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Agenda Paper 5

International Financial Reporting Standards

Taxonomy content

ITCG

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Agenda

- IAS 7 *Statement of Cash Flows* amendments – Exposure Draft
- IFRS 7 *Financial Instruments: Disclosures* amendments
  - Classification inconsistency
  - Credit grades
  - Transfers of loss allowance

International Financial Reporting Standards

IAS 7 *Statement of Cash Flows* amendments

Exposure Draft

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

IAS 7 Amendments – Exposure Draft

- Relate mostly to a new disclosure of reconciliation of items (excluding equity) for which cash flows are classified as financing cash flows
- First Exposure Draft to include IFRS Taxonomy considerations
- July – Board's decision that the Taxonomy should be limited to what is in the Standard and Illustrative Examples
- Current stage:
  - Discussion with the Technical Team on how to deal with existing issues within IAS 7
  - Preparation of the Taxonomy mapping and section in the ED

IAS 7 Amendments – Exposure Draft

- Existing issue:
  - Definition of financing activities: "Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity."
  - Paragraph 17

Cash flows from financing activities

Proceeds from issue of share capital → equity

Proceeds from long-term borrowings
Payment of finance lease liabilities → borrowings?

IAS 7 Amendments – ITCG review

- ITCG members will not be asked to review the Exposure Draft prior to public consultation:
  - no major areas have been identified for which specific guidance from the ITCG is required
  - consultation would delay the publication of the Exposure Draft (which already is a concern of the IASB)
- ITCG members are invited to provide public comment letters

QUESTION: do you agree with this approach?

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IFRS 7 *Financial Instruments: Disclosures* / IFRS 9 *Financial Instruments* amendments

Classification inconsistency

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IFRS 7 / IFRS 9 – Classification

- IFRS 9
  - new measurement category introduced - financial assets measured at fair value through other comprehensive income (FVOCI)
  - clarification that equity instruments for which the entity elected to present the changes in value in OCI (so-called “presentation alternative”) do not belong to this category – they are not measured at FVOCI

IFRS 7 / IFRS 9 - Classification

- IFRS 7

8 The carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:

(h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of IFRS 9.

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

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IFRS 7 / IFRS 9 - Classification

- Proposed solution
  - in relation to the new measurement category use "measured at FVOCI"
  - in relation to equity instruments use "designated at FVOCI" (delete all existing references to "measured")
- Solution acceptable to Technical Staff

QUESTION – do you agree with the proposed solution?

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IFRS 7 *Financial Instruments: Disclosures* amendments

Credit grades

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IFRS 7 – Credit grades

- The requirement in IFRS 7:

35M To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by *credit risk rating grades*, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided

credit risk rating grades	Rating of credit risk based on the risk of a default occurring on the financial instrument.

IFRS 7 – Credit grades

- The examples in IFRS 7:

Consumer loan credit risk exposure by internal rating grades				
20XX CU'000	Consumer—credit card Gross carrying amount		Consumer—automotive 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**

IFRS 7 – Credit grades

- The examples in IFRS 7:

Corporate loan credit risk profile by external rating grades				
20XX CU'000	Corporate—equipment Gross carrying amount		Corporate—construction 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**

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IFRS 7 – Credit grades

- The examples in IFRS 7:

Corporate loan risk profile by probability of default				
20XX CU'000	Corporate—unsecured Gross carrying amount		Corporate—secured 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

IFRS 7 – Credit grades

Issue 1:

Should all types of credit ratings (internal credit grades, external credit grades, probability of default) be on separate axes?

Advantage – possibility to combine breakdowns

Disadvantage – high number of axes (complex structure)

The Team members' views are divided. Some value simplicity (taking into consideration that combined breakdowns are practically never reported), while some value theoretical correctness.

IFRS 7 – Credit grades

Issue 2:

Should we create detailed members for external credit ratings? If yes, what should they be based on?

Advantage – fewer extensions

Disadvantage – promotes the method of one (or several) rating agencies & such content usually is outside the scope of the IFRS Taxonomy

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The Team's preference is not to create separate members. Companies may use various rating systems and we (and the Financial Instruments team) think it is better not to promote any.

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IFRS 7 *Financial Instruments: Disclosures* amendments

Transfers of loss allowance

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IFRS 7 – Transfers

- IFRS 7 requires presentation of a reconciliation of the loss allowance and explanation of significant changes in the gross carrying amount of financial instruments

35H To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the

35I To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided

IFRS 7 – Transfers

- The Illustrative Example in IFRS 7 presents both reconciliations and includes a number of lines for transfers between classes

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:	X	–	(X)	–
- 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)	–

IFRS 7 – Transfers

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	–	–

IFRS 7 – Transfers

- Please note:
  - The tables show only four columns, however their number might be greater in practice
  - The tables show only some types of transfers; however the number of potential lines is much higher
  - The naming of lines might not represent their full semantic meaning (eg the line “transfer to lifetime expected credit losses” does not include “transfers to lifetime expected credit losses for credit impaired assets”)
  - The transfers are not done on a 1:1 basis (from one class in another class), but often on 1:many
  - The transfers might be done on a “to” basis or a “from” basis

IFRS 7 – Transfers

POTENTIAL SOLUTIONS:

1) Have only 1 line item for all transfers and have preparers extend for their particular transfers, if necessary

Advantages

– simplicity

Disadvantages

– potentially a large number of extensions

IFRS 7 – Transfers

2) Have a number of lines for transfers based on the Illustrative Example and have preparers extend for their additional transfer lines, if necessary

Advantages

– fewer extensions compared to option 1)

– one line may describe (and relate) multiple numbers reported

Disadvantages

– still covers only a small portion of potential transfer lines

– lines need to be differently labelled to Illustrative Example

IFRS 7 – Transfers

3) Prepare a dimensional structure that would enable more complete identification of transfers but at the cost of higher complexity

Advantages

– fewer extensions compared to options 1) & 2)

Disadvantages

– very complex tagging

– dimensions describe individual items not lines (so some information will be lost)

– no calculation (formula possible)

IFRS 7 – Transfers

The Team members' views are divided. Some prefer a dimensional structure (option 3), while some think that when it is impossible to find a prefect solution for tagging simplicity is best (option 1).

QUESTIONS:

1) Which option do you prefer?

2) Can you think of any other options that were not identified?

Thank you

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