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ED 7

EXPOSURE DRAFT

ED 7 Financial Instruments: Disclosures

Comments to be received by 22 October 2004

International
Accounting Standards
Board®

Exposure Draft

ED 7 FINANCIAL INSTRUMENTS: DISCLOSURES

Comments to be received by 22 October 2004

ED 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 as an International Financial Reporting Standard (IFRS). Comments on the draft IFRS and its accompanying documents (see separate booklets) should be submitted in writing so as to be received by **22 October 2004.**

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. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org** or addressed to:

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Contents

INVITATION TO COMMENT

The International Accounting Standards Board invites comments on any aspect of this Exposure Draft of its proposed IFRS *Financial Instruments: Disclosures.* It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **22 October 2004**.

Question 1 – Disclosures relating to the significance of financial instruments to financial position and performance

The draft IFRS incorporates disclosures at present contained in IAS 32 *Financial Instruments: Disclosure and Presentation* so that all disclosures about financial instruments are located in one Standard. It also proposes to add the following disclosure requirements:

(a) financial assets and financial liabilities by classification (see paragraphs 10 and BC13).

(b) information about any allowance account (see paragraphs 17 and BC14).

(c) income statement amounts by classification (see paragraphs 21(a), BC15 and BC16).

(d) fee income and expense (see paragraphs 21(d) and BC17).

Are these proposals appropriate? If not, why not? What alternative disclosures would you propose?

Question 2 – Disclosure of the fair value of collateral and other credit enhancements

For an entity's exposure to credit risk, the draft IFRS proposes to require disclosure of the fair value of collateral pledged as security and other credit enhancements unless impracticable (see paragraphs 39, 40, BC27 and BC28).

Is this proposal appropriate? If not, why not? What, if any, alternative disclosures would you propose to meet the stated objective?

Question 3 – Disclosure of a sensitivity analysis

For an entity that has an exposure to market risk arising from financial instruments, the draft IFRS proposes to require disclosure of a sensitivity analysis (see paragraphs 43, 44 and BC36-BC39).

Is the proposed disclosure of a sensitivity analysis practicable for all entities?

If not, why not and what, if any, alternative disclosures of market risk would you propose to meet the stated objective of enabling users to evaluate the nature and extent of market risk?

Question 4 – Capital disclosures

The draft IFRS proposes disclosure of information that enables users of an entity's financial statements to evaluate the nature and extent of its capital. This includes a proposed requirement to disclose qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance (see paragraphs 46-48 and BC45-BC54).

Is this proposal appropriate? If not, why not? Should it be limited to only externally imposed capital requirements? What, if any, alternative disclosures would you propose?

Question 5 – Effective date and transition

The proposed effective date is for periods beginning on or after 1 January 2007 with earlier adoption encouraged (see paragraphs 49 and BC62-BC67).

Entities adopting IFRSs and the draft IFRS for the first time before 1 January 2006 would be exempt from providing comparative disclosures for the draft IFRS in the first year of adoption (see Appendix B, paragraph B9).

Are the proposed effective date and transition requirements appropriate? If not, why not? What alternative would you propose?

Question 6 – Location of disclosures of risks arising from financial instruments

The disclosure of risks arising from financial instruments proposed by the draft IFRS would be part of the financial statements prepared in accordance with International Financial Reporting Standards (see paragraph BC41). Some believe that disclosures about risks should not be part of financial statements prepared in accordance with IFRSs; rather they should be part of the information provided by management outside the financial statements.

Do you agree that the disclosures proposed by the draft IFRS should be part of the financial statements? If not, why not?

Question 7 – Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)

Paragraph B10 of Appendix B proposes amendments to the risk disclosures in IFRS 4 *Insurance Contracts* to make them consistent with the requirements proposed in the draft IFRS. The requirements in IFRS 4 were based on disclosure requirements in IAS 32 that would be amended by the draft IFRS. The Board's reasons for proposing these amendments are set out in paragraphs BC57-BC61.

Do you agree that the risk disclosures in IFRS 4 should be amended to make them consistent with the requirements proposed in the draft IFRS? If not, why not and what amendments would you make pending the outcome of phase II of the Board's Insurance project?

Question 8 – Implementation Guidance

The draft Implementation Guidance accompanying the draft IFRS suggests possible ways to apply the risk disclosure requirements in paragraphs 32-45 (see paragraphs BC19, BC20 and BC42-BC44).

Is the Implementation Guidance sufficient? If not, what additional guidance would you propose?

Question 9 – Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board (FASB).

The FASB's Proposed Statement of Financial Accounting Standards *Fair Value Measurements*, which is open for public comment at the same time as this Exposure Draft, proposes guidance on how to measure fair value that would apply broadly to financial and non-financial assets and liabilities that are measured at fair value in accordance with other FASB pronouncements. That Exposure Draft proposes disclosure of information about the use of fair value in measuring assets and liabilities as follows:

(a) For assets and liabilities that are remeasured at fair value on a recurring (or ongoing) basis during the period (for example, trading securities)

  (i) the fair value amounts at the end of the period, in total and as a percentage of total assets and liabilities,

  (ii) how those fair value amounts were determined (whether based on quoted prices in active markets or on the results of other valuation techniques, indicating the extent to which market inputs were used), and

  (iii) the effect of the remeasurements on earnings for the period (unrealised gains or losses) relating to those assets and liabilities still held at the reporting date.

(b) For assets and liabilities that are remeasured at fair value on a non-recurring (or periodic) basis during the period (for example, impaired assets), a description of

  (i) the reason for remeasurements,

  (ii) the fair value amounts,

  (iii) how those fair value amounts were determined (whether based on quoted prices in active markets or on the results of other valuation techniques, indicating the extent to which market inputs were used), and

  (iv) the effect of the remeasurements on earnings for the period relating to those assets and liabilities still held at the reporting date.

Disclosures similar to (a)(ii) above are proposed in paragraph 31 of the draft IFRS (and are currently required by paragraph 92 of IAS 32) and disclosures similar to (a)(iii) are proposed in paragraph 21(a).

Do you agree that the requirements in the draft IFRS provide adequate disclosure of fair value compared with those proposed in the FASB's Exposure Draft? If not, why not, and what changes to the draft IFRS would you propose?

Question 10 – Other comments

Do you have any other comments on the draft IFRS, Implementation Guidance and Illustrative Examples?

[Draft] International Financial Reporting Standard X *Financial Instruments: Disclosures* ([draft] IFRS X) is set out in paragraphs 1-50 and Appendices A and B. 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 [draft] Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. [Draft] IFRS X 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.

INTRODUCTION

Reasons for issuing the [draft] 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:

(a) reviewed existing disclosures in IAS 30 and IAS 32 and proposes to remove unnecessarily onerous or duplicative disclosures. This includes simplifications to the disclosures about concentrations of risk, credit risk, liquidity risk and market risk in IAS 32 and the deletion of disclosures about contingencies and commitments and general banking risks in IAS 30.

(b) proposes to locate in one place all disclosures relating to financial instruments. Consequently, paragraphs 9-31 of the [draft] IFRS are generally unamended from IAS 32. The Table of Concordance accompanying the [draft] IFRS indicates how the contents of IAS 30 and IAS 32 (revised in December 2003) and the [draft] IFRS correspond.

Main features of this [draft] IFRS

IN4 [Draft] IFRS X applies to all risks arising from all financial instruments, except for those instruments listed in paragraph 3. The [draft] 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 [draft] IFRS requires disclosure of the significance of financial instruments for an entity's financial position and performance. The [draft] IFRS incorporates many of the requirements previously in IAS 32.

IN6 The [draft] IFRS adds to the requirements previously in IAS 32 by requiring:

(a) enhanced balance sheet and income statement disclosures; and

(b) disclosures about an allowance account when one is used to reduce the carrying amount of impaired financial assets.

IN7 The [draft] IFRS requires qualitative and quantitative disclosures about exposure to risks arising from financial instruments. 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.

IN8 The [draft] IFRS requires specified minimum disclosures about credit risk, liquidity risk and market risk (including interest rate risk).

IN9 The [draft] IFRS requires disclosure of qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance.

IN10 The [draft] IFRS is accompanied by Implementation Guidance that describes how the disclosures required by the [draft] IFRS might be provided and Illustrative Examples that illustrate the application of the capital disclosure requirements.

[DRAFT] INTERNATIONAL FINANCIAL REPORTING STANDARD X

Financial Instruments: Disclosures

OBJECTIVE

1 The objective of this [draft] 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;

(b) the nature and extent of risks arising from financial instruments to which the entity was exposed during the period and at the reporting date; and

(c) the entity's capital.

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 [draft] IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates and 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, entities shall apply this [draft] IFRS to an interest in a subsidiary, associate or joint venture that according to IAS 27, IAS 28 or IAS 31 is accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In these cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 and IAS 31 in addition to those in this [draft] IFRS. Entities shall also apply the [draft] IFRS to all derivatives on 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) contracts for contingent consideration in a business combination (see IFRS 3 *Business Combinations*). This exemption applies only to the acquirer.

(d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, the [draft] IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately.

(e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, except for contracts within the scope of paragraphs 5-7 of IAS 39, to which the [draft] IFRS applies.

4 The [draft] 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 the [draft] IFRS (such as some loan commitments).

5 The [draft] IFRS shall be applied 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).

6 Paragraphs 46-48 require disclosures about capital. Capital may include items other than financial instruments.

CLASSES OF FINANCIAL INSTRUMENTS AND LEVEL OF DISCLOSURE

7 Some of the disclosures in this [draft] IFRS are required by class of financial instrument. Entities shall group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of the financial instruments. In general, classes are determined on a basis that distinguishes instruments measured at amortised cost from those measured at fair value. Entities shall provide sufficient information to permit reconciliation to the relevant items presented in the balance sheet. If an entity chooses to provide information about financial instruments not within the scope of this [draft] IFRS, these instruments constitute a class or classes of financial instruments separate from those within the scope of this [draft] IFRS.

8 An entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this [draft] IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. For example, an entity would not disclose information that is so detailed that it would obscure a financial statement users' understanding.

SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

9 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.

Minimum disclosures

Balance sheet

Classification

10 The carrying amounts of each of the following classifications, as defined in IAS 39, shall be disclosed:

(a) financial assets at fair value through profit or loss, showing separately those classified as held for trading and those designated by the entity as at fair value through profit or loss;

(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 those classified as held for trading and those designated by the entity as at fair value through profit or loss; and

(e) financial liabilities measured at amortised cost.

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

11 If the entity has designated a financial liability as at fair value through profit or loss, it shall disclose:

(a) the amount of change in its fair value that is not attributable to changes in a benchmark interest rate; and

(b) the difference between its carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

12 For a financial liability whose fair value is determined on the basis of an observed market price, the amount of change in the fair value of the financial liability that is not attributable to changes in a benchmark interest rate can be estimated as follows:

(a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the benchmark interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.

(b) Next, the entity calculates the present value of the liability using the liability's contractual cash flows at the start of the period and a discount rate equal to the sum of the benchmark interest rate at the end of the period and the instrument-specific component of the internal rate of return at the start of the period as determined in (a).

(c) The amount determined in (b) is then decreased for any cash paid on the liability during the period and increased to reflect the increase in fair value that arises because the contractual cash flows are one period closer to their due date.

(d) The difference between the observed market price of the liability at the end of the period and the amount determined in (c) is the change in fair value that is not attributable to changes in the benchmark interest rate. This is the amount to be disclosed.

Reclassification

13 If the entity has reclassified a financial asset as one measured at cost or amortised cost rather than at fair value (see paragraph 54 of IAS 39), it shall disclose the reason for that reclassification.

Derecognition

14 An entity may have either transferred a financial asset (see paragraph 18 of IAS 39) or entered into the type of arrangement described in paragraph 19 of IAS 39 in such a way that the arrangement does not qualify as a transfer of a financial asset. If the entity either continues to recognise all of the asset or continues to recognise the asset to the extent of the entity's continuing involvement (see paragraphs 29 and 30 of IAS 39) it shall disclose for each class of financial asset:

(a) the nature of the asset;

(b) the nature of the risks and rewards of ownership to which the entity remains exposed;

(c) when the entity continues to recognise all of the asset, the carrying amounts of the asset and of the associated liability; and

(d) when the entity continues to recognise the asset to the extent of its continuing involvement, the total amount of the asset, the amount of the asset that the entity continues to recognise and the carrying amount of the associated liability.

Collateral

15 An entity shall disclose the carrying amount of financial assets pledged as collateral for liabilities, the carrying amount of financial assets pledged as collateral for contingent liabilities, and terms and conditions relating to assets pledged as collateral.

16 When an entity has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral, it shall disclose:

(a) the fair value of the collateral accepted (financial and non-financial assets);

(b) the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it; and

(c) terms and conditions associated with its use of this collateral.

Allowance account for credit losses

17 When an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses an entity shall disclose a reconciliation of changes in the allowance account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

18 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of IAS 32) and the instrument has multiple embedded derivative features whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and breaches

19 With respect to any defaults during the period of principal, interest, sinking fund, or redemption provisions on loans payable recognised at the reporting date, an entity shall disclose:

(a) details of those defaults;

(b) the amount recognised as at the reporting date in respect of the loans payable on which the defaults occurred; and

(c) with respect to amounts disclosed under (b), whether the default has been remedied or the terms of the loans payable renegotiated before the date the financial statements were authorised for issue.

An entity shall disclose the same information for any other breaches of loan agreements during the period when those breaches permit the lender to demand repayment (except for breaches that are remedied, or in response to which the terms of the loan are renegotiated, on or before the reporting date).

20 For the purpose of disclosing information on breaches of loan agreements in accordance with paragraph 19, loans payable include issued debt instruments and other financial liabilities other than short-term trade payables on normal credit terms. When such a breach occurred during the period, and the breach has not been remedied or the terms of the loan payable have not been renegotiated by the reporting date, the effect of

the breach on the classification of the liability as current or non-current is determined in accordance with IAS 1 *Presentation of Financial Statements*.

Income statement and equity

Items of income, expense, gains and losses

21 An entity shall disclose the following items of income, expense, gains and losses:

(a) net gains or net losses on:

(i) financial assets and financial liabilities at fair value through profit or loss, showing separately those on financial assets and financial liabilities classified as held for trading and those designated by the entity as at fair value through profit or loss;

(ii) available-for-sale financial assets, showing separately the amount of gain (loss) recognised directly in equity during the period and the amount that was removed from equity and recognised in profit or loss for the period;

(iii) held-to-maturity investments;

(iv) loans and receivables; and

(v) financial liabilities measured at amortised cost;

(b) how the income statement amounts in (a) are determined, for example, whether the net gains or net losses include interest and dividend income;

(c) total interest income and total interest expense (calculated using the effective interest method) for financial assets and financial liabilities that are not at fair value through profit or loss;

(d) fee income and expense (other than amounts included in determining the effective interest rate) arising on financial assets and financial liabilities, and from 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; and

(e) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39.

Impairment

22 An entity shall disclose the amount of any impairment loss by class of financial asset.

Other disclosures

Accounting policies

23 In accordance with IAS 1, an entity discloses all significant accounting policies, including the general principles adopted and the method of applying those principles to transactions, other events and conditions arising in the entity's business. In the case of financial instruments, such disclosure includes:

(a) the criteria for designating, on initial recognition, financial assets or financial liabilities as at fair value through profit or loss;

(b) the criteria for designating financial assets as available for sale;

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of IAS 39);

(d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:

  (i) the criteria for determining when the carrying amount of impaired financial assets is directly reduced (or, in the case of a reversal of a write-down, directly increased) and when the allowance account is used; and

  (ii) the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 17);

(e) the criteria for determining that an impairment loss has occurred (see paragraph 22); and

(f) the policy for determining when financial assets are no longer *past due* (see paragraph 40).

Hedge accounting

24 An entity shall disclose the following separately for designated fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation (as defined in IAS 39):

(a) a description of the hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date;

(c) the nature of the risks being hedged; and

(d) for cash flow hedges, the periods in which the cash flows are expected to occur, when they are expected to enter into the determination of profit or loss and a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur.

25 When a gain or loss on a hedging instrument in a cash flow hedge has been recognised directly in equity, through the statement of changes in equity, an entity shall disclose:

(a) the amount that was recognised in equity during the period;

(b) the amount that was removed from equity and included in profit or loss for the period; and

(c) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability that was a hedged highly probable forecast transaction.

Fair value

26 Except as set out in paragraphs 29 and 30, for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the balance sheet. (IAS 39 provides guidance for determining fair value.)

27 For financial instruments such as short-term trade receivables and payables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value.

28 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes and offset them only to the extent that their related carrying amounts are offset in the balance sheet.

29 The information about fair value in paragraphs 26 and 31 is not required to be disclosed for:

(a) an investment in unquoted equity instruments or a derivative linked to such equity instruments that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably; or

(b) a discretionary participation feature (as described in IFRS 4 *Insurance Contracts*) contained in a financial asset or financial liability if the fair values of that feature cannot be measured reliably.

30 If the information about fair value required in paragraphs 26 and 31 is not disclosed in accordance with paragraph 29, information shall be provided to help users of the financial statements in making their own judgements about the extent of possible differences between the carrying amount of such financial assets and 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 assets whose fair value previously could not be reliably measured are sold, that fact, the carrying amount of such financial assets at the time of sale and the amount of gain or loss recognised.

31 An entity shall disclose:

(a) the methods and assumptions applied in determining fair values of financial assets and financial liabilities separately for classes of financial assets and financial liabilities. For example, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses and interest or discount rates.

(b) whether fair values of financial assets and financial liabilities are determined directly, in full or in part, 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 its financial statements include financial instruments measured at fair values that are determined in full or in part using a valuation technique based on assumptions that are not supported by observable market prices or rates. If changing any such assumption to a reasonably possible alternative would result in a significantly different fair value, the entity shall state this fact and disclose the effect on the fair value of those reasonably possible alternative assumptions. For this purpose, significance shall be judged with respect to profit or loss and total assets or total liabilities.

(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.

NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

32 **An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity was exposed during the period and at the reporting date.**

33 The disclosures required by paragraphs 34-45 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, *credit risk*, *liquidity risk* and *market risk*.

Qualitative disclosures

34 For each risk arising from financial instruments, an entity shall disclose:

(a) the exposure to risk and how it arose;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

35 For each risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about the extent to which it is exposed to that risk as at the reporting date. This disclosure shall be based on the information provided internally to the entity's key management personnel (as defined in IAS 24 *Related Party Disclosures* (as revised in 2003)), for example the entity's board of directors and chief executive officer.

(b) the minimum disclosures required by paragraphs 39-45 of this [draft] IFRS, to the extent not provided in (a).

(c) concentrations of risk if not apparent from (a) and (b).

36 If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, further information shall be provided that is representative.

37 When an entity uses several methodologies in managing a risk exposure, the entity shall disclose information using the method(s) that provide the most relevant and reliable information.

38 Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement by management taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

(a) a description of how management determines concentrations;

(b) a description of the shared characteristic that identifies each concentration (eg counterparty, geographical area, currency and market); and

(c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

Minimum disclosures

Credit risk

39 An entity shall disclose by class of financial instrument with credit risk:

(a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral pledged or other credit enhancements;

(b) in respect of the amount disclosed in (a), a description of collateral pledged as security and other credit enhancements and, unless impracticable, their fair value; and

(c) information about the credit quality of financial assets with credit risk that are neither past due nor impaired.

Financial assets that are either past due or impaired

40 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired;

(b) an analysis of financial assets that are impaired as at the reporting date, including the factors the entity considered in determining that the financial assets are impaired; and

(c) in respect of the amounts disclosed in (a) and (b), a description of collateral pledged as security and other credit enhancements and, unless impracticable, their fair value.

Collateral and other credit enhancements obtained

41 When an entity obtains assets during the period by taking control of collateral pledged as security or calling on other credit enhancements (eg guarantees), an entity shall disclose:

(a) the nature of the assets obtained;

(b) the fair value of the assets obtained less the cost of obtaining them; and

(c) when the assets are not readily convertible into cash and the entity does not plan to use them in its operations, its policies for disposing of such assets.

Liquidity risk

42 An entity shall disclose:

(a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and

(b) a description of how it manages the liquidity risk inherent in (a).

Market risk

Sensitivity analysis

43 An entity shall disclose:

(a) a sensitivity analysis for each type of market risk at the reporting date, showing the effect of reasonably possible changes in the relevant risk variable (such as interest rates or exchange rates) on profit and loss and, when changes in fair value are recognised in equity, on equity;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used.

44 An entity is required to disclose the effect of a change in only the relevant risk variable. However, if management prepares a sensitivity analysis that reflects interdependencies between risk variables (eg interest rates and exchange rates typically vary with each other) and uses it to manage financial risks, it can use that sensitivity analysis to meet the minimum requirement.

Other market risk disclosures

45 When the sensitivity analysis disclosure is unrepresentative of a risk inherent in a financial instrument, additional information shall be disclosed. The additional information shall include:

(a) a description of the risk; and

(b) the effect of changes in the relevant risk variable on profit and loss and, when changes in fair value are recognised in equity, on equity.

CAPITAL

46 An entity shall disclose information that enables users of its financial statements to evaluate the entity's capital.

47 An entity shall disclose the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):

(i) a description of what it regards as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it regards as capital and any capital targets set by management.

(c) any changes in (a) and (b) from the previous period.

(d) whether during the period it complied with the capital targets set by management and any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with the capital targets set by management or the externally imposed capital requirements to which it is subject, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

48 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several geographical areas. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose the information separately.

EFFECTIVE DATE

49 An entity shall apply this [draft] IFRS for annual periods beginning on or after 1 January 2007. Earlier application is encouraged. If an entity applies this [draft] IFRS for an earlier period, it shall disclose that fact.

WITHDRAWAL OF IAS 30

50 The [draft] IFRS supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions.*

Appendix A
Defined terms

This appendix is an integral part of the [draft] IFRS.

credit risk	The risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
liquidity risk	The risk that an entity will encounter difficulty in meeting commitments associated with financial liabilities.
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The term “market risk” embodies both the potential for loss and the potential for gain. Market risk includes three types of risk: **currency risk, interest rate risk** and **other price risk**.
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from **interest rate risk** or **currency risk**), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.
past due	A financial asset is past due when a counterparty has failed to make a payment when contractually due.
prepayment risk	The risk that the counterparty to a financial asset will repay other than when expected.
residual value risk	The risk that the fair value of a non-financial asset that underlies a financial instrument will be more or less than expected.

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

- 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 instrument
- financial liability
- financial asset or financial liability at fair value through profit or loss
- financial asset or financial liability held for trading
- forecast transaction
- hedging instrument
- held-to-maturity investments
- loans and receivables
- regular way purchase or sale

Appendix B
Amendments to other IFRSs

The amendments in this [draft] appendix shall be applied for annual periods beginning on or after 1 January 2007. If an entity adopts this [draft] IFRS for an earlier period, these amendments shall be applied for that earlier period. In the amendments, new text is underlined and deleted text is struck through.

B1 In International Financial Reporting Standards, including International Accounting Standards and Interpretations, references to IAS 32 *Financial Instruments: Disclosure and Presentation* (as revised in December 2003) are amended to IAS 32 *Financial Instruments: Presentation*, unless otherwise stated below.

B2 IAS 32 *Financial Instruments: Disclosure and Presentation* (as revised in 2003) is amended as described below.

The title is amended to IAS 32 *Financial Instruments: Presentation*.

Paragraphs IN16-IN19 are deleted. A new paragraph IN16 is added as follows:

IN16. In [date], the Board revised and enhanced the disclosure requirements for risks arising from financial instruments, and relocated all disclosures about financial instruments in [draft] IFRS X.

Paragraph 1 is deleted and paragraphs 2 and 3 are amended as follows:

2. ~~This Standard contains requirements for the presentation of financial instruments and identifies the information that should be disclosed about them. The presentation requirements apply~~ The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. ~~The Standard requires disclosure of information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to those instruments. This Standard also requires disclosure of information about the nature and extent of an entity's use of financial~~

~~instruments, the business purposes they serve, the risks associated with them, and management's policies for controlling those risks.~~

3. The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement* and for disclosing information about them in [draft] IFRS X *Financial Instruments: Disclosures*.

Paragraphs 5 and 7 are deleted.

Paragraph 47 is amended as follows:

47. An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph ~~76~~39 of [draft] IFRS X.

Paragraph 50 is amended as follows:

50. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a 'master netting arrangement' with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 42 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph ~~76~~39 of IFRS X.

Paragraphs 51-95 are deleted.

Paragraphs 96-100 are renumbered as paragraphs 51-55.

In the Application Guidance, paragraph AG40 is deleted.

In the Basis for Conclusions, the heading above paragraph BC34 ("Disclosure") is footnoted as follows:

> In [date], the IASB relocated all disclosures relating to financial instruments to [draft] IFRS X.

In the Basis for Conclusions, a new paragraph BC34A is added after the heading "Fair Value (paragraphs 86-93)".

BC34A. Fair value information is widely used for business purposes in determining an entity's overall financial position and in making decisions about individual financial instruments. It is also relevant to many decisions made by users of financial statements because, in many circumstances, it reflects the judgement of the financial markets about the present value of expected future cash flows relating to an instrument. Fair value information permits comparisons of financial instruments having substantially the same economic characteristics, regardless of why they are held and when and by whom they were issued or acquired. Fair values provide a neutral basis for assessing management's stewardship by indicating the effects of its decisions to buy, sell or hold financial assets and to incur, maintain or discharge financial liabilities. When an entity does not measure a financial asset or financial liability in its balance sheet at fair value, it provides fair value information through supplementary disclosures.

B3 IAS 1 *Presentation of Financial Statements* (as revised in 2003) is amended as described below.

Paragraph 4 is amended as follows:

4. ~~IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* specifies additional requirements for banks and similar financial institutions that~~ [Draft] IFRS X *Financial Instruments: Disclosures* requires additional disclosures about financial instruments and capital. Those requirements are consistent with the requirements of this Standard.

The last sentence of paragraph 71(b) is deleted.

The second last sentence in paragraph 84 is deleted.

In paragraphs 56, 105(d)(ii) and 124, the reference to IAS 32 is replaced with [draft] IFRS X.

A new paragraph 101A is added as follows:

101A. In addition to the information required by paragraph 96 an entity provides the disclosures required by paragraphs 47 and 48 of [draft] IFRS X.

B4 IAS 14 *Segment Reporting* is amended as described below.

Paragraphs 27, 31-33, 46 and 74 are amended as follows:

27. An entity's internal organisational and management structure and its system of internal financial reporting to key management personnel (for example, the board of directors and the chief executive officer) shall normally be the basis for identifying the predominant source and nature of risks and differing rates of return facing the entity and, therefore, for determining which reporting format is primary and which is secondary, except as provided in subparagraphs (a) and (b) below:

(a) if an entity's risks and rates of return are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates, as evidenced by a "matrix approach" to managing the company and to reporting internally to key management personnel ~~***the board of directors and the chief executive officer,***~~ ***then the entity shall use business segments as its primary segment reporting format and geographical segments as its secondary reporting format; and***

(b) if an entity's internal organisational and management structure and its system of internal financial reporting to key management personnel ~~***the board of directors and the chief executive officer***~~ ***are based neither on individual products or services or on groups of related products/services nor on geography,*** ~~***the directors and management of the***~~ ***entity's key management personnel shall determine whether the entity's risks and returns are related more to the products and services it produces or more to the geographical areas in which it operates and, as a consequence, shall choose either business segments or geographical segments as the entity's primary segment***

reporting format, with the other as its secondary reporting format.

31. An entity's business and geographical segments for external reporting purposes shall be those organisational units for which information is reported to key management personnel ~~the board of directors and to the chief executive officer~~ for the purpose of evaluating the unit's past performance and for making decisions about future allocations of resources, except as provided in paragraph 32.

32. If an entity's internal organisational and management structure and its system of internal financial reporting to key management personnel ~~the board of directors and the chief executive officer~~ are based neither on individual products or services or on groups of related products/services nor on geography, paragraph 27(b) requires that the directors and management of the entity shall choose either business segments or geographical segments as the entity's primary segment reporting format based on their assessment of which reflects the primary source of the entity's risks and returns, with the other its secondary reporting format. In that case, the directors and management of the entity must determine its business segments and geographical segments for external reporting purposes based on the factors in the definitions in paragraph 9 of this Standard, rather than on the basis of its system of internal financial reporting to key management personnel ~~the board of directors and chief executive officer~~, consistent with the following:

(a) if one or more of the segments reported internally to key management personnel ~~the directors and management~~ is a business segment or a geographical segment based on the factors in the definitions in paragraph 9 but others are not, subparagraph (b) below shall be applied only to those internal segments that do not meet the definitions in paragraph 9 (that is, an internally reported segment that meets the definition shall not be further segmented);

(b) for those segments reported internally to key management personnel ~~the directors and management~~ that do not satisfy the definitions in paragraph 9, management of the entity shall look to the next lower level of internal segmentation that reports information along

product and service lines or geographical lines, as appropriate under the definitions in paragraph 9; and

(c) if such an internally reported lower-level segment meets the definition of business segment or geographical segment based on the factors in paragraph 9, the criteria in paragraphs 34 and 35 for identifying reportable segments shall be applied to that segment.

33. Under this Standard, most entities will identify their business and geographical segments as the organisational units for which information is reported to key management personnel ~~the board of directors~~ (particularly the supervisory non-management directors, if any~~) and to the chief executive officer (~~or the senior operating decision maker, which in some cases may be a group of several people) for the purpose of evaluating each unit's past performance and for making decisions about future allocations of resources. And even if an entity must apply paragraph 32 because its internal segments are not along product/service or geographical lines, it will look to the next lower level of internal segmentation that reports information along product and service lines or geographical lines rather than construct segments solely for external reporting purposes. This approach of looking to an entity's organisational and management structure and its internal financial reporting system to identify the entity's business and geographical segments for external reporting purposes is sometimes called the "management approach", and the organisational components for which information is reported internally are sometimes called "operating segments".

46. This Standard does not prohibit the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted for the consolidated or entity financial statements provided that (a) the information is reported internally to key management personnel ~~the board of directors and the chief executive officer~~ for purposes of making decisions about allocating resources to the segment and assessing its performance and (b) the basis of measurement for this additional information is clearly described.

74. If a business segment or geographical segment for which information is reported to key management personnel ~~the board of directors and chief executive officer~~ is not a reportable segment because it earns a majority of its revenue from sales to other segments, but nonetheless its revenue

from sales to external customers is 10 per cent or more of total entity revenue from sales to all external customers, the entity shall disclose that fact and the amounts of revenue from (a) sales to external customers and (b) internal sales to other segments.

B5 In paragraphs 31, 35, 47 and 56 of IAS 17 *Leases* (as revised in 2003), the reference to IAS 32 is replaced with [draft] IFRS X.

B6 In paragraph 72 of IAS 33 *Earnings per Share* (as revised in 2003), the reference to IAS 32 is replaced with [draft] IFRS X.

B7 IAS 39 *Financial Instruments: Recognition and Measurement* (as revised in 2003) is amended as described below.

In the Introduction, the following footnote is added to the end of paragraph IN25:

> In [date], the IASB relocated all disclosures relating to financial instruments to [draft] IFRS X.

Paragraph 1 is amended as follows:

1. The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting ~~and disclosing~~ information about financial instruments are ~~set out~~ in IAS 32 *Financial Instruments: ~~Disclosure and~~ Presentation*. Requirements for disclosing information about financial instruments are in [draft] IFRS X *Financial Instruments: Disclosures.*

In paragraph 45, the reference to IAS 32 is replaced with [draft] IFRS X.

Paragraph 48 is amended as follows:

48. In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, ~~or~~ IAS 32 or [draft] IFRS X, an entity shall apply paragraphs AG69 - AG82 of Appendix A.

In the Basis for Conclusions, the references to IAS 32 in paragraphs BC90 and BC222(s) are footnoted as follows:

> In [date], the IASB relocated all disclosures relating to financial instruments to [draft] IFRS X.

In the Guidance on Implementing IAS 39 Q&A F.1.12, both references to IAS 32.58 are replaced by [draft] IFRS X.24.

In the Guidance on Implementing IAS 39 Q&A G.1, the answer is amended as follows:

> ~~IAS 32.94(h)~~ [Draft] IFRS X.21 requires items of income, expense and gains and losses to be disclosed ~~whether included in profit or loss or in equity~~. This disclosure requirement encompasses ~~material~~ items of income, expense and gains and losses that arise on remeasurement to fair value. Therefore, an entity provides disclosures of ~~material~~ fair value changes, distinguishing between changes that are recognised in profit or loss and changes that are recognised in equity. Further breakdown is provided of changes that relate to:
>
> (a) AFS assets, showing separately the amount of gain (loss) recognised directly in equity during the period and the amount that was removed from equity and recognised in profit or loss for the period;
>
> (b) financial assets and financial liabilities at fair value through profit or loss, showing separately those on financial assets and financial liabilities classified as held for trading and those that were designated by the entity as at fair value through profit or loss; and
>
> (c) hedging instruments.
>
> ~~IAS 32~~ [Draft] IFRS X neither requires nor prohibits disclosure of components of the change in fair value by the way items are classified for internal purposes. For example, an entity may choose to disclose separately the change in fair value of those derivatives that IAS 39 classifies as held for trading but the entity classifies as part of risk management activities outside the trading portfolio.
>
> In addition, ~~IAS 32.94(e)~~ [draft] IFRS X.10 requires disclosure of the carrying amounts of financial assets and financial liabilities that: (i) are classified as held for trading and (ii) were, upon initial recognition, designated by the entity as financial assets and financial liabilities at fair value through profit or loss (ie those not financial instruments classified as held for trading).

B8 In the Basis for Conclusions on IAS 41 *Agriculture*, the second sentence of paragraph B3 is amended as follows:

> While most International Accounting Standards apply to entities in all activities, some International Accounting Standards, for example ~~IAS 30~~ ~~*Disclosures in the Financial Statements of Banks and*~~

~~*Similar Financial Institutions* and~~ IAS 40 *Investment Property* and IAS 41 *Agriculture*, deal with issues that arise in particular activities.

B9 In IFRS 1 *First-time Adoption of International Financial Reporting Standards,* a heading and paragraph 36B are added as follows:

Exemption from the requirement to provide comparative disclosures for IFRS X

36B An entity that adopts IFRSs before 1 January 2006 and chooses to adopt [draft] IFRS X *Financial Instruments: Disclosures* before 1 January 2006 need not present the comparative disclosures required by [draft] IFRS X in its first IFRS financial statements.

B10 IFRS 4 *Insurance Contracts* is amended as described below.

Paragraph 2(b) is amended as follows:

(b) financial instruments that it issues with a *discretionary participation feature* (see paragraph 35). ~~IAS 32 *Financial Instruments: Disclosure and Presentation*~~ [Draft] IFRS X *Financial Instruments: Disclosures* requires disclosure about financial instruments, including financial instruments that contain such features.

Paragraphs 38 and 39 are amended as follows:

38 An insurer shall disclose information that ~~helps~~ enables users of its financial statements to ~~understand~~ evaluate the amount, timing and uncertainty of future cash flows from insurance contracts.

39 To comply with paragraph 38, an insurer shall disclose:

(a) its objectives, policies and processes for ~~in~~ managing risks arising from insurance contracts and the methods used to manage the risks ~~and its policies for mitigating those risks~~.

~~(b) those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.~~

(~~c~~b) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:

(i) ~~the~~ a sensitivity analysis, showing the effect on ~~of~~ profit or loss and equity of reasonably possible ~~to~~ changes in variables that have ~~a material~~ an effect on them.

(ii) the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period in the methods and assumptions used.

(iii) concentrations of insurance risk, including a description of how management determines concentrations, a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area and currency) and the amount of the risk exposure associated with all contracts sharing that characteristic.

(iv~~iii~~) actual claims compared with previous estimates (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

(~~d~~c) the ~~information about interest rate risk and~~ disclosures for credit risk, liquidity risk and market risk that ~~IAS 32~~paragraphs 32-45 of IFRS X would require if the insurance contracts were within the scope of ~~IAS 32~~IFRS X.

(~~e~~d) information about exposures to ~~interest rate risk or~~ market risk, including interest rate risk, ~~under~~ arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

B11 The Guidance on Implementing IFRS 4 is amended as described below.

A new paragraph IG23A is added as follows:

IG23A Paragraph 15 of [draft] IFRS X requires an entity to disclose the carrying amount of financial assets pledged as collateral for liabilities, the carrying amount of financial assets pledged as collateral for contingent liabilities and any terms and conditions relating to assets pledged as collateral. In complying with this requirement, an insurer might also need to disclose segregation requirements that are intended to protect policyholders by restricting the use of some of the insurer's assets.

Paragraph IG44 is deleted and paragraphs IG47 and IG48 are amended as follows:

IG47 Information about the extent and nature of insurance contracts is more useful if it highlights any relationship between insurance contracts (and between insurance contracts and other items, such as financial instruments) that can affect the amount, timing or uncertainty of an entity's future cash flows. ~~The extent to which a risk exposure is altered by the relationship among the assets and liabilities might be~~ If the effect of any relationship is not apparent to users from disclosures provided in accordance with the IFRS, ~~information about the terms and conditions of insurance contracts (see paragraph IG49), but in some cases~~ further disclosure might be useful.

Risk management objectives and policies for mitigating insurance risk

IG48 Paragraph 39(a) of the IFRS requires an insurer to disclose its objectives, policies and processes for ~~in~~ managing risks arising from insurance contracts and the methods used to manage the risk ~~and its policies for mitigating those risks~~. Such discussion provides a valuable additional perspective that is independent of the specific contracts outstanding at a particular time. An insurer might disclose, for example:

(a) its ~~policies~~ processes for accepting, measuring, monitoring and controlling insurance risks, ~~including~~ which might include:

(i) the structure and organisation of the entity's risk management function(s), including a discussion of independence and accountability.

(ii) the scope and nature of the entity's risk reporting or measurement systems, such as internal risk measurement models, sensitivity analyses, scenario analyses, and stress testing, and how it integrates them into its operating activities. Useful disclosure might include a summary description of the approach used, associated assumptions and parameters (including confidence intervals, computation frequencies and historical observation periods) and strengths and limitations of the approach.

(iii) selection and approval of risks to be insured.~~;~~

(iv) use of limits and use of options and avoiding undue concentrations of risk~~;~~.

(v) the underwriting strategy to ensure that there are appropriate risk classification and premium levels.

(vi) the extent to which insurance risks are assessed and managed on an entity-wide basis.

(vii) asset and liability management (ALM) techniques.

These disclosures might be provided both for individual types of risks insured and overall and might include a combination of narrative descriptions and specific quantified data, as appropriate to the nature of the insurance contracts and their relative significance to the insurer.

~~(b) the methods it uses to assess and monitor insurance risk exposures both for individual types of risks insured and overall, such as internal risk measurement models, sensitivity analyses, scenario analyses, and stress testing, and how it integrates them into its operating activities. Useful disclosure might include a summary description of the approach used, associated assumptions and parameters (including confidence intervals, computation frequencies and historical observation periods) and strengths and limitations of the approach.~~

(~~c~~b) methods it employs to limit or transfer insurance risk exposures, such as retention limits and the use of reinsurance.

~~(d) the extent to which insurance risks are assessed and managed on an entity-wide basis.~~

~~(e) asset and liability management (ALM) techniques.~~

(~~f~~c) commitments received (or given) to issue (contribute) additional debt or equity capital when specified events occur.

Paragraphs IG49 and IG50 are deleted.

In paragraph IG51, the reference to paragraph 39(c) of the IFRS is amended to paragraph 39(b).

Paragraph IG51A is added as follows:

IG51A Such disclosures might include:

(a) information about the nature of the risk covered, with a brief summary description of the class (such as annuities, pensions, other life insurance, motor, property and liability).

(b) information about the general nature of participation features whereby policyholders share in the performance (and related risks) of individual contracts, pools of contracts or entities, including the general nature of any formula for the participation and the extent of any discretion held by the insurer.

(c) information about the terms of any obligation or contingent obligation for the insurer to contribute to government or other guarantee funds (see also IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

In paragraph IG52, the reference to paragraph 39(c)(i) of the IFRS is amended to paragraph 39(b)(i).

In paragraph IG55, the reference to paragraph 39(c)(ii) of the IFRS is amended to paragraph 39(b)(iii).

In paragraphs IG59 and IG60, the references to paragraph 39(c)(iii) of the IFRS are amended to paragraph 39(b)(iv).

Paragraphs IG62-IG65 are amended and paragraphs IG62A and IG64A are added as follows:

~~Interest rate risk and c~~Credit risk, liquidity risk and market risk

IG62 Paragraph 39(~~d~~c) of the IFRS requires an insurer to disclose information about ~~interest rate risk and~~ credit risk, liquidity risk and market risk. The information required is the same as that required by ~~IAS 32~~ [draft] IFRS X (to the extent not already covered by the disclosures discussed above).

IG62A Paragraph 50(a) of [draft] IFRS X requires a maturity analysis for financial liabilities that shows the remaining contractual maturities. As the maturity date of insurance liabilities depends on when the insured event occurs (rather than having a contractual maturity date) an insurer might disclose the following to comply with this requirement:

(a) information about the estimated timing of the net cash inflows and outflows resulting from recognised insurance liabilities, and reinsurance assets. To comply with IAS 1, the information would need to distinguish items due within one year from items due later. In addition, an insurer might disclose summary information about items due after one year (such as the estimated weighted average maturity of those items) or a more detailed analysis by time periods. The IFRS does not require an insurer to disclose the amounts of the estimated cash flows: an analysis, by estimated timing, of the amounts recognised in the balance sheet is sufficient.

(b) a summary narrative description of how the amounts in (a) could change if policyholders exercised lapse or surrender options in different ways.

IG63 If an insurer considers that lapse behaviour is likely to be sensitive to interest rates, the insurer might disclose that fact and state whether the disclosures about interest rate risk reflect that interdependence.

IG64 Informative disclosure includes information about the extent to which policyholder participation features mitigate or compound ~~interest rate risk~~ credit risk, liquidity risk or market risk.

IG64A This disclosure might include:

(a) a summary of significant guarantees, and of the levels at which guarantees of market prices or interest rates are likely to alter the insurer's cash flows materially.

(b) the basis for determining investment returns credited to policyholders, such as whether the returns are fixed, based contractually on the return of specified assets or partly or wholly subject to the insurer's discretion.

IG65 For an insurer, disclosure about credit risk might be particularly important for reinsurance contracts held and for credit risk assumed under credit insurance contracts and financial guarantees. Balances due from agents or brokers may also be subject to credit risk.

In paragraph IG70(c) the reference to IAS 32 is replaced with [draft] IFRS X.

TABLE OF CONCORDANCE

This table accompanies, but is not part of, the draft IFRS.

This table shows how the contents of IAS 30 and IAS 32 (as revised in 2003) and draft IFRS X correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ. Paragraphs 1-50 of IAS 32 are not amended, except as set out in Appendix B.

IAS 30 paragraph	**Draft IFRS X paragraph**
1-7	None
8	23
9	None
10	21
11-29	None
30	42(a)
31-39	42(b), IG24-IG30
40, 41	35(c), 38, IG9-IG11
42	None
43	17, 23(d)
44-52	None
53	39(b), 40(c)
54	None
55	21(d)
56-59	None

IAS 32 paragraph	**Draft IFRS X paragraph**
51	1(a), 9, 32
52	1(b), 32, Appendix A*
53	None
54	8, IG2
55	7
56, 57	34(b), IG7
58	24*
59	25*
60	23
61	23(c)
62-65	None
66	23
67-75	43-45, IG36, IG37
76	35(c), 39(a)
77, 78	None
79	IG13, IG14
80, 81	39(b)
82	IG14(c)
83, 84	35(c), 38, IG9, IG10
85	38(b), (c)
86	26*
87	IAS 32.BC34A*
88	27*
89	28*

* indicates paragraphs taken from IAS 32 with no significant amendment.

continued…

IAS 32 paragraph	Draft IFRS X paragraph
90	30
91	29(a), 30
91A	29(b), 30
92	31*
93	31(a)*
94(a)	14*
94(b)	15*
94(c)	16*
94(d)	18
94(e)	10
94(f)	11*
94(g)	13*
94(h)	21
94(i)	22
94(j)	19*
95	20*
96	renumbered as IAS 32.51*
97	renumbered as IAS 32.52*
98	renumbered as IAS 32.53*
99	renumbered as IAS 32.54*
100	renumbered as IAS 32.55*

* indicates paragraphs taken from IAS 32 with no significant amendment.