STAFF PAPER

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Project	Lack of Exchangeability (IAS 21)		
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CONTACT(S)	Vincent Louis Jawaid Dossani	vlouis@ifrs.org jdossani@ifrs.org	+44 (0) 20 7246 6470 +44 (0) 20 7332 2742

Purpose of the paper

1. As explained in Agenda Paper 12B for this meeting, this paper presents our analysis and recommendations on the disclosures an entity should provide when a currency lacks exchangeability. Our analysis in this paper builds on our analysis and recommendations in Agenda Papers 12C and 12D for this meeting.

Structure of the paper

2. This paper includes:

   (a) a summary of staff recommendations (paragraphs 4–5);

   (b) background information and feedback from users of financial statements (paragraphs 6–14);

   (c) staff analysis (paragraphs 15–38); and

   (d) staff recommendations (paragraphs 39–40).

3. This paper also includes two appendices:

   (a) Appendix A—Analysis of disclosure requirements in IFRS Standards; and

   (b) Appendix B—Extracts from IFRS 12 *Disclosure of Interests in Other Entities*.

Summary of staff recommendations

4. We recommend that an entity be required to disclose:

   (a) the currency that lacks exchangeability and a description of the restrictions that result in that lack of exchangeability;

   (b) a description of the transactions affected by the lack of exchangeability;

   (c) the carrying amount of assets and liabilities denominated in the currency that lacks exchangeability;

   (d) the spot rate(s) used and whether that rate is (i) an observable rate that approximates the spot rate, or (ii) has been estimated;

   (e) a description of the estimation technique applied, and qualitative and quantitative information about the inputs used in that estimation technique; and

   (f) qualitative information about each type of risk to which the entity is exposed because of a currency's lack of exchangeability, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

5. In addition, when a foreign operation's functional currency lacks exchangeability, we recommend that an entity be required to disclose:

   (a) the name of the foreign operation, its nature (ie subsidiary, joint operation, joint venture, associate or branch) and its principal place of business;

   (b) summarised financial information about the foreign operation; and

   (c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to that foreign operation, including events or circumstances that could expose the reporting entity to a loss. The entity also discloses the balance of assets to which such arrangements give rise.

Background information and feedback from users of financial statements

Background information

6. At its previous meetings, the IFRS Interpretations Committee (Committee) discussed possible disclosure requirements an entity should provide when a currency's exchangeability is lacking. Committee members directed us to conduct further research, including outreach with users of financial statements (investors), to identify disclosure requirements that would provide useful information.

7. As part of its *Disclosure Initiative—Targeted Standards-level Review of Disclosures*, the Board tentatively decided in 2018 to develop guidance that it would use when developing and drafting disclosure requirements[1] (Draft Guidance). The Draft Guidance includes:

   (a) the use of disclosure objectives that explain why particular disclosure information is useful to investors; and

   (b) a methodology to develop disclosure objectives and requirements. Understanding investors' information needs is a critical step of that methodology.

8. We applied some aspects of the Draft Guidance in analysing and developing our recommendations. In particular, we sought input from some investors (most of whom have experience in analysing financial statements of entities with operations in jurisdictions whose functional currency lacks exchangeability) to help us better understand their information needs (paragraphs 10–14). In the light of that feedback, we considered the objectives of any disclosure requirements and used those objectives to develop specific disclosure requirements (paragraphs 15–38).

9. As outlined in the Draft Guidance, we engaged with investors to understand:

   (a) what information they want disclosed;

   (b) why they are interested in that information;

[1] The latest complete Draft Guidance can be found in Agenda Paper 11A for the September 2018 Board meeting. The Board tentatively decided to update some aspects of the Draft Guidance at its February 2020 meeting.

(c) what analysis they will perform using the information;

(d) how precise and detailed the information should be to adequately meet their needs; and

(e) the relative prioritisation of the requested information—for example, distinguishing between the information critical to their analysis and information that is ‘nice to have’.

Feedback from users of financial statements

10. The investors we consulted say that when a currency’s exchangeability is lacking, they need information to understand:

(a) the factors creating that lack of exchangeability (for example, the nature of the restrictions that apply to that currency’s exchangeability);

(b) the nature of the risks to which an entity is exposed. For example, when the functional currency of an entity’s foreign operation lacks exchangeability, investors say they need information to understand whether the entity has arrangements (such as loans, liquidity arrangements, etc.) with that foreign operation that could expose it to a loss;

(c) the exposure of the entity to a currency that lacks exchangeability. In particular, investors say they need quantitative information to assess:

(i) the assets and liabilities denominated in that currency; and

(ii) the contribution of (1) transactions denominated in that currency; and (2) any foreign operation whose functional currency lacks exchangeability to the entity’s results and financial position; and

(d) information about the exchange rate(s) used when applying IAS 21 *The Effects of Changes in Foreign Exchange Rat*es.

11. Those investors say this information would help them factor a currency’s lack of exchangeability into their financial assessment of an entity. They say that unless they have information indicating otherwise, they significantly discount, or value to nil, transactions in that currency and any foreign operations with functional currencies that lack exchangeability.

12. Accordingly, they suggest that affected entities disclose the following:

    (a) a description of (i) the affected operations; (ii) the restrictions that create the currency's lack of exchangeability; and (iii) the risks to which the entity is exposed.

    (b) the exchange rate(s) used and a short description of the methodology used to determine that (those) rate(s).

    (c) any observable exchange rate even if that rate does not meet IAS 21's definition of a spot exchange rate (spot rate) or arises from transactions occurring on a parallel market that does not give rise to enforceable rights and obligations; and

    (d) summarised financial information about the affected transactions and foreign operations (including the foreign operations' statement of financial position and statement of financial performance). In particular, investors commended some entities for providing such information in the notes to their financial statements[2].

13. Those investors also say entities should provide these disclosures consistently over time, including:

    (a) the period in which a lack of exchangeability first arises, and

    (b) any subsequent period during which a currency continues to lack exchangeability.

14. We asked whether it would be useful to provide sensitivity analyses showing how (a) changes in the main inputs used in an estimation model could affect the spot rate resulting therefrom; and (b) an entity's financial statements would have been affected by a reasonably possible change in the exchange rate used. Investors say such sensitivity analyses would have limited informational value and would not be critical to their information needs.

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[2] In our outreach, we provided users with extracts from the financial statements of some entities which disclose information in respect of their Venezuelan operations. The purpose was to help users highlight which disclosures were useful to them, whether that information was sufficiently granular and whether there was additional information they would like that was not included in those financial statements.

Staff analysis

15. The Draft Guidance recommends that the Board develop:

    (a) high-level disclosure objectives within individual Standards. Those disclosure objectives would prompt preparers to consider whether the overall information provided in complying with the specific disclosure objectives and requirements of a Standard meets overall user information needs.

    (b) specific disclosure objectives that would underpin any disclosure requirements. Those specific disclosure objectives would provide a more granular application of the high-level disclosure objectives. They would also prompt entities to apply judgement in assessing whether each piece of information is material to their financial statements and whether the information provided meets specific user information needs.

16. We have applied this aspect of the Draft Guidance to develop our analysis and recommendations on disclosure requirements:

    (a) paragraphs 17–19 present our analysis regarding a high-level disclosure objective; and

    (b) paragraphs 20–38 set out our analysis regarding specific disclosure objectives and our recommendations on specific disclosure requirements in the light of these objectives.

High-level disclosure objective

17. A currency's lack of exchangeability results in an entity not being able to observe the spot rate. Applying our recommendations in Agenda Paper 12D for this meeting, an entity would estimate the spot rate. This rate could materially affect entities' financial statements. In addition, estimating this rate could require making judgement and assumptions. Investors need information to compare entities' financial position and performance. Accordingly, any overall disclosure objective should capture the effect of a lack of exchangeability on an entity's financial statements.

18. In addition, applying our proposed definition for exchangeability (and a lack thereof), a currency's lack of exchangeability would reflect circumstances in which an entity is

exposed to particular risks. Those risks could result in variability of cash flows ultimately derived from assets and liabilities denominated in that currency. Investors say they are interested in understanding those risks.

19. Accordingly, we think the overall objective of any disclosure requirements (ie the high-level disclosure objective) would be to disclose information that enables investors to understand how a currency's lack of exchangeability affects, or is expected to affect, an entity's financial performance, position and cash flows.

Specific disclosure objectives

Nature and financial effects of a lack of exchangeability

20. As explained in paragraph 10(c) of this paper, investors say they need information to assess an entity's exposure to a currency that lacks exchangeability by obtaining information about:

    (a) the assets and liabilities denominated in that currency; and

    (b) the contribution of (i) any transactions undertaken in that currency; and (ii) any foreign operation whose functional currency lacks exchangeability to the entity's results and financial position. Accordingly, we think a specific disclosure objective would be to require disclosure of information about the nature and financial effects of transactions and foreign operations affected by a currency's lack of exchangeability.

21. As explained in paragraphs 12(a) and 12(d), investors suggest an entity provide (a) a description of the affected transactions and foreign operations; and (b) summarised financial information about those operations. We think these disclosures would help meet the objective in paragraph 20 above.

22. Considering the disclosure objective in paragraph 20 and feedback from investors, we think an entity should disclose:

    (a) the currency that lacks exchangeability;

    (b) a description of the transactions affected by the lack of exchangeability; and

    (c) the carrying amount of assets and liabilities denominated in that currency.

23. In addition, when a foreign operation's functional currency lacks exchangeability, an entity should also disclose:

    (a) the name of the foreign operation, its nature (ie subsidiary, joint operation, joint venture, associate or branch) and its principal place of business; and

    (b) summarised financial information about the foreign operation. That information would be similar to that required by (i) paragraph B10 of IFRS 12 for a subsidiary that has material non-controlling interests; and (ii) paragraphs B12–B13 of IFRS 12 for material joint venture or associates (Appendix B to this paper reproduces those paragraphs).

24. As explained in Appendix A to this paper, we think an entity might already provide some or all of this information applying IFRS 12. We think it would be helpful to cross-reference the applicable IFRS 12 requirements.

Spot rate(s) used

25. A currency's lack of exchangeability results in an entity being unable to use an observable spot rate in applying IAS 21. While investors expect an entity to disclose the exchange rate(s) used when a currency lacks exchangeability (see paragraph 12(b)), neither IAS 21 nor any other IFRS Standard requires an entity to disclose the exchange rate(s) used. Accordingly, we think a specific disclosure objective would be to require an entity to disclose information about the spot rate(s) used for a currency that lacks exchangeability.

26. Considering this objective and feedback from investors, we think an entity should disclose the spot rate(s) used, and whether that rate is an observable rate that approximates the spot rate or whether it was developed using an estimation technique—see Agenda Paper 12D for this meeting.

Estimation process

27. As explained in paragraph 2.18 of the 2018 *Conceptual Framework for Financial Reporting*, a representation of an estimate can be a faithful representation if (a) the amount is described clearly and accurately as being an estimate; (b) the nature and limitations of the estimation process are appropriately described and (c) and no errors have been made in selecting and applying an appropriate process for developing the estimate.

28. As explained in paragraph 12(b) of this paper, investors say they need information on the methodology used to estimate the spot rate(s).

29. Accordingly, we think entities should provide specific disclosures in relation to the description of, and uncertainties about, the estimation process. The objective of these disclosures would be to provide qualitative and quantitative information about the estimation process and any uncertainties pertaining to that process.

30. Considering this objective and feedback from investors, we think an entity should disclose:

    (a) a description of the estimation technique used; and

    (b) qualitative and quantitative information about the inputs used. For example, if an entity uses inflation as an input when estimating the spot rate, the entity should disclose (i) the name of the price index used to compute the inflation rate and (ii) the magnitude of that index at the end of the reporting period.

31. As explained in Appendix A to this paper, we think an entity might provide some or all of this information applying paragraphs 125–133 of IAS 1 *Presentation of Financial Statements*. We think it would be helpful to cross-reference the applicable IAS 1 requirements.

32. Paragraph 12(c) explains that investors would like an entity to disclose other exchange rate(s) that can be observed. While such information could help investors benchmark the spot rate used by an entity with other observable data, we recommend not specifically requiring this disclosure—we think it would be impossible to be prescriptive in this respect because of the diversity of observable exchange rates that could exist for a particular currency (even if that currency lacks exchangeability). We also think it would be unduly onerous to require entities to disclose exchange rates that are not applicable to their circumstances.

Risks to which the entity is exposed

33. As discussed in paragraph 18 above, an entity is exposed to risks when a currency lacks exchangeability. We identify below some examples of those risks:

    (a) liquidity risk[3]:

        (i) an entity has financial assets (such as cash and cash equivalents) denominated in a currency that is not exchangeable with its functional currency. In such circumstances the entity is unable to use those assets to settle liabilities denominated in its functional currency at the reporting date.

        (ii) an entity has a foreign operation whose functional currency is not exchangeable. In such circumstances, the entity is unable to access or use the cash balances of the foreign operation to settle liabilities of the group at the reporting date.

    (b) credit risk[4]: an entity has a foreign operation whose functional currency is not exchangeable. The entity may have provided loans, or be committed to providing financial support, to the foreign operation. Because a currency's lack of exchangeability generally reflects adverse economic conditions, the foreign operation might not be able to redeem the loans or might require the entity's financial support. This exposes the entity providing loans or financial support (or the equity holders of that entity) to a loss.

    (c) currency risk[5]: an entity estimates the spot rate for financial assets and liabilities. This rate may be significantly different from the rate that will apply when exchangeability is restored, and the assets and liabilities are settled. In such circumstances, the entity is exposed to currency risk.

34. Furthermore, as explained in paragraph 12(a) of this paper, investors expect an entity to (a) describe the restrictions that result in a lack of exchangeability and (b) disclose information about the risks that arise because of the lack of exchangeability.

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[3] Appendix A to IFRS 7 defines liquidity risk as the 'risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset'.

[4] Appendix A to IFRS 7 defines credit risk as the 'risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation'.

[5] Appendix A to IFRS 7 defines currency risk as 'the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates'.

35. Accordingly, we think that a specific disclosure objective would be to require entities to disclose qualitative and quantitative information about the nature and extent of risks arising from a currency that lacks exchangeability.

36. Considering this objective and feedback from investors, we think an entity should disclose:

    (a) a description of the restrictions[6] that result in a currency lacking exchangeability;

    (b) qualitative information about each type of risk to which the entity is exposed owing to a currency's lack of exchangeability; and

    (c) the nature and carrying amount of assets and liabilities exposed to each type of risk.

37. In addition, when a foreign operation's functional currency lacks exchangeability, we think an entity should also disclose the nature and terms of any contractual arrangements that could require provision of financial support to that foreign operation, including events or circumstances that could expose the entity to a loss. This information is similar to that required by paragraph 14 of IFRS 12 when an entity has interests in consolidated structured entities (see Appendix A to this paper). The entity also discloses the balance of assets to which such arrangements give rise.

38. As explained in Appendix A, we think an entity might already provide some or all of that information applying the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* and IFRS 12. We think it would be helpful to cross-reference the applicable requirements in those Standards.

Staff recommendations

39. Based on our analysis, we recommend that an entity be required to disclose:

    (a) the currency that lacks exchangeability and a description of the restrictions that result in that lack of exchangeability;

    (b) a description of the transactions affected by the lack of exchangeability;

[6] The entity would not be required to provide an assessment of the factors that we identified in Agenda Paper 12C for this meeting to define a lack of exchangeability (or a lack thereof).

(c) the carrying amount of assets and liabilities denominated in the currency that lacks exchangeability;

(d) the spot rate(s) used and whether that rate (i) is an observable rate that approximates the spot rate, (ii) or has been estimated;

(e) a description of the estimation technique applied, and qualitative and quantitative information about the inputs used in that estimation technique;

(f) qualitative information about each type of risk to which the entity is exposed because of a currency's lack of exchangeability, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

40. In addition, when a foreign operation's functional currency lacks exchangeability, we recommend that an entity be required to disclose:

(a) the name of the foreign operation, its nature (ie subsidiary, joint operation, joint venture, associate or branch) and its principal place of business; and

(b) summarised financial information about the foreign operation; and

(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to that foreign operation, including events or circumstances that could expose the reporting entity to a loss. The entity also discloses the balance of assets to which such arrangements give rise.

Question for the Board

Does the Board agree with our analysis and recommendations on the disclosures that an entity shall provide when a currency lacks exchangeability?

Appendix A—Analysis of disclosure requirements in IFRS Standards

A1. Paragraphs 39–40 of this paper summarise our recommendations on the disclosures an entity should provide when a currency lacks exchangeability. This appendix identifies and analyses some requirements in other IFRS Standards that might already require an entity to provide some of those disclosures. Identifying and cross-referencing existing requirements would help minimise duplication in IFRS Standards[7].

The nature and financial effects of a lack of exchangeability

A2. Paragraph 1 of IFRS 12 states (emphasis added):

> The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate:
>
> (a) the nature of, and risks associated with, its interests in other entities; and
>
> (b) *the effects of those interests on its financial position, financial performance and cash flows*.

A3. Paragraph 8 of IAS 21 defines a foreign operation as 'an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity'.

A4. Accordingly, an entity may already apply IFRS 12 when it has a foreign operation.

Summarised financial information

A5. Paragraph 20 of IFRS 12 sets out disclosure objectives for an entity's interests in joint arrangements and associates. It requires an entity to disclose information about the nature, extent and financial effects of its interests in joint arrangement and associates[8].

[7] The Draft Guidance explains that leveraging requirements across IFRS Standards assists the Board in drafting disclosure objectives and requirements.

[8] Paragraph 20 of IFRS 12 states : 'An entity shall disclose information that enables users of its financial statements to evaluate: (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22);…'

A6. Paragraph 21 of IFRS 12 requires an entity to disclose, for each material joint venture[9] and associate, summarised financial information about the joint venture or associate as specified in paragraphs B12–B13 of IFRS 12 (reproduced in Appendix B). Paragraph 23(b) of this paper includes our recommendation that an entity disclose summarised financial information of a foreign operation. In our view, an entity might, where applicable, meet that requirement by applying paragraph 21 of IFRS 12.

A7. IFRS 12 does not require an entity to disclose information similar to that required by paragraph 21 of IFRS 12 for subsidiaries unless a subsidiary has material non-controlling interests—this is because the disclosure objectives for an entity's interests in subsidiaries (as set out in paragraph 10 of IFRS 12[10]) are dissimilar to those applying to joint arrangements and associates. Accordingly, an entity might not always be able to leverage IFRS 12 when providing summarised information for foreign operations that are subsidiaries. Nonetheless, the entity might be able to do so if that subsidiary has material non-controlling interests. This is because paragraph 12(g) of IFRS 12 requires an entity to disclose summarised financial information about that subsidiary as specified in paragraph B10 (reproduced in Appendix B).

Restrictions to which an entity is exposed

A8. Paragraph 10(b)(i) of IFRS 12 requires an entity that has interests in subsidiaries to disclose information that enables investors to evaluate 'the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group. Paragraph 13 of IFRS 12 expands on this objective and states:

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[9] There is no such disclosure requirement for joint operations. Paragraph BC33 of IFRS 12 explains that '…assets and liabilities arising from joint operations are an entity's assets and liabilities and consequently are recognised in the entity's financial statements. Those assets and liabilities would be accounted for in accordance with the requirements of applicable IFRSs, and would be subject to the relevant disclosure requirements of those IFRSs. Therefore the Board concluded that entities should not be required to provide summarised financial information separately for joint operations'.

[10] Paragraph 10 of IFRS 12 states: 'An entity shall disclose information that enables users of its consolidated financial statements
(a) to understand: (i) the composition of the group; and (ii) the interest that non-controlling interests have in the group's activities and cash flows (paragraph 12); and
(b) to evaluate: (i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group (paragraph 13); (ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 14–17); (iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control (paragraph 18); and (iv) the consequences of losing control of a subsidiary during the reporting period (paragraph 19).'

> An entity shall disclose:
>
> (a) significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:
>
> > (i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
> >
> > (ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.
>
> (b) …
>
> (c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

A9. Similarly, paragraph 22(a) of IFRS 12 requires an entity to disclose 'the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity'.

A10. We think a lack of exchangeability of a foreign operation's functional currency creates a restriction to which paragraphs 13 and 22(a) of IFRS 12 may apply. An entity may, where applicable, disclose some of the information with respect to the risks to which an entity is exposed when a currency lacks exchangeability (see paragraphs 33–38) by disclosing the information in paragraphs 10(b)(i) and 13 of IFRS 12.

Estimation process

A11. Paragraphs 125–133 of IAS 1 specify requirements applying when an entity identifies major sources of estimation uncertainty. Paragraph 125 states:

> An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of

> resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
>
> (a) their nature, and
>
> (b) their carrying amount as at the end of the reporting period.

A12. Paragraph 129 provides examples of the types of disclosures an entity makes in this respect. It states:

> …Examples of the types of disclosures an entity makes are:
>
> (a) the nature of the assumption or other estimation uncertainty;
>
> (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
>
> (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
>
> (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

A13. In our view, an entity may, where applicable, disclose some or all of the information we recommend in paragraph 30 of this paper by applying paragraphs 125–133 of IAS 1.

Risks to which an entity is exposed

Risks related to an entity's interests in other entities

A14. As noted in paragraph A2 of this paper, IFRS 12 specifies that an entity shall disclose the nature of, and risks associated with, its interests in other entities.

Interests in joint arrangements and associates

A15. Paragraph 20 of IFRS 12 states:

> An entity shall disclose information that enables users of its financial statements to evaluate:
>
> …

(b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23)…

A16. With respect to risks associated with an entity's interests in joint ventures and associates, paragraph 23(a) of IFRS 12 requires the entity to disclose commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B23 of IFRS 12. Accordingly, the disclosure in paragraph 23(a) may be helpful in providing some of the disclosures we recommend in paragraph 36(b) of this paper. However, paragraph 23(a) applies only to joint ventures and not to associates.

Interests in subsidiaries

A17. Paragraph 10 of IFRS 12 (see paragraph A7 of this paper) does not require an entity to disclose the nature of, and risks associated with, its interests in a subsidiary, except when the subsidiary is a consolidated structured entity[11].

A18. Paragraphs 14–17 of IFRS 12 include disclosure requirements on the nature of the risks associated with an entity's interests in consolidated structured entities. Those paragraphs require an entity to disclose the terms and effects of arrangements that result (or could result) in transfer of cash from the parent (or other consolidated entities) to a consolidated structured entity[12]. In particular, paragraph 14 states:

> An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

A19. In our view, the requirements in paragraph 14 of IFRS 12 are similar to the disclosure we recommend in paragraph 37 of this paper. Accordingly, we think that where

[11] Appendix A to IFRS 10 defines a structured entity as 'an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.'

[12] In our view, paragraphs 14–17 of IFRS 12 require disclosures on possible 'downwards' cash transfers from the reporting entity (and other subsidiaries) to a *specific* category of subsidiaries (ie consolidated structured entities) whereas paragraph 13(a) of IFRS 12 requires disclosures on restrictions applying to 'upwards' cash transfers from *any* subsidiaries to the parent or other subsidiaries.

applicable an entity might meet the disclosure requirement in paragraph 37 of this paper by applying paragraph 14 of IFRS 12.

Risks related to financial instruments

A20. IFRS 7 applies to financial instruments. Paragraph 31 of IFRS 7 states:

> 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 is exposed at the end of the reporting period.

A21. Paragraphs 32–42 of IFRS 7 specify disclosure requirements on the nature and extent of risks arising from financial instruments. Those risks include, credit risk, liquidity risk and market risk (including currency risk[13]).

A22. Paragraphs 33 and 34 of IFRS 7 specify qualitative and quantitative disclosures for each type of risk arising from financial instruments. In particular:

(a) paragraph 33(a) requires an entity to disclose information about its exposures to risks and how they arise; and

(b) paragraph 34(a) requires an entity to disclose summary quantitative data about its exposure to each type of risk at the end of the reporting period—that disclosure is based on the information provided internally to key management personnel of the entity as defined in IAS 24.

A23. Additional specific disclosures apply to each type of risk:

(a) paragraphs 35A–38 set out requirements for credit risk;

(b) paragraph 39 set out requirements for liquidity risk; and

(c) paragraphs 40–42 of IFRS 7 set out requirements for market risk.

A24. Accordingly, we think that an entity might provide some or all of the information described in paragraph 36 of this paper by applying IFRS 7 to its financial instruments.

[13] Appendix A to IFRS 7 specifies that currency risk is a type of market risk. Paragraph B23 of IFRS 7 further states that: ‘currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this IFRS, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency’.

Appendix B—Extract from IFRS 12 *Disclosure of Interests in Other Entities*

B1. This appendix reproduces paragraphs B10, B12 and B13 of IFRS 12.

B10 For each subsidiary that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

(a) dividends paid to non-controlling interests.

(b) summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income.

…

B12 For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

(a) dividends received from the joint venture or associate.

(b) summarised financial information for the joint venture or associate (see paragraphs B14 and B15) including, but not necessarily limited to:

(i) current assets.

(ii) non-current assets.

(iii) current liabilities.

(iv) non-current liabilities.

(v) revenue.

(vi) profit or loss from continuing operations.

(vii) post-tax profit or loss from discontinued operations.

(viii) other comprehensive income.

(ix) total comprehensive income.

B13 In addition to the summarised financial information required by paragraph B12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

(a) cash and cash equivalents included in paragraph B12(b)(i).

(b) current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iii).

(c) non-current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iv).

(d) depreciation and amortisation.

(e) interest income.

(f) interest expense.

(g) income tax expense or income.