclosures</i>

Purpose of this paper

1. This paper presents possible consequential amendments to IFRS 7 *Financial Instruments Disclosures* that result from proposed changes to classification requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.
2. This paper *only* considers consequential amendments. This paper assumes that the Board agrees with all staff recommendations set out in the June agenda papers. Any new disclosure requirements that result from the proposed changes to classification will be separately discussed.
3. Appendix A to this paper summarises some possible new disclosure requirements and provides the agenda paper reference to the papers that set out the proposed disclosure requirements.
4. This paper asks the Board to consider the possible consequential amendments and further asks the Board whether there are additional consequential changes to IFRS 7 that we have not identified. These consequential amendments will form part of the exposure draft (ED) on classification and measurement.

Summary of proposed consequential amendments

5. The table below summarises the main non-editorial consequential amendments proposed. IFRS 7 cross references IAS 39 in several paragraphs. Such cross references will need to be updated as the classification and measurement requirements will be moved from IAS 39 to the new IFRS. The following table does not include updates to references and paragraph numbers as those updates are editorial.

IASB Staff paper

IFRS 7 paragraph	Proposed consequential change
IFRS 7.8 - Disclosures relating to categories of financial assets and liabilities on the statement of financial position	<ul style="list-style-type: none"> • Delete disclosure requirements for held to maturity investments, loans and receivables, and available for sale financial assets • Add disclosure requirement for financial assets measured at amortised cost
IFRS 7.12 and 12A– Reclassification disclosures	<ul style="list-style-type: none"> • Delete all reclassification disclosure requirements
IFRS 7.20(a) – Disclosures relating to items of income, expense, gains or losses on the statement of comprehensive income	<ul style="list-style-type: none"> • Delete disclosure requirements for held to maturity investments, loans and receivables, and available for sale financial assets • Add a requirement to disclose net gains and losses on financial assets measured at amortised cost <p>(Gains and losses on derecognition of financial assets and financial liabilities measured at amortised cost will be presented as a separate line item in the statement of comprehensive income through a consequential amendment to IAS 1 <i>Presentation of Financial Statements</i>.)</p>

IASB Staff paper

IFRS 7 paragraph	Proposed consequential change
IFRS 7.29(b) – Disclosures relating to unquoted equity instruments	<ul style="list-style-type: none"> • Delete exemption from fair value measurement disclosures for investments 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
Appendix A – Defined terms	<ul style="list-style-type: none"> • Delete particular definitions for terms that are no longer used
IFRS 7.B5(a)(ii) & (b) – Other disclosure – accounting policies	<ul style="list-style-type: none"> • Delete requirement to disclose criteria for designating financial assets or financial liabilities as at fair value through profit or loss because, based on the staff recommendation, there will be one criterion • Delete requirement to disclose criteria for designating financial assets as available for sale
IG13A-IG13B – Fair value disclosures	<ul style="list-style-type: none"> • Amend tables to reflect new classification categories
Appendix D – Amendments to IFRS 7 if the Amendments to IAS 39 Financial Instruments: Recognition and Measurement – <i>The Fair Value Option</i> have not been applied	<ul style="list-style-type: none"> • Delete Appendix D

IASB Staff paper

6. Appendix B to this paper contains marked up extracts of IFRS 7 for consequential changes that we have identified.

Transition

7. Agenda paper 4 (1 & 5 June) sets out a staff recommendation to transition for the proposed changes to classification requirements. The staff recommends retrospective application of the proposed changes to classification requirements. We think that consequential amendments to IFRS 7 should also be applied retrospectively to ensure consistency with relevant recognition and measurement requirements.

Staff recommendations and questions to the Board

The staff recommends that the Board include the proposed consequential amendments to IFRS 7 in the forthcoming ED on classification and measurement of financial instruments. The staff also recommends that the proposed consequential amendments be applied retrospectively.

- 1) Does the Board agree with the staff's recommendation? If not, what does the Board wish to do and why?
- 2) Has the Board identified other possible consequential amendments to IFRS 7 that result from changes to classification and measurement requirements? If yes, what are those additional consequential amendments?

Appendix A

Proposed disclosures for the ED	Agenda paper reference
Disclosures related to financial assets measured at fair value with changes in other comprehensive income	Agenda paper 3A (1 & 5 June) paragraph 20 and Agenda paper 3B paragraph 21
Disclosures for early adopters	Agenda paper 3C paragraph 85
Transition disclosures	Agenda paper 3C recommends adoption of disclosures required by IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for entities that apply proposed classification and measurement requirements from the effect date.
Details of the net amount presented in the statement of comprehensive income for gains and losses arising from the derecognition of financial assets and financial liabilities measured at amortised cost and an explanation of those amounts	N/A

Appendix B

International Financial Reporting Standard 7 *Financial Instruments: Disclosures*

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 IFRS XIAS 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 mandatorily classified as at fair value held for trading in accordance with IFRS XIAS 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 mandatorily classified as at fair value held for trading in accordance with IFRS XIAS 39; ~~and~~
 - ~~(c) financial assets measured at amortised cost; and~~
 - (fd) financial liabilities measured at amortised cost.

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

- 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9X of IFRS X 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.

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.

Statement of comprehensive income

Items of income, expense, gains or losses

- 20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
 - (i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily classified as at fair value held for trading in accordance with IFRS XIAS 39;
 - ~~(ii)~~ available for sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;
 - ~~(iii)~~ held to maturity investments;
 - ~~(iv)~~ loans and receivables; and
 - ~~(vii)~~ financial assets and financial liabilities measured at amortised cost;
 - (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;
 - (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
 - (i) financial assets or financial liabilities measured at amortised cost ~~that are not at fair value through profit or loss~~; and

- (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
- (d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and
- (e) the amount of any impairment loss for each class of financial asset measured at amortised cost.

Other disclosures

Fair value

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; and
- ~~(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~~
- ~~(e)~~ for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

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The following terms are defined in paragraph 11 of IAS 32, paragraph 9 of IAS 39 or paragraph X of IFRS X and are used in the IFRS with the meaning specified in IAS 32, IAS 39 or IFRS X.

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

Appendix B

Application guidance

This appendix is an integral part of the IFRS.

Classes of financial instruments and level of disclosure (paragraph 6)

- B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in ~~IFRS X-IAS 39~~ (which determine how financial instruments are measured and where changes in fair value are recognised).

Other disclosure – accounting policies (paragraph 21)

- B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for financial assets or financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;
 - ~~(ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and~~
 - (iii) how the entity has satisfied the condition in paragraph ~~X~~ of IFRS ~~X~~ 9–11A or 12 of IAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.
- ~~(b) the criteria for designating financial assets as available for sale.~~

Other price risk

- B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments classified as at fair value through profit or loss ~~and impairments of available for sale financial assets~~) is disclosed separately from the sensitivity of equity (that arises, for example, from instruments whose changes in fair value are presented in other comprehensive income ~~classified as available for sale~~).
- B28 Financial instruments that an entity classifies as equity instruments are not remeasured. Neither profit or loss nor equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Appendix D **Amendments to IFRS 7 if the Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied**

In June 2005 the Board issued Amendments to IAS 39 Financial Instruments: Recognition and Measurement—The Fair Value Option, to be applied for annual periods beginning on or after 1 January 2006. If an entity applies IFRS 7 for annual periods beginning before 1 January 2006 and it does not apply these amendments to IAS 39, it shall amend IFRS 7 for that period, as follows. In the amended paragraphs, new text is underlined and deleted text is struck through.

- D1 ~~The heading above paragraph 9 and paragraph 11 are amended as follows, and paragraph 9 is deleted:~~

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

- 11 ~~The entity shall disclose:~~
- ~~(a) the methods used to comply with the requirements in paragraphs 9(c) and paragraph 10(a).~~
 - ~~(b) if the entity believes that the disclosure it has given to comply with the requirements in paragraphs 9(c) or paragraph 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.~~

Paragraph B5(a) is amended as follows:

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- ~~(a) the criteria for designating, on initial recognition, for financial assets or financial liabilities designated as at fair value through profit or loss;~~
- ~~(i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;~~
 - ~~(ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and~~
 - ~~(iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of IAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.~~

Staff