INTRODUCTION

The Mazars Insight series on IFRS aim at helping preparers, users and auditors of financial statements develop their theoretical and practical understanding of IFRSs. Our objective is to provide our readers, whether beginners or experts, with useful tools which provide clarity and insight on the challenging issues that may be encountered when applying IFRSs. Concepts are explained in a pedagogical way and illustrated by numerous practical examples.

This IFRS Insight addresses the accounting for financial instruments under IFRS. It draws on several relevant IFRS standards to tackle, in one manual, the entire range of challenges related to financial instruments among which: recognition and derecognition, classification and measurement, impairment for credit risk, derivatives and hedging, and related disclosures. It includes all the new requirements introduced by IFRS 9 and the related amendments to other standards such as IFRS 7.

After a two-pager providing an overview of IFRS requirements for financial instruments in 10 key points, a table of content shows the list of chapters. Each chapter starts with a detailed table of content to direct readers straight to the topic they are searching for. Many cross references have been inserted for improved reading experience. We draw specific attention to chapter 2 which comprises the definitions and the list of abbreviations and acronyms used in this manual.

Our special thanks are addressed to the international team of authors who contributed to this manual: Egle Mockaityte, Florence Michel, Heike Hartenberger, Mohamed Taghia and Nicolas Millot. Additional thanks go to Isabelle Grauer-Gaynor, Marie Fossat and Marion Platevoet for their precious help in finalising this publication.

Vincent Guillard
IFRS Lead Partner for Financial Instruments
10 KEY POINTS TO REMEMBER

1. Scope

The accounting treatment of financial instruments under IFRS is defined by several standards. IFRS 9 – Financial Instruments provides requirements for recognition and derecognition, classification, measurement (including impairment) and hedge accounting. IAS 32 – Financial Instruments: Presentation provides principles for distinguishing issued debt and equity instruments as well as requirements for offsetting financial assets and financial liabilities. IFRS 7 – Financial Instruments: Disclosures deals with most of the disclosure requirements, and IFRS 13 – Fair Value Measurement provides guidance on fair value measurement and related disclosure requirements. Each of these standards has specific scope exclusions, even for items that meet the definition of financial instruments. (see chapter 1)

2. Initial recognition

All financial instruments are initially recognised when the entity becomes party to the contract. Financial assets or liabilities are initially measured at their fair value plus or minus transaction costs, except financial instruments classified at FV-PL for which transaction costs are directly expensed into profit or loss. However, trade receivables are initially measured at their transaction price if they do not contain a significant financing component in accordance with IFRS 15. When the transaction price differs from the initial fair value of that financial instrument, a so called “day one gain or loss” may need to be recognised upon initial recognition in profit or loss. (see chapter 6)

3. Classification of financial assets

Financial assets whose contractual cash flows are Solely Payments of Principal and Interest (the SPPI test) will be classified in accordance with the entity’s business model for managing the asset: Amortised Cost if they are subject to a Hold-To-Collect business model, FV-OCI if they are held within a Hold-To-Collect-and-Sell business model, or FV-PL in any other situation. Financial assets that do not pass the SPPI test (e.g. derivatives and equity instruments) must be classified in the FV-PL category, except for some equity instruments which the entity may irrevocably classify in FV-OCINR.

Subsequent reclassifications are limited to SPPI financial assets, upon a change in the entity’s business model and are thus expected to be very infrequent.

Subject to specific conditions (e.g. when a situation of an accounting mismatch would otherwise arise), an entity may irrevocably classify any financial asset as measured at FV-PL upon initial recognition. (see chapter 7)

4. Impairment for expected credit losses

Entities must recognise an allowance for expected credit losses for all financial assets classified in the Amortised Cost or FV-OCI category, as well as for most loan commitments and financial guarantees issued. Upon initial recognition of the instrument, the loss allowance is equal to the credit losses that the entity expects as a result from default events occurring within the next 12 months (12MECL). This amount is updated at each reporting date. When a Significant Increase in the Credit Risk (SICR) of the asset is identified, the loss allowance must be measured at an amount equal to the credit losses that the entity expects to occur over the full remaining life of the asset (LTECL).

Purchased or originated credit-impaired (POCI) assets (i.e. assets with existing incurred credit losses upon initial recognition) follow a separate impairment and revenue recognition model.
A simplified expected credit loss impairment approach is mandatory for short term trade receivables and contract assets, and optional for other trade receivables and contract assets, and lease receivables. (see chapter 9).

5. **Classification of financial liabilities**

Most financial liabilities are classified in the Amortised Cost category unless they are held for trading, or meet the conditions for a voluntarily classification in the FV-PL category upon their initial recognition. (see chapter 8)

6. **Debt vs. Equity**

Financial instruments issued that are in the scope of IAS 32 must be analysed to determine whether they meet the definition of an equity instrument or that of a financial liability. An instrument is generally classified as a financial liability if it requires the entity either to deliver cash or another financial asset, or to deliver a variable number of its own equity instruments. A derivative may qualify as an equity instrument if it will be settled only by the issuer exchanging a fixed amount of cash for a fixed number of own equity instruments. Compound instruments contain both a liability and an equity component which must be accounted for separately.

7. **Embedded derivatives**

Derivative instruments may be either stand-alone contracts, or a feature embedded in a financial liability host contract or a non-financial host contract. Embedded derivatives must be bifurcated and accounted for separately as a stand-alone derivative if they are not economically closely related to their host contract. (see chapter 13)

8. **Hedge accounting**

Under IAS 39 and IFRS 9, most derivatives are by default measured at FV-PL whereas non-derivative financial assets and financial liabilities are often measured at amortised cost or FV-OCI. This situation may trigger accounting mismatches in profit or loss despite a proper economic offset between the hedging derivative and the hedged exposure. To better reflect the hedging strategy of the entity, IFRS 9 provides specific and optional accounting treatments for hedging relationships. The accounting impact depends on the nature of the hedging relationship (fair value hedge, cash flow hedge or net investment hedge). Hedge accounting is subject to eligibility, effectiveness and documentation -related conditions. (see chapter 14)

9. **Derecognition**

A financial asset is derecognised when and only when the contractual rights to the cash flows expire, or when the asset is transferred and this transfer meets the derecognition requirements. This test relies mainly on two criteria: the transfer of the contractual rights to the cash flows, and the transfer of the risks and rewards of ownership of the financial asset.

A financial liability is removed from the statement of financial position when it is extinguished. An exchange or modification of debt instruments, between an existing lender and borrower, is considered as an extinguishment of the original instrument if the terms of the original and the “new” instrument are substantially different.

10. **Disclosures on financial instruments**

The disclosure requirements aim at enabling the users to assess the significance of financial instruments for the entity, the nature and extent of risks arising from them, and how the entity manages those risks. (see chapter 16)
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16.1. Introduction

Disclosures about financial instruments is an intricate and vast topic, because these specific disclosure requirements, although included in a dedicated standard (IFRS 7), depend on other standards that may relate to financial instruments among other items. Disclosures also represent the “end of the journey” in the preparation of financial statements process of an entity: for that reason, disclosure-oriented standards are often considered as “checklist” standards that only require quantitative or qualitative information to report. In practice, this topic is however much more complex because when preparing financial reports entities have to understand all the underlying concepts that are needed to produce the required information and to structure this information in a relevant way and format.

We have sought to present in the first section of this chapter, section 16.2, the objectives of IFRS 7, and we also briefly touch upon the information that can be required on financial instruments by IFRS standards other than IFRS 7 to enable the reader to consider financial instruments in the general context of the financial reporting of an entity. In section 16.3 we have included a brief overview of the scope of instruments to which the requirements in IFRS 7 apply whereas in section 16.4 we bring readers’ attention to the different levels of aggregation that may exist for providing disclosures under IFRS 7.

As most disclosure requirements for financial instruments are presented in IFRS 7, we have then chosen to follow the structure of this standard for sections 16.5 to 16.8, as the thematic approach of IFRS 7 (e.g. significance of financial instruments for financial position and performance, hedge accounting, nature and extent of risks arising from financial instruments, transfers of financial assets, etc.) seemed relevant and self-supporting for the reader of this publication.

In some sections though, we have sometimes brought items extracted from other standards to clarify some specific topics (e.g. scope of fair value disclosures and interactions between IFRS 7 and IFRS 13), or to bring in requirements on financial instruments that are present in other standards (e.g. IAS 1).

In section 16.9, the last section of this chapter, we focus on the specific requirements for the interim financial statements under IAS 34.

Given the overall scope of our publication, we do not present the disclosure requirements relating to the first-time application of IFRS 9.

16.2. Objectives of disclosure requirements relating to financial instruments (IFRS 7)

The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate (IFRS 7.1):

- the significance of financial instruments for the entity’s financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period and how the entity manages those risks.
Beyond those objectives specifically set out in IFRS 7, financial information on financial instruments should also meet overall objectives that are required in other relevant standards and must be considered together with IFRS 7.

Although most of the disclosure requirements for financial instruments are included in IFRS 7, some other standards relating to overall financial information or specifically to fair value measurement also apply. The table below summarises the differences between those standards, their scope of application and the main topics that are dealt within.

**Figure 16.1**

<table>
<thead>
<tr>
<th>Standard</th>
<th>Objective</th>
<th>Scope</th>
<th>Main topics covered</th>
</tr>
</thead>
</table>
| IAS 1 Prescription of financial instruments | Prescription of the basis for presentation of general purpose financial statements to ensure comparability | All entities applying the IFRS (both in annual and interim statements) | — Definition of items that constitute financial statements (statement of financial position, profit or loss, OCI...)  
— Information required on accounting policies  
— Definition of the general purpose for the preparation of financial statements (fair representation, going concern...)  
— Minimum comparative information, etc. |

- **IAS 8 Accounting policies, changes in accounting estimates and errors**  
  Prescription of criteria, accounting treatment and disclosures, for accounting policies, changes in accounting estimates and corrections of errors  
  When an entity is facing changes in its accounting policies, accounting estimates or should correct errors for prior periods  
  — Guidelines on selection, application of and changes in accounting policies  
  — Accounting treatment and disclosures requirements for changes in accounting policies or estimates  
  — Accounting treatment and disclosures requirements for corrections of errors |

- **IAS 34 Interim financial reporting**  
  Prescription of the minimum content of an interim financial report and the principles for recognition and measurement in complete or condensed financial statements for an interim period.  
  Any entity that must or chooses to publish an interim financial report in accordance with IFRS  
  — Minimum content of an interim financial report  
  — Interactions between IAS 1 and IAS 34  
  — Information to disclose specifically for interim closing (e.g. revenues received seasonally), or in the same way as an annual closing  
  — Significant events and transactions  
  — Etc. |
A focus on IAS 34 Interim Financial Reporting is made in section 16.9 with examples of disclosures about financial instruments that are required in the interim financial reports.

16.3. Scope of IFRS 7

The scope of instruments to which IFRS 7 applies is presented in detail in chapter 1.

It is important to note that the scope of IFRS 7 includes more items than the sole financial instruments that are within the scope of IFRS 9 (including contracts to buy or sell a non-financial item in the scope of IFRS 9) (IFRS 7.4-5). The additional items in the scope of IFRS 7 include, for example, unrecognised financial instruments that meet the definition of a financial instrument according to IAS 32 but are specifically excluded from the scope of IFRS 9 (e.g. lease liabilities or certain loan commitments, or regular way sales and purchases that are accounted for using settlement date accounting) (see chapter 1).

16.4. Aggregation level required for presenting disclosures about financial instruments: by class vs by measurement category

IFRS 7 requires the disclosure of some pieces of information by measurement category of financial instruments and of some others by class of financial instruments.
The **measurement categories** of financial instruments are specified in IFRS 9 (IFRS 7.B3). They determine how financial instruments are measured and where changes in fair value are recognised. Financial instruments may have the following measurement categories, the classification criteria of which are described in **chapter 7 Classification of financial assets and chapter 8 Classification of financial liabilities**:

- financial assets measured at fair value through profit or loss (FV-PL);
- financial liabilities measured at fair value through profit or loss (FV-PL);
- financial assets measured at amortised cost (AC);
- financial liabilities measured at amortised cost (AC);
- financial assets measured at fair value through other comprehensive income (FV-OCI).

The disclosures required by measurement category mainly relate to:

- the carrying amounts of financial instruments (see section 16.6.1.1);
- reclassifications of financial assets (see section 16.6.1.4);
- and items of income, expenses, gains and losses (see section 16.6.2).

The **classes** of financial instruments are determined by the entity and are distinct from the measurement categories of financial instruments (IFRS 7.B1). IFRS 7 does not define exactly what a class of financial instruments is but provides guidance on how the groupings into classes should be performed.

According to IFRS 7.6, the classes in which financial instruments are grouped should:

- be appropriate to the nature of the information disclosed (e.g. fair value of financial instruments, specific risks such as credit or market risk arising from them...);
- consider the characteristics of those financial instruments (maturity, category of loan, fixed or variable rate...);
- provide sufficient information to permit reconciliation to the line items presented in the statement of financial position (IFRS 7.6).

Even if classes and accounting categories are distinct from each other, IFRS 7.B2 indicates that in determining classes of financial instrument, entities must, at a minimum:

- distinguish instruments measured at amortised cost from those measured at fair value;
- treat as a separate class or classes those financial instruments outside the scope of IFRS 7.

IFRS 7.B3 further indicates that when determining the appropriate classes of financial instruments entities:

- should decide, in the light of its circumstances, how much detail they provide to satisfy the requirements of this IFRS, how much emphasis it places on different aspects of the requirements and how they aggregate information to display the overall picture without combining information with different characteristics;
- should strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation;
- should not obscure important information by including it among a large amount of insignificant detail; and
— they should not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks

Entities will have to use judgement to appreciate the relevance of classes identified with respect to their activities and the characteristics of financial instruments.

Classes of financial instruments will often be more granular than the financial categories defined by IFRS 9 (amortised cost, financial assets or liabilities measured at FV-PL...). For example, for assets at amortised cost, classes could be defined based on the economic characteristics of the assets included in this classification: home loans, revolving facilities, consumer loans...

The illustrative examples of IFRS 7 (e.g. IFRS 7.IG.21) seem to indicate that the classes, in relation to credit risk disclosures, should be quite granular (e.g. residential mortgages, unsecured consumer loans and commercial loans are presented as distinct). However, judgement will be needed to assess the specific circumstances of the entity and the shared risk characteristics of the instruments it holds.

One should also keep in mind that classes of financial instruments may vary from one disclosure to another to provide more relevant information: the entity can for example define one set of classes of financial instruments for disclosures about credit risk and another set of classes for disclosures about fair value (day one gain or loss) or about items presented in the statement of financial position.

The table below provides some examples of disclosures that should be given by class of financial instruments:

<table>
<thead>
<tr>
<th>Topic to which the disclosure requirements relate</th>
<th>Specific aspects to consider in determining the appropriate aggregation level when grouping financial instruments into classes</th>
<th>Section</th>
</tr>
</thead>
</table>
| Fair value                                      | — Nature, characteristics and risks of assets and liabilities  
— Level in the fair value hierarchy             | 16.6.4 |
| Credit risk                                    | — Economic characteristics of financial instruments                                                             | 16.7.2  |
| Transfers of financial assets                   | — N/A                                                                                                           | 16.8    |

Although IFRS 7 does not require entities to disclose all of the information by classes of financial instruments, in practice entities may choose to go further than the minimum requirements of the standard, as long as this provides relevant information without overburdening financial statements with excessive detail obscuring important information. For example, disclosures about the statement of financial position and the statement of comprehensive income may also be broken down by classes of financial instruments, even if IFRS 7 only requires those pieces of information to be given by categories of financial instruments in accordance with IFRS 9.
16.5. Accounting policies

The general requirements regarding accounting policies of an entity are in the scope of standards IAS 1 and IAS 8. IFRS 7.21 makes a reference to the principles of IAS 1.117 and requires entities to disclose the significant accounting policies that are relevant to an understanding of the financial statements, including the measurement bases used for their preparation. The reference to “significant” accounting policies also means, in our opinion, that accounting policies related to non-significant items should not be detailed to make the information more relevant and understandable.

IFRS 7.B5 provides more details to illustrate the requirements in IFRS 7.21 on significant accounting policies for financial instruments. This guidance is summarised in the table below:

**Figure 16.3**

<table>
<thead>
<tr>
<th>Type of financial instrument to which the accounting policies relate</th>
<th>Relevant accounting policies</th>
</tr>
</thead>
</table>
| Financial assets and liabilities designated at FV-PL (subject to the fair value option) | — Nature of the financial instruments optionally designated at FV-PL  
— How the entity has satisfied the conditions for applying this option, that are specified:  
> in IFRS 9.4.1.5 for financial assets (i.e. in our opinion, entities should explain to what extent such designation permits to reduce or eliminate an accounting mismatch and also provide a narrative description of the inconsistency that would otherwise arise) (see section 7.4.5);  
> and in IFRS 9.4.2.2 for financial liabilities (i.e. (a) if the designation is related to a reduction of an accounting mismatch, the same information should be provided as for financial assets thus designated, as explained above, and (b) if the designation relates to a group of financial liabilities managed on a fair value basis, entities should, in our opinion, provide a description of the management and / or investment strategy that justifies such designation) (see section 8.3.3). |
| Financial assets – regular way purchases or sales (see section 6.2.2) | — Explain whether those financial assets are accounted for at trade date or at settlement date. As a reminder, under IFRS 9 the choice between these two dates of initial recognition / derecognition must be made by category of financial instruments. |
| All financial instruments | — Information about determination of net gains or net losses for each category:  
> Example: whether the net gains or net losses on items at FV-PL include interest or dividend income. |

IFRS 7 also reminds entities that they must disclose, in accordance with IAS 1.122, the judgements that management has made for the preparation of financial statements in their accounting policies. Those judgements do not include the uncertainties and assumptions involving estimations, that must be disclosed separately.

Regarding financial instruments, the main judgement areas explicitly mentioned in IAS 1 are (IAS 1.123):

— the way the entity determines when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities (in relation to the derecognition analysis);

— the way the entity determines for a financial asset whether cash flows that arise from contractual terms at specified dates meet the SPPI criterion (see section 7.4.3).
The disclosures about uncertainties and assumptions involving estimations are detailed in IAS 1.125-133. These requirements of IAS 1 are adapted to the most significant estimations resulting from the requirements of the relevant standards. When it comes to financial instruments, in our view such estimations include, but are not limited to:

- fair value measurement (see section 16.6.4): significant assumptions, inputs and valuation techniques used when measuring the fair values of financial assets and liabilities;
- key assumptions and parameters for calculation of expected credit losses (see section 16.7.2);
- methods used to assess the effectiveness in hedge accounting relationships, needing assumptions on change in the hedged risks, and their impact on the hedging relationship (see section 16.6.3).

**16.6. Significance of financial instruments for financial position and performance**

As pointed out in section 16.2, one of the main objectives of IFRS 7 is to enable users of the financial statements to evaluate the significance of financial instruments for the entity’s financial position and performance. To achieve this goal, specific disclosures are required relating to the statement of financial position and to the statement of comprehensive income.

It is also important to keep in mind the requirements and objectives of IAS 1 regarding the financial statements, as a lot of other general requirements that must be satisfied may relate to financial instruments (e.g. compliance of the disclosures about the statement of comprehensive income with the classification required in IAS 1.82 and IAS 1.82A).

**16.6.1. Statement of financial position**

**16.6.1.1. Categories of financial assets and financial liabilities**

IFRS 7.8 requires for an entity to disclose the **carrying amount**, either on the face of the statement of financial position or in the notes, for each financial instrument category (as defined by IFRS 9) listed below:

- financial assets measured at FV-PL, showing separately:
  - those optionally designated as at FV-PL (see section 7.4.5);
  - those mandatorily measured at FV-PL according to IFRS 9 (see chapter 7);
- financial liabilities measured at FV-PL (see chapter 8), showing separately:
  - those optionally designated as at FV-PL (see section 8.3.3);
  - those that meet the definition of held for trading in IFRS 9 (see section 8.3.2);

---

These include:
- derivatives that are assets,
- Non-SPPI debt instruments (irrespective of their business model),
- debt instruments (SIPPI or Non-SPPI) managed under business models (such as Held-for-trading) other than HTC or HTCS
- equity instruments that are not designated as measured at FV-OCINR
— financial assets measured at AC (see section 7.4);
— financial liabilities measured at AC (see section 8.2);
— financial assets measured at FV-OCI, with the carrying amounts presented separately between:
  > assets that meet the SPPI criterion and have a HTCS business model (see section 7.4);
  > equity investments designated as at FV-OCINR (see section 7.3.2).

### 16.6.1.2. Financial assets or financial liabilities optionally designated at fair value through profit or loss

If an entity has elected to measure at FV-PL financial assets that would otherwise be measured at FV-OCI or AC, it has to disclose the following information (IFRS 7.9):

— the maximum exposure to credit risk (see section 16.7.2.6.2) at the end of the reporting period;
— the amount by which any related credit derivatives (e.g. credit default swaps) or similar instruments mitigate that maximum exposure to credit risk;
— the amount of change, during the period and cumulatively since initial recognition, in the fair value of assets that is attributable to changes in the credit risk of the financial asset (i.e. the spread of the financial asset). This amount can be determined either:
  > as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
  > using an alternative method, the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates;
— the amount of the change in the fair value of any related credit derivatives or similar instruments, over the period and since the financial asset was designated as at FV-PL.

When it comes to financial liabilities designated as at FV-PL, the disclosure requirements will depend on whether all the fair value gains or losses are recognised in profit or loss, or if a part of these changes that relates to the changes in the liability’s credit risk is recognised in OCI:

— if an entity has designated a financial liability as at FV-PL and is required by IFRS 9.5.7.7 (see section 8.3.3) to present changes in its credit risk in OCI, it has to disclose (IFRS 7.10):
  > the cumulative amount of change in the fair value of the liability that is attributable to changes in the credit risk of that liability (i.e. the amount that is recorded in OCI at the end of the reporting period);
  > the difference between the financial liability’s carrying amount, and the amount the entity would be contractually required to pay at maturity to the holder of the obligation;
  > any transfers of the cumulative gain or loss within equity (in accordance with IFRS 9.B5.7.9, e.g. from OCI to retained earnings) during the period, including the reason for such transfers (repayment, disposal, etc.);
  > if a liability is derecognised during the period, the amount presented in OCI that was realised at derecognition;
— if an entity has designated a financial liability as at FV-PL and is required by IFRS 9.5.7.8 (see section 8.3.3) to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss, it must disclose (IFRS 7.10A):

> the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability;

> the difference between the financial liability’s carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

In addition to the specific requirements described above, entities are also required to provide the following narrative disclosures (IFRS 7.11):

— for financial assets and financial liabilities designated at FV-PL:

> a detailed description of the methods used to measure the amount of change in the fair value of assets and liabilities attributable to changes in their credit risk, and an explanation of why these methods were deemed to be appropriate;

> where relevant, the reasons why the entity believes that the disclosures provided do not faithfully represent the changes in the fair value of an instrument attributable to changes in its credit risk, and the factors it believes are relevant;

— for financial liabilities designated at FV-PL:

> the methods used to determine whether presenting the effects of changes in a liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss;

> if an accounting mismatch is created or enlarged (which results in the entity being required to present in profit or loss – rather than in OCI – the effects of changes in a liability’s credit risk), an explanation of this mismatch, with particular attention to any economic relationship (described in paragraph IFRS 9.B5.7.6) that would enable the entity to expect a compensation between the above changes, and changes in another financial instrument measured at FV-PL (see chapter 8).

16.6.1.3. Investments in equity instruments designated at fair value through other comprehensive income

If an entity has designated investments in equity instruments as measured at FV-OCINR (see section 7.3.2) it has to disclose (IFRS 7.11A):

— which instruments it has designated as measured at FV-OCINR;

— the reasons for using this presentation alternative;

— the fair value of each such investment at the end of the reporting period;

— dividends recognised during the period, showing separately:

> those related to investments derecognised during the reporting period; and

> those related to investments held at the end of the reporting period;

— any transfers from OCI to other consolidated reserves during the period, including the reason for such transfers.

In addition, the following disclosures are required in case of derecognition during the reporting period of investments in equity instruments measured at FV-OCINR (IFRS 7.11B):
— the reasons for disposing of the investments;
— the fair value of the investments at the date of derecognition;
— the cumulative gain or loss on disposal.

16.6.1.4. Reclassification of financial assets

The conditions for reclassifying financial assets that are debt instruments are presented in section 7.5. As explained in section 7.5 and in section 8.5, financial assets that are equity instruments and financial liabilities may not be subsequently reclassified to a different measurement category: their initial classification is irrevocable.

It is to be noted that some of the disclosures about reclassified assets presented below are required only in the reporting period during which the reclassification took place, whereas others will have to be provided until the derecognition of the reclassified assets.

If an entity has reclassified any financial assets due to a change in business model in the current or previous reporting periods, it must present the following for each reclassification (IFRS 7.12B):

— the date of reclassification;
— a detailed explanation of the change in business model and a qualitative description of its effect on the entity’s financial statements;
— the amount reclassified into and out of each category (FV-PL, AC, FV-OCI).

For reclassifications of assets from FV-PL to AC or from FV-PL to FV-OCI in the current or previous reporting periods, specific information must be provided for each reporting period following reclassification until derecognition (IFRS 7.12C), namely:

— the effective interest rate determined on the date of reclassification;
— the interest revenue recognised.

If an entity has reclassified financial assets from FV-OCI to AC, from FV-PL to AC or from FV-PL to FV-OCI in the current reporting period, it must disclose the following information on the reporting date following the reclassification (IFRS 7.12D):

— the fair value of the financial assets at the end of the reporting period;
— the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.

16.6.1.5. Offsetting financial assets and financial liabilities

As a general principle of presentation, IAS 1 does not allow to offset assets and liabilities or income and expenses, unless required or permitted by an IFRS (IAS 1.32).

IAS 32 contains specific criteria for offsetting financial assets against financial liabilities. Entities must offset financial assets and liabilities when the two criteria specified in IAS 32.42 are met:
— the entity currently has a legally enforceable right to set off the recognised amounts; and
— it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

It is to be noted that the disclosure requirements on offsetting financial assets and financial liabilities presented in this section go beyond the sole recognised financial instruments that are set off in the statement of financial position in accordance with paragraph 42 of IAS 32. These disclosures also apply to recognised financial instruments that are subject to enforceable master netting arrangements or similar agreements that do not meet the criteria for offsetting in IAS 32.42.

To provide these disclosures, entities will therefore need to use contractual data (which is not necessarily easily available in their accounting systems) and make a detailed inventory of their netting agreements.

The objective of the disclosures about offsetting financial assets and financial liabilities in IFRS 7 is to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the entity’s financial position (IFRS 7.13B). To comply with this objective, entities must disclose information both on (IFRS 7.13A and IFRS 7.B40):

— recognised financial instruments that have been set off (i.e. presented in net) in their statement of financial position in accordance with IAS 32.42, and
— recognised financial instruments subject to an enforceable master netting arrangement or similar agreement, that covers similar financial instruments and transactions, irrespective of whether they are set off in the statement of financial position or not in accordance with IAS 32.42. IFRS 7.B41 provides additional guidance on how the terms in italic should be interpreted:

> the "similar agreement" include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral;

> the "similar financial instruments" covered by such agreement include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements.

Examples of financial instruments that should not be included in the disclosures about offsetting are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement (IFRS 7.B41).

The following quantitative information has to be disclosed to meet the objective described above, separately for recognised financial assets and recognised financial liabilities:

— the gross carrying amounts of assets and liabilities concerned [a];
— the amounts set off in accordance with the criteria set out in IAS 32.42 [b];

> the disclosure of these amounts must be limited to the amounts that meet the offsetting criteria, and not include the integral amounts of the financial assets and liabilities (IFRS 7.B44). For example, if a derivative asset of EUR 100 and a derivative liability of EUR 150 are eligible to offsetting, only EUR 100 will be disclosed as offset amounts for both the derivative asset and the derivative liability;
— the net amounts $[c]$ presented in the statement of financial position $[c] = [a] - [b]$;
  > in the case of financial instruments that are not eligible to offsetting but are included in the scope of offsetting disclosures, the net amounts of the financial assets and liabilities should be equal to their gross carrying amounts (IFRS 7.B45), i.e. $[c] = [a]$;
  > these amounts must be reconciled to the individual line items amounts presented in the statement of financial position (IFRS 7.B46);
— the amounts subject to an enforceable master netting arrangement or similar agreement $[d]$ that are not set off as above, including:
  > amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in IAS 32;
  > amounts related to financial collateral (including cash collateral);
    – i.e. the fair value of actual financial collateral both received and pledged, and not the amounts related to any resulting payables or receivables recognised to return or receive back such collateral (IFRS 7.B48);
— the net amount $[e]$ resulting from the difference between $[c]$ and $[d]$ (positive or equal to 0 (IFRS 7.13D));
  > calculation of this net amount has to be made in a specific order to take into account the effects of over-collateralisation by financial instruments (IFRS 7.B49):
    – it is first necessary to deduct the amounts related to financial instruments that do not meet the offsetting criteria in IAS 32 from the net amounts in $[c]$;
    – the entity must then limit the amounts related to financial collateral in $[d]$ to the remaining amount above for the related financial instrument;
    – however, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure of the net amounts provided in accordance with IFRS 7.13D.

A tabular format is recommended but it is allowed to use another format if it is appropriate (IFRS 7.13C).

The application guidance of IFRS 7 specifies the level of aggregation in which this information on offsetting should be disclosed:
— the quantitative disclosures described above may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements) (IFRS 7.B51);
— alternatively, an entity may group the quantitative disclosures of the amounts $[c]$, $[d]$ and the net amount $[e]$ by counterparty instead of by type of financial instrument (IFRS 7.B52).
  > If an entity provides this information by counterparty, the entity is not required to identify the counterparties by their name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc.) must remain consistent from one year to another to permit comparability.
  > Additional qualitative disclosures may need to be provided about the types of counterparties.
  > Amounts that are individually significant in terms of total counterparty amounts must be separately disclosed and the remaining individually insignificant counterparty amounts must be aggregated into a one-line item.
In addition to the quantitative information above, an entity must also include in the disclosures a description of the rights of set-off associated with the recognised financial assets and liabilities that are subject to an enforceable master netting arrangement or similar agreement (including the nature of those rights) (IFRS 7.13E). According to the application guidance of IFRS 7 (IFRS 7.B50), this description should include:

- a mention of the entity’s conditional rights to set off amounts (if any);
- for instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in IAS 32.42, the reason(s) why the criteria are not met;
- for any financial collateral received or pledged, the terms of the collateral agreement (for example, when the collateral is restricted).

If all the information required on offsetting is disclosed in more than one note to the financial statements, entities have to add cross-references between those notes (IFRS 7.13F).

In case of a discrepancy due to different measurement requirements in IFRS 9 between financial instruments that must be offset (e.g. between a payable related to a repurchase agreement measured at AC and a derivative measured at fair value), an entity must include instruments at their recognised amounts and describe any resulting measurement differences in the related disclosures (IFRS 7.B42). In practice, it means that the entity will potentially offset “amortised cost amounts” with “fair value amounts” and highlight those discrepancies in the related note.

The specific disclosures set out in this section are minimum requirements. To meet the objective in IFRS 7 an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity’s financial position (IFRS 7.B53).

The implementation guidance of IFRS 7 provides illustrative examples of the disclosures about offsetting (IFRS 7.IG.40D):

**Example 16.1**

**Background**

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties.

The entity has the following recognised financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in IFRS 7.13A.
Counterparty A:
The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty A that meet the offsetting criteria in IAS 32.42. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of CU20 million in the entity’s statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (CU10 million). The cash collateral of CU10 million does not meet the offsetting criteria in IAS 32.42, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty B:
The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty B that do not meet the offsetting criteria in IAS 32.42, but which the entity has the right to set off in the case of default and insolvency or bankruptcy.

Consequently, the gross amount of the derivative asset (CU100 million) and the gross amount of the derivative liability (CU80 million) are presented separately in the entity’s statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (CU20 million). The cash collateral of CU20 million does not meet the offsetting criteria in IAS 32.42, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty C:
The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralised borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is CU79 million and their fair value is CU85 million. The carrying amount of the collateralised borrowing (repo payable) is CU80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralised lending. The fair value of the financial assets (bonds) received as collateral (and not recognised in the entity’s statement of financial position) is CU105 million. The carrying amount of the collateralised lending (reverse repo receivable) is CU90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in IAS 32.42. Consequently, the related repo payable and repo receivable are presented separately in the entity’s statement of financial position.
Example 16.1

Illustrating the application of paragraph 13C(a)–(e) by type of financial instrument

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

<table>
<thead>
<tr>
<th>Description</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)=(a)-(b)</th>
<th>(d) Related amounts not set off in the statement of financial position</th>
<th>(e)=(c)-(d)</th>
<th>(d)(i), (d)(ii) Financial instruments</th>
<th>(d)(ii) Cash collateral received</th>
<th>Net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amounts of recognised financial assets</td>
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<td>Gross amounts of recognised financial liabilities set off in the</td>
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<tr>
<td>statement of financial position</td>
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<tr>
<td>Net amounts of financial assets presented in the statement of financial</td>
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<td>Related amounts not set off in the statement of financial position</td>
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<tr>
<td>Cash collateral received</td>
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<tr>
<td>Description</td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(a)-(b)</td>
<td>(d) Related amounts not set off in the statement of financial position</td>
<td>(e)=(c)-(d)</td>
<td>(d)(i), (d)(ii) Financial instruments</td>
<td>(d)(ii) Cash collateral received</td>
<td>Net amount</td>
</tr>
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<td>Derivatives</td>
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<td>(80)</td>
<td>120</td>
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<tr>
<td>Reverse repurchase, securities borrowing and similar agreements</td>
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<td>90</td>
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<td>Other financial instruments</td>
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<td>Total</td>
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<td>(80)</td>
<td>210</td>
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</tbody>
</table>

CU million

As at 31 December 20XX

CU million
### Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

<table>
<thead>
<tr>
<th>Description</th>
<th>As at 31 December 20XX</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)=(a)-(b)</th>
<th>(d) Related amounts not set off in the statement of financial position</th>
<th>(e)=(c)-(d)</th>
<th>Net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amounts of recognised financial liabilities</td>
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<tr>
<td>Gross amounts of recognised financial assets set off in the statement of financial position</td>
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<tr>
<td>Net amounts of financial liabilities presented in the statement of financial position</td>
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<tr>
<td>Financial instruments</td>
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<td>(d)(i) Cash collateral pledged</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td>240</td>
<td>(80)</td>
<td>160</td>
<td>(160)</td>
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</table>
Illustrating the application of paragraph 13C(a)–(c) by type of financial instrument and paragraph 13C(c)–(e) by counterparty

*Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements*

CU million

<table>
<thead>
<tr>
<th>Description</th>
<th>(a) Gross amounts of recognised financial liabilities</th>
<th>(b) Gross amounts of recognised financial assets set off in the statement of financial position</th>
<th>(c) = (a) - (b) Net amounts of financial liabilities presented in the statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td>200</td>
<td>(80)</td>
<td>120</td>
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<tr>
<td>Reverse repurchase, securities borrowing and similar agreements</td>
<td>90</td>
<td>–</td>
<td>90</td>
</tr>
<tr>
<td>Other financial instruments</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>290</strong></td>
<td><strong>(80)</strong></td>
<td><strong>210</strong></td>
</tr>
</tbody>
</table>

*Net financial assets subject to enforceable master netting arrangements and similar agreements, by counterparty*

CU million

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>(c) Related amounts not set off in the statement of financial position</th>
<th>(d) Net amount of financial assets presented in the statement of financial position</th>
<th>(d)(i), (d)(ii) Financial instruments</th>
<th>(d)(ii) Cash collateral pledged</th>
<th><strong>Net amount</strong></th>
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<tbody>
<tr>
<td>A</td>
<td>20</td>
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<td>–</td>
<td>(10)</td>
<td>10</td>
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<tr>
<td>B</td>
<td>100</td>
<td>(80)</td>
<td>(20)</td>
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<td>–</td>
</tr>
<tr>
<td>C</td>
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<td>(90)</td>
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<td>–</td>
<td>–</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>210</strong></td>
<td><strong>(170)</strong></td>
<td><strong>(30)</strong></td>
<td><strong>10</strong></td>
<td></td>
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</tbody>
</table>
## Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

### CU million

<table>
<thead>
<tr>
<th>Description</th>
<th>As at 31 December 20XX</th>
<th>(a) Gross amounts of recognised financial liabilities</th>
<th>(b) Gross amounts of recognised financial assets set off in the statement of financial position</th>
<th>(c)=(a)-(b) Net amounts of financial liabilities presented in the statement of financial position</th>
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</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td></td>
<td>160</td>
<td>(80)</td>
<td>80</td>
</tr>
<tr>
<td>Reverse repurchase, securities borrowing and similar agreements</td>
<td></td>
<td>80</td>
<td>–</td>
<td>80</td>
</tr>
<tr>
<td>Other financial instruments</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>240</td>
<td>(80)</td>
<td>160</td>
</tr>
</tbody>
</table>

### Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

### CU million

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>(c) Net amounts of financial liabilities presented in the statement of financial position</th>
<th>(d) (d)(i), (d)(ii) Financial instruments</th>
<th>(d)(ii) Cash collateral pledged</th>
<th>Net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>20</td>
<td>–</td>
<td>(10)</td>
<td>10</td>
</tr>
<tr>
<td>B</td>
<td>100</td>
<td>(80)</td>
<td>(20)</td>
<td>–</td>
</tr>
<tr>
<td>C</td>
<td>90</td>
<td>(90)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>210</td>
<td>(170)</td>
<td>(30)</td>
<td>10</td>
</tr>
</tbody>
</table>
16.6.1.6. Collateral

If an entity has **pledged financial assets** as collateral for liabilities or contingent liabilities, it should disclose the following information (IFRS 7.14):

- the carrying amount of financial assets pledged as collateral (including collateral that may be sold or repledged by the holder and that is presented separately in the statement of financial position);
- the terms and conditions of the pledge.

When an entity **holds collateral** (of financial or non-financial assets) and is **permitted to sell or repledge** it in the absence of default by the owner of the collateral, it has to disclose (IFRS 7.15):

- the fair value of the collateral held;
- the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it;
- the terms and conditions associated with its use of the collateral.

Specific disclosures, as per IFRS 7.35K and IFRS 7.36, are also required on how collateral held reduces the entity’s expected credit losses or credit exposure. These disclosures are detailed in the credit risk section (see section 16.7.2).

16.6.1.7. Allowance account for credit losses

For assets that are debt instruments measured at FV-OCI with ulterior recycling to profit or loss (see section 7.4), the carrying amount is equal to fair value and is not reduced by a loss allowance. Although the loss allowance of such assets is not presented separately in the statement of financial position as a reduction of the carrying amount of the financial asset, it has to be disclosed in the notes to the financial statements (IFRS 7.16A).

16.6.1.8. Compound financial instruments with multiple embedded derivatives

If an entity has issued an instrument that contains both a liability and an equity component, and the instrument has multiple embedded derivatives (see chapter 13) for which values are interdependent (such as a callable convertible debt instrument), it must disclose the existence of those features (IFRS 7.17).

16.6.1.9. Defaults and breaches

Loans payable are defined as “financial liabilities, other than short-term trade payables on normal credit terms” (IFRS 7 Appendix A).

For loans payable recognised at the end of the reporting period, an entity has to disclose (IFRS 7.18):

- details of any default during the period of principal, interest, sinking fund or redemption terms of those loan payable;
- the carrying amount of the loans payable in default at the end of the reporting period;
- whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issues.
If, during the period, there were breaches of loan agreement terms, other than those described above (i.e. other than default of principal, interest, sinking fund or redemption terms), which permitted the lender to demand accelerated repayment (e.g. breach of covenant), and the entity did not remedy these breaches or renegotiate the terms of the loan at or before the end of the reporting period (in which case the following information is not required), the entity is required to disclose (IFRS 7.19):

- detailed information on the breaches;
- the carrying amount of the loans concerned.

Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with IAS 1 (IFRS 7.1G.12).

16.6.2. Statement of comprehensive income

16.6.2.1. Interactions between IAS 1 and IFRS 7

As a reminder, IAS 1.10A allows entities to present either a single statement of profit or loss and other comprehensive income, with two separate sections (profit or loss and OCI), or two separate statements (statement of profit or loss and statement of comprehensive income).

Most of the information required under IFRS 7 on the statement of comprehensive income relates to the profit or loss section. It should be noted that some other general disclosure requirements that are specified in IAS 1 also apply to financial instruments in the scope of IFRS 7 (e.g. disclosure requirements regarding the reclassification adjustments relating to components of OCI in IAS 1.90-96). The latter disclosures stemming from IAS 1 are not detailed in this section which only focuses on the specific disclosure requirements in IFRS 7 on items of income, expense, gains or losses relating to financial instruments.

16.6.2.2. Net gains or net losses

Net gains and losses on financial instruments must be presented separately in the statement of comprehensive income or in the notes, according to the applicable measurement categories as defined in IFRS 9 (IFRS 7.20(a)) and as follows:

- financial assets and liabilities measured at FV-PL, with a separate presentation of net gains and losses between:
  > those optionally designated as at FV-PL (see section 7.4.5);
    - for liabilities optionally designated at FV-PL, a separate presentation of the amounts of net gains and losses recognised in OCI and those recognised in profit or loss is also required;
  > those mandatorily measured at FV-PL;
- financial assets measured at AC;
- financial liabilities measured at AC;
- financial assets measured at FV-OCI, showing separately:
  - the net gains and losses recognised in OCI during the period;
  - the amounts recycled upon derecognition from OCI to profit or loss as a reclassification adjustment over the period;
— and financial assets that are equity instruments measured at FV-OCINR.

### 16.6.2.3. Interest income and interest expenses

An entity must disclose total interest income and total interest expense, determined using the effective interest method, separately for each of the following measurement categories (IFRS 7.20(b)):

— financial assets measured at AC;
— financial assets at FV-OCI;
— financial liabilities that are not measured at FV-PL.

### 16.6.2.4. Fees income and expenses

IFRS 7.20(c) requires disclosing fee income and expenses that are not included in determining the effective interest rate, arising from:

— financial assets and liabilities that are not measured at FV-PL;
— 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.

### 16.6.2.5. Derecognition of financial assets measured at amortised cost

If an entity has derecognised any financial assets at amortised cost over the period, it must disclose the following items (IFRS 7.20A):

— gains or losses (to be presented separately) arising from derecognition of such assets; and
— an explanation of the reasons for derecognising these assets.

IAS 1.82(aa) also requires disclosing in a separate line in the statement of profit or loss the total amount of gains and losses arising from the derecognition of financial assets. Unlike IFRS 7.20A, IAS 1 does not require to disclose separately the amounts of gains and losses upon derecognition.

### 16.6.3. Hedge accounting

IFRS 9 allows entities to choose between applying the requirements for hedge accounting in IFRS 9 or continuing to apply those in IAS 39. For the main changes in IFRS 9 compared to IAS 39 regarding hedge accounting and the related transition options, please refer to sections 14.1.3 and 14.1.4.

Even if an entity still applies IAS 39 for its hedging relationships, the new disclosure requirements on hedge accounting in IFRS 7, modified by IFRS 9, now equally apply to that entity, even though it does not yet apply the new hedge accounting requirements in IFRS 9. The amended IFRS 7 requires both qualitative and quantitative information, and some of that information only applies to specific designation options introduced by IFRS 9.

For more details about hedge accounting under IFRS 9, see chapter 14.

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2 or in the profit or loss section if a single statement of comprehensive income is presented.
It should be noted that the disclosure requirements on hedging presented in section 16.6.3 apply only to those risk exposures that an entity hedges (mainly using derivatives) and for which it elects to apply hedge accounting (IFRS 7.21A).

Hedge accounting being optional, entities with hedging strategies that are not documented in an accounting hedging relationship are not required to provide the full set of IFRS 7 hedging disclosures presented in this section. However, in our opinion, providing some of this information (such as the description of the entity’s risk management strategy) would be relevant even for the undocumented hedging strategies.

16.6.3.1. Objectives of disclosures about hedges

The disclosure requirements in IFRS 7 on hedge accounting aim at providing information about (IFRS 7.21A):

— the entity’s risk management strategy and how it is applied to manage risk;
— how the entity’s hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
— the effect that hedge accounting has had on the entity’s statement of financial position, statement of comprehensive income and statement of changes in equity.

16.6.3.2. Level of detail and of aggregation in the disclosures about hedging

A large part of these disclosures must be provided by “risk category”. In the same way as for the concept of “classes of financial instrument”, IFRS 7 does not define precisely what a risk category is but specifies that it is determined based on the risk exposures the entity decides to hedge and for which hedge accounting is applied. The entity must determine risk categories consistently for all hedge accounting disclosures (IFRS 7.21C). Although the determination of how much detail to disclose and the appropriate level of aggregation depend on the entity’s judgement, the level of aggregation or disaggregation should be consistent with that used for related information in other parts of IFRS 7 and IFRS 13 (IFRS 7.21D):

— for example, users should be able to make comparisons between the fair value disclosures and the hedge accounting disclosures (IFRS 7.BC35FF);
— the goal of this same level of aggregation or disaggregation is to make it possible for the users of the financial statements to identify, thanks to the disclosures, financial instruments measured at fair value that are not designated as hedging instruments (IFRS 7.BC35MM).
In practice, risk categories are generally based on the underlying risks that drive the value of the hedging instrument, such as interest rate risk, foreign currency change risk, equity price risk, commodities price risk, etc.

However, when one derivative is used to hedge several risks, entities may need to define even more granular risk categories. The following example is provided in the basis for conclusions of IFRS 7 (IFRS 7.BC35O):

— suppose an entity that manages its floating interest rate risk using interest rate swaps (to change it to a fixed interest rate) for some hedging relationships (cash flow hedges), while it also uses cross-currency interest rate swaps to manage both the floating interest rate and foreign exchange risk of other hedging relationships (cash flow hedges).

— This entity would have one risk category for floating interest rate risk and another risk category for foreign exchange risk combined with floating interest rate risk.

16.6.3.3. Where in the financial communication should disclosures about hedging be provided?

IFRS 7.21B requires that all disclosures about hedge accounting should be presented in a single note or separate section of the financial statements. It is however possible to incorporate this information by cross-reference from the financial statements to some other statement that is available on the same terms and at the same time for the users of the financial statements (e.g. a management commentary or risk report). Without the information incorporated by cross-reference, the financial statements are incomplete.

16.6.3.4. Qualitative disclosures about risk management strategy and sources of ineffectiveness

The entity should explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied, which implies to give enough details so that the user can evaluate for example (IFRS 7.22A):

— how each risk arises;

— how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why;

— the extent of risk exposures that the entity manages.

To meet these requirements, the information should include (but is not limited to) a description of (IFRS 7.22B):

— the hedging instruments that are used (and how they are used) to hedge risk exposures;

— how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness;
how the entity establishes the **hedge ratio** and what the **sources of ineffectiveness** are. In particular, when it comes to sources of ineffectiveness, the entity should describe, by risk category:

- the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term, for all types of hedging (i.e. fair value hedge, cash flow hedge and net investment hedge) (IFRS 7.23D);
- if other sources of hedge ineffectiveness emerge in a hedging relationship, those sources and the resulting hedge ineffectiveness (IFRS 7.23E).

IFRS 7.22C contains additional disclosure requirements on **hedged risk components** for entities applying the new requirements on designated risk components as hedged items under IFRS 91 (see section 16.6.3.7).

### 16.6.3.5. Quantitative hedge accounting disclosures

Besides the new narrative descriptions of the entity’s risk management strategy and other qualitative information presented above, IFRS 7 also brings new requirements related to the quantitative effect of hedge accounting on the entity’s statement of financial position, statement of comprehensive income and statement of changes in equity.

#### 16.6.3.5.1. Format of quantitative disclosures about hedging

Entities are required to provide most quantitative disclosures about hedging in a **tabular** format (IFRS 7.24A, 24B and 24C), and often they need to provide this information by hedging relationship type (FVH, CFH, NIH) and by risk category.

#### 16.6.3.5.2. Disclosures about the amount, timing and uncertainties of future cash flows relating to hedging instruments

To allow users of financial statements to evaluate the terms and conditions of **hedging instruments** and how they affect the amount, timing and uncertainty of future cash flows of the entity (IFRS 7.23A), entities are required to provide the following quantitative information, broken down by risk category (IFRS 7.23B):

- a profile of the **timing of the nominal amount** of the hedging instrument; and
- if applicable, the **average price or rate** (for example strike or forward prices, etc.) of the hedging instrument.

Note that, should the entity frequently reset its hedging relationships (case of dynamic hedging strategies, see section 16.6.3.6.1), this quantitative information is not required (IFRS 7.23C).

In our view, as no further guidance on the profile of the timing of the hedging instrument’s nominal amount is provided in IFRS 7, entities should determine relevant maturity buckets according to their judgement and the economic characteristics of their hedging instruments.

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1 See section 14.3.2.1
16.6.3.5.3. The effects of hedge accounting on financial position and performance

IFRS 7 requires detailed quantitative information, broken down by risk category (and, when relevant, by type of hedging relationship), separately for:

— hedging instruments, and
— hedged items.

These requirements are presented hereafter.

For each risk category and for each type of hedge (i.e. FVH, CFH and NIH), an entity is required to disclose the following amounts related to hedging instruments (IFRS 7.24A):

— the carrying amount of the hedging instruments, presenting financial assets separately from financial liabilities;
— the line item in the statement of financial position that includes the hedging instrument;
— the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and
— the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

The following table extracted from the implementation guidance of IFRS 7 illustrates how these requirements may be complied with IFRS 7.IG.13C:

**Figure 16.4**

<table>
<thead>
<tr>
<th>Carrying amount of the hedging instrument</th>
<th>Nominal amount of the hedging instrument</th>
<th>Line item in the statement of financial position where the hedging instrument is located</th>
<th>Changes in fair value used for calculating hedge ineffectiveness for 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Liabilities</td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity price risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward sales contracts</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
</tr>
<tr>
<td>Fair value hedges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
</tr>
<tr>
<td>Foreign exchange risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency loan</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
</tr>
</tbody>
</table>

Furthermore, an entity should disclose the following amounts related to hedged items, for each risk category and by type of hedging relationship (IFRS 7.24B):

— for fair value hedges:
  > the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
> the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

> the line item in the statement of financial position that includes the hedged item;

> the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

> the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses (see section 14.10.2.2);

— for cash flow hedges and hedges of a net investment in a foreign operation:

> the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period;

> the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges; and

> the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

The following table extracted from the implementation guidance of IFRS 7 illustrates could these requirements may be complied with IFRS 7 IG.13D:
### Figure 16.5

<table>
<thead>
<tr>
<th>Carrying amount of the hedged item</th>
<th>Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item</th>
<th>Line item in the statement of financial position in which the hedged item is included</th>
<th>Change in value used for calculating hedge ineffectiveness for 20X1</th>
<th>Cash flow hedge reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Cash flow hedges**              |                                                                                                 |                                                                                 |                                                             |                         |
| **Commodity price risk**          |                                                                                                 |                                                                                 |                                                             |                         |
| Forecast sales                    | n/a                                                | n/a                                                                 | n/a                                                        | xx                      |
| Discontinued hedges (forecast sales) | n/a                                                     | n/a                                                                 | n/a                                                        | n/a                      |
|                                      |                                                    |                                                                      |                                                            |                          |

| **Fair value hedges**             |                                                                                                 |                                                                                 |                                                             |                         |
| **Interest rate risk**            |                                                                                                 |                                                                                 |                                                             |                         |
| Loan payable                      | –                                                  | xx                                                                       | –                                                          | xx                      |
| Discontinued hedges (Loan payable) | –                                                      | xx                                                                       | –                                                          | xx                      |
|                                      |                                                    |                                                                      |                                                            |                          |
| **Foreign exchange risk**         |                                                                                                 |                                                                                 |                                                             |                         |
| Firm commitment                   | xx                                                 | xx                                                                       | xx                                                         | xx                      |

In addition to the disclosure requirements on hedging instruments and hedged items presented above, IFRS 7 requires specific information on amounts recognised in relation to each type of hedge, mainly on hedge ineffectiveness and reclassifications from reserves to profit or loss in respect of cash flow hedges and net investment hedges.

The following amounts should be presented by risk category and for each type of hedge (even if cash flow hedges and net investment hedges are grouped in the requirements below) (IFRS 7.24C):

- **Fair value hedges**:
  - hedge ineffectiveness - i.e. the difference between the hedging gains or losses of the hedging instrument and the hedged item - recognised in profit or loss (or OCI for hedges of a financial asset measured at FV-OCINR); and
  - the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;
— for cash flow hedges and hedges of a net investment in a foreign operation:
  > hedging gains or losses of the reporting period that were recognised in OCI;
  > hedge ineffectiveness recognised in profit or loss;
  > the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;
  > the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);
  > the line item in the statement of comprehensive income that includes the reclassification adjustment; and
  > for hedges of net positions only (see section 14.3.4.2), the hedging gains or losses recognised in a separate line item in the statement of comprehensive income. This line should be disclosed only if the entity applies IFRS 9 to hedge accounting and has such hedges (please refer to section 16.6.3.7 for further details on disclosure requirements regarding hedge accounting that apply only under IFRS 9, not under IAS 39).

IFRS 7 also makes the link between the primary financial statements according to IAS 1 and the effects of hedge accounting in the notes, as it requires to provide a reconciliation (in the primary financial statements or in the notes) of each component of equity and an analysis of OCI in accordance with IAS 1 that, taken together (IFRS 7.24E):

— differentiates, at a minimum, between:
  > the amounts that relate to the hedging gains or losses of the reporting period recognised in OCI, and amounts reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (in the meaning of IAS 1) (IFRS 7.24C(b)(i) and IFRS 7.24C(b)(iv)); and
  > the amounts removed from the cash flow hedge reserve and either included in the initial cost or other carrying amount of the asset / liability (in the case of a hedged forecast transaction subsequently resulting in the recognition of a non-financial asset or non-financial liability, see chapter 14), or reclassified immediately from the cash flow hedge reserve to profit or loss due to an expected loss on the hedged transaction;

— differentiates between:
  > the amounts associated with the time value of options that hedge transaction related hedged items; and
  > the amounts associated with the time value of options that hedge time-period related hedged items.

This line should be disclosed only by entities that apply IFRS 9 to hedge accounting and have chosen to separate the intrinsic value and time value of an option contract and designate as the hedging instrument only the change in intrinsic value of the option**.

** See sections 14.4.4.6 and 14.8.1
— differentiates between:

> the amounts associated with **forward elements of forward contracts** and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items; and

> the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items.

This line should be disclosed only by entities that apply IFRS 9 to hedge accounting and have chosen to separate the forward element and the spot element of a forward contract and designate as the hedging instrument only the change in the value of the spot element of the forward contract, or when an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument.

As the information above is required by risk category (IFRS 7.24F), it may be easier to provide this disaggregation by risk in the notes to the financial statements related to hedge accounting rather than overburden the OCI and / or the statement of changes in equity in the primary financial statements with too much details or disaggregation.

The following table extracted from the implementation guidance of IFRS 7 illustrates how these requirements may be complied with IFRS 7.IG.13E:

**Figure 16.6**

<table>
<thead>
<tr>
<th>Cash flow hedges( ^{\text{a}} )</th>
<th>Separate line item recognised in profit or loss as a result of a hedge of a net position( ^{\text{b}} )</th>
<th>Change in the value of the hedging instrument recognised in other comprehensive income</th>
<th>Hedge ineffectiveness recognised in profit or loss</th>
<th>Line item in profit or loss (that includes hedge ineffectiveness)</th>
<th>Amount reclassified from the cash flow hedge reserve to profit or loss</th>
<th>Line item affected in profit or loss because of the reclassification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commodity price risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity X</td>
<td>n/a</td>
<td>xx</td>
<td>xx</td>
<td>Line item XX</td>
<td>xx</td>
<td>Line item XX</td>
</tr>
<tr>
<td>- Discontinued hedge</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>xx</td>
<td>Line item XX</td>
<td></td>
</tr>
</tbody>
</table>

\( ^{\text{a}} \) The information disclosed in the statement of changes in equity (cash flow hedge reserve) should have the same level of detail as these disclosures.

\( ^{\text{b}} \) This disclosure only applies to cash flow hedges of foreign currency risk.

<table>
<thead>
<tr>
<th>Fair value hedges</th>
<th>Ineffectiveness recognised in profit or loss (that include(s) hedge ineffectiveness)</th>
<th>Line item(s) in profit or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>xx</td>
<td>Line item XX</td>
</tr>
<tr>
<td>Foreign exchange risk</td>
<td>xx</td>
<td>Line item XX</td>
</tr>
</tbody>
</table>

\( ^{5} \) See sections 14.4.4.4 and 14.8.2

\( ^{6} \) See sections 14.4.4.5 and 14.8.3
16.6.3.6. Specific disclosures about particular hedging designations

16.6.3.6.1. Specific disclosure requirements for dynamic hedging strategies

In situations in which an entity frequently resets (i.e. discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (i.e. the entity uses a dynamic process in which both the exposure and the hedging instruments do not remain the same for long), the entity is required to disclose (IFRS 7.23C):

— information about what the ultimate risk management strategy is in relation to those hedging relationships;
— a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and
— an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity’s process in relation to those hedging relationships.

In practice such dynamic hedging relationships, where the entity assesses its overall exposure to a particular risk, particularly concern open portfolios.

Because the designated hedging relationships change frequently, the specific relationships at the reporting date might not be representative of the normal volumes during the period. For that reason, when the volume of hedging relationships is unrepresentative of normal volumes during the period (i.e. the volume at the reporting date does not reflect the volumes during the period), IFRS 7 requires the entity to disclose that fact and the reason it believes the volumes are unrepresentative (IFRS 7.24D).

16.6.3.6.2. Specific disclosure requirements for cash flow hedges in relation to the hedged forecast transaction

For cash flow hedges, the entity should describe any forecast transaction for which hedge accounting has been used in the previous period, but which is no longer expected to occur (IFRS 7.23F).

16.6.3.7. Other specific disclosures that may apply under IFRS 9 only

In addition to the requirements above, specific disclosures are required for entities that have chosen to apply one of the following options under IFRS 9 hedge accounting:

— when an entity designates a specific risk component as a hedged item it must provide, in addition to the disclosures about the risk management strategy (see section 16.6.3.1), qualitative or quantitative information about (IFRS 7.22C):
  > how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and
  > how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80% of the changes in fair value of the item as a whole).

7 See section 14.3.2.1
— If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument, it must disclose (IFRS 7.24G):

> for credit derivatives that have been used to manage the credit risk of these financial instruments, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;

> the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss; and

> on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument’s fair value that has become the new carrying amount and the related nominal or principal amount (except for providing comparative information in accordance with IAS 1, an entity does not need to continue this disclosure in subsequent periods).

16.6.4. Fair value

Fair value disclosure requirements are set out in IFRS 7 and IFRS 13. IFRS 13 is primarily a standard on measurement (i.e., it defines fair value and provides guidance for measuring it) and it contains specific disclosure requirements on fair value, for instruments for which other IFRS standards require to include a fair value either in the statement of financial position or in the notes. It also defines the fair value hierarchy in three levels 1, 2 and 3 based on the observability of inputs used to measure fair value.

While IFRS 7 is focused on financial instruments and only contains specific disclosures about fair value, the scope of IFRS 13 is broader. The scope of fair value disclosures under IFRS 13 includes non-financial assets and liabilities (such as investment properties measured at fair value in accordance with IAS 40) in addition to financial instruments.

IFRS 7 mainly requires disclosures of fair value (including financial instruments that are not carried at fair value in the statement of financial position) and specific disclosures in the case of a deferred recognition of a day one gain in profit or loss. It also contains several exemptions regarding the presentation of fair values of financial instruments.

IFRS 13 requires, among other things, much more detailed disclosures about measurement techniques, inputs, level in the 3-level hierarchy of IFRS 13 attached to each fair value measurement (by class of financial instruments), detailed information on Level 3 measurements, etc.

16.6.4.1. Disclosures of fair value required by IFRS 7

16.6.4.1.1. Fair value by class of financial instruments

IFRS 7 requires for an entity to present the fair value of the assets and liabilities for each class of financial assets and financial liabilities (as defined by the entity in accordance with the principles set out in section 16.4). This information must be provided in a way that permits a comparison between the fair values and the related carrying amounts of the financial assets and liabilities (IFRS 7.25). In disclosing fair values, an entity must group financial assets and financial liabilities into classes, but has to offset any

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* See section 14.1.2.3
them only to the extent that their carrying amounts are offset in the statement of financial position (see section 16.6.1.5) (IFRS 7.26).

16.6.4.1.2. Exemption from disclosures of fair values of financial assets and liabilities

IFRS 7 does not require disclosures of fair value in the following situations:

— when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables (IFRS 7.29(a)); and
— for contracts containing a discretionary participation feature (as described in IFRS 4 if the fair value of that feature cannot be measured reliably (IFRS 7.29(c)).

However, in the latter case (i.e. contracts containing discretionary participation features), additional information must be disclosed by the entity to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those contracts and their fair value, including (IFRS 7.30):

— the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
— a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
— information about the market for the instruments;
— information about whether and how the entity intends to dispose of the financial instruments; and
— if financial instruments for which fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

16.6.4.1.3. Specific disclosure requirements on deferred day one gain or loss

In the event of a deferred recognition of a day one gain or loss in profit or loss in accordance with IFRS 9. B5.1.2A, resulting from the difference between the transaction price and the initial fair value of a financial asset or a financial liability upon its initial recognition (see chapter 6), an entity must disclose by class of financial asset or financial liability (IFRS 7.28):

— its accounting policy for recognising the day one gain or loss resulting from the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability;
— the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period, and a reconciliation of changes in the balance of this difference;
— why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

Implementation guidance of IFRS 7 provides additional information with an illustrative example on this topic (IFRS 7.IG.14):
Example 16.2

**Background**

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to measure the financial assets’ fair value. This valuation technique uses inputs other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at 1 January 20X1.

**Application of requirements**

The entity’s 20X2 disclosure would include the following:

*Accounting policies*

The entity uses the following valuation technique to measure the fair value of financial instruments that are not traded in an active market:

[description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IFRS 9, is generally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity’s accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IFRS 9, the fair value of an instrument at inception is normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity’s accounting policy].

The differences yet to be recognised in profit or loss are as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 Dec X2</th>
<th>31 Dec X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>5.3</td>
<td>5.0</td>
</tr>
<tr>
<td>New transactions</td>
<td>–</td>
<td>1.0</td>
</tr>
<tr>
<td>Amounts recognised in profit or loss during the year</td>
<td>(0.7)</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Other increases</td>
<td>–</td>
<td>0.2</td>
</tr>
<tr>
<td>Other decreases</td>
<td>(0.1)</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td>4.5</td>
<td>5.3</td>
</tr>
</tbody>
</table>
16.6.4.2. Disclosure requirements in IFRS 13

As explained above, the disclosure requirements in IFRS 13 cover a wider range of instruments than those in IFRS 7.

In this section, we focus mainly on specific disclosure requirements that apply to financial instruments.

16.6.4.2.1. Objective of IFRS 13 disclosures about fair value

The objective of IFRS 13 disclosures is to help users of the financial statements to assess (IFRS 13.91):

— for assets and liabilities that are measured at fair value on a recurring or non-recurring basis (see the following section) in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements;

— for recurring level 3 fair value measurements, the effect of the measurements on profit or loss or OCI for the period.

16.6.4.2.2. Recurring vs non-recurring fair value measurements

IFRS 13 makes a distinction in its disclosure requirements between:

— assets and liabilities that are measured at fair value on a **recurring basis**;

  > recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statements of financial position at the end of each reporting period (IFRS 13.93);

— assets and liabilities that are measured at fair value on a **non-recurring basis**;

  > non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (e.g. for a non-financial asset held for sale measured at fair value less costs to sell in accordance with IFRS 5) (IFRS 13.93).

Applying the definitions above, most of the IFRS 9 measurement categories, except for financial instruments measured at amortised cost, will give rise to recurring fair value measurements on the statement of financial position. More extensive disclosures will be required for instruments measured at fair value on a recurring basis.

In our opinion, financial instruments measured at amortised cost are generally not subject to disclosures about recurring or non-recurring fair value measurements. This is because the disclosure requirements in IFRS 13.91 and IFRS 13.93 apply to assets and liabilities measured at fair value **after their initial recognition**. As generally financial instruments subsequently measured at amortised cost are measured at fair value only at their initial recognition, they are excluded from the scope of these disclosures.
### Figure 16.7

<table>
<thead>
<tr>
<th>IFRS 9 measurement category</th>
<th>Disclosures about recurring fair value measurements (IFRS 13 full disclosures scope)</th>
<th>Disclosures about non-recurring fair value measurements (IFRS 13 reduced disclosures scope)</th>
<th>Only some selected disclosures for items not measured at fair value in the statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets and financial liabilities measured at <strong>FV-PL</strong> (mandatory classification / optional designation)</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets measured at <strong>FV-OCI</strong> (with and without ulterior recycling to profit or loss)</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets and financial liabilities measured at <strong>AC</strong> (amortised cost)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Given the scope of our publication, we have chosen to not reproduce the disclosure requirements on fair value in IFRS 13 relating to non-financial assets and liabilities.

### 16.6.4.2.3. Format of quantitative disclosures under IFRS 13

IFRS 13.99 specifies that quantitative disclosures required by IFRS 13 must be presented in a tabular format, unless another format is more appropriate.

### 16.6.4.2.4. Level of aggregation for disclosures under IFRS 13

IFRS 13.93 requires that the disclosures listed in section 16.6.4.2.5 be provided for each class of assets and liabilities. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement, as explained in section 16.4.

It should be noted that IFRS 13 contains additional guidance to that in IFRS 7 (presented in section 16.4) on determining the appropriate classes, specifically when it comes to disclosures about fair value. IFRS 13.94 indicates that appropriate classes of assets and liabilities should be determined on the basis of the following:

- the nature, characteristics and risks of the asset or liability; and
- the level of the fair value hierarchy within which the fair value measurement is categorised.
IFRS 13.94 also states that:

— The number of classes may need to be greater for fair value measurements categorised within level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity.

— A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, entity should provide information sufficient to permit reconciliation to the line items presented in the statement of financial position.

16.6.4.2.5. Main disclosure requirements in IFRS 13

IFRS 13 classifies the fair value measurements in 3 levels, depending on how the fair value measurement has been established:

— **Level 1**: inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (IFRS 13.76);

— **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (IFRS 13.81). Level 2 inputs include the following (IFRS 13.82):
  > quoted prices for similar assets or liabilities in active markets;
  > quoted prices for identical or similar assets or liabilities in markets that are not active;
  > inputs other than quoted prices that are observable for the asset or liability, for example:
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatilities; and
    - credit spreads.
  > market-corroborated inputs.

— **Level 3**: inputs that are unobservable for the asset or the liability.

As a general rule, the higher the fair value hierarchy level, the less reliable the fair value measurement is supposed to be. For instance, Level 3 measurements are considered to be less objective than Level 2 measurements.

IFRS 13 requires specific disclosures about valuation techniques and inputs used to establish measurements in levels 1, 2 and 3, as well as transfers between levels and extensive disclosures about level 3 measurements, namely because there is more judgement and subjectivity involved.

The nature and level of detail of information to be disclosed (see column n° 2 in the table below) depends on the level of fair value measurement (1, 2 or 3 – see the column n° 1 in the table below) and also on its nature (recurring or non-recurring). However, as all fair value measurements, in the case of financial assets measured at fair value, are recurring fair value measurements, we have chosen to not reproduce here the specific requirements in IFRS 13 for non-recurring fair value measurements. It should be noted that some of these disclosure requirements apply even to assets and liabilities that are not presented at fair value in the statement of financial position (i.e. in the case of financial instruments, for assets and liabilities that are measured at amortised cost (see the penultimate column in the table below)).
The table below summarises the major disclosure requirements in IFRS 13 for financial instruments, but it does not include disclosures that apply only to level-3 measurements which are presented in a separate subsequent section.

Figure 16.8

<table>
<thead>
<tr>
<th>Level of fair value measurement</th>
<th>Required disclosures about financial assets and liabilities measured at fair value (recurring fair value measurements)</th>
<th>Financial assets and liabilities measured at AC</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levels 1, 2 and 3</td>
<td>— Fair value at the end of reporting period.</td>
<td>X</td>
<td>IFRS 13.93(a)</td>
</tr>
<tr>
<td>Levels 1, 2 and 3</td>
<td>— Level of fair value hierarchy.</td>
<td>X</td>
<td>IFRS 13.93(b)</td>
</tr>
<tr>
<td>Levels 1 and 2</td>
<td>— Amounts of any transfers between levels 1 and 2 (separately for transfers into and out of each level). — Reasons for those transfers. — Entity’s policy for determining when transfers are deemed to have occurred.</td>
<td></td>
<td>IFRS 13.93(c)</td>
</tr>
<tr>
<td>Levels 1, 2 and 3</td>
<td>Timing of transfers between levels of the fair value hierarchy: an entity must disclose and consistently follow its policy for determining when such transfers are deemed to have occurred. The policy about the timing of recognising transfers must be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following: — the date of the event or change in circumstances that caused the transfer; — the beginning of the reporting period; — the end of the reporting period.</td>
<td>IFRS 13.95</td>
<td></td>
</tr>
<tr>
<td>Levels 2 and 3</td>
<td>— Description of the valuation technique(s) and the inputs used in the fair value measurement. — Any change in valuation technique (e.g. changing from a market approach to an income approach) and the reason(s) for making it.</td>
<td>X</td>
<td>IFRS 13.93(d)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
<td>IFRS 13.97</td>
</tr>
</tbody>
</table>

IFRS 13.IE60 provides an illustrative example on how to disclose the information required in IFRS 13.93(a) and IFRS 13.93(b). The example includes both financial and non-financial items:
### Figure 16.9

<table>
<thead>
<tr>
<th>Description</th>
<th>31/12/X9</th>
<th>Quoted prices in active markets for identical assets (Level 1)</th>
<th>Significant other observable inputs (Level 2)</th>
<th>Significant unobservable inputs (Level 3)</th>
<th>Total gains (losses)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurring fair value measurements</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Trading equity securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Real estate industry</td>
<td>93</td>
<td>70</td>
<td>23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Oil and gas industry</td>
<td>45</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Other</td>
<td>15</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Total trading equity securities</td>
<td>153</td>
<td>130</td>
<td>23</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other equity securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Financial services industry</td>
<td>150</td>
<td>150</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Healthcare industry</td>
<td>163</td>
<td>110</td>
<td>53</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Energy industry</td>
<td>32</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Private equity fund investments</td>
<td>25</td>
<td></td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Other</td>
<td>15</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Total other equity securities</td>
<td>385</td>
<td>275</td>
<td>110</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Debt securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Residential mortgage-backed securities</td>
<td>149</td>
<td>24</td>
<td>125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Commercial mortgage-backed securities</td>
<td>50</td>
<td></td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Collateralised debt obligations</td>
<td>35</td>
<td></td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Risk-free government securities</td>
<td>85</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Corporate bonds</td>
<td>93</td>
<td>9</td>
<td>84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Total debt securities</td>
<td>412</td>
<td>94</td>
<td>108</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td><strong>Hedge fund investments:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Equity long/short</td>
<td>55</td>
<td></td>
<td>55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Global opportunities</td>
<td>35</td>
<td></td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— High-yield debt securities</td>
<td>90</td>
<td></td>
<td></td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>&gt; Total hedge fund investments</td>
<td>180</td>
<td></td>
<td>90</td>
<td>90</td>
<td></td>
</tr>
</tbody>
</table>
## MAZARS INSIGHTS - IFRS FOR FINANCIAL INSTRUMENTS

### Fair value measurements at the end of the reporting period using

<table>
<thead>
<tr>
<th>(CU in millions)</th>
<th>Quoted prices in active markets for identical assets (Level 1)</th>
<th>Significant other observable inputs (Level 2)</th>
<th>Significant unobservable inputs (Level 3)</th>
<th>Total gains (losses)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Derivatives:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Interest rate contracts</td>
<td>57</td>
<td>57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Foreign exchange contracts</td>
<td>43</td>
<td>43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Credit contracts</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Commodity futures contracts</td>
<td>78</td>
<td>78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Commodity forward contracts</td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Total derivatives</td>
<td><strong>236</strong></td>
<td><strong>78</strong></td>
<td><strong>120</strong></td>
<td><strong>38</strong></td>
</tr>
<tr>
<td><strong>Investment properties:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Commercial—Asia</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Commercial—Europe</td>
<td>27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Total investment properties</td>
<td><strong>58</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total recurring fair value measurements</strong></td>
<td><strong>1,424</strong></td>
<td><strong>577</strong></td>
<td><strong>341</strong></td>
<td><strong>506</strong></td>
</tr>
<tr>
<td><strong>Non-recurring fair value measurements</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Assets held for sale(^{(c)})</td>
<td><strong>26</strong></td>
<td><strong>26</strong></td>
<td></td>
<td><strong>15</strong></td>
</tr>
<tr>
<td><strong>Total non-recurring fair value measurements</strong></td>
<td><strong>26</strong></td>
<td><strong>26</strong></td>
<td></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

(a) On the basis of its analysis of the nature, characteristics and risks of the securities, the entity has determined that presenting them by industry is appropriate.

(b) On the basis of its analysis of the nature, characteristics and risks of the investments, the entity has determined that presenting them as a single class is appropriate.

(c) In accordance with IFRS 5, assets held for sale with a carrying amount of CU35 million were written down to their fair value of CU26 million, less costs to sell of CU6 million (or CU20 million), resulting in a loss of CU15 million, which was included in profit or loss for the period.

### 16.6.4.2.6. Specific disclosures for level-3 fair value measurements

The table below summarises the specific disclosures that are only required for level-3 fair value measurements. These disclosure requirements supplement the general disclosures required for instruments that can be classified in level 3 but also in other levels of fair value measurements which are presented in section 16.6.4.2.5.
Figure 16.10

Required disclosures about level-3 financial assets and liabilities measured at fair value (recurring fair value measurements)

- Quantitative information about the **significant unobservable inputs** used in the fair value measurement\(^9\)

<table>
<thead>
<tr>
<th>Reference</th>
<th>IFRS 13.93(d)</th>
</tr>
</thead>
</table>

**Reconciliation from the opening balances to the closing balances**, disclosing separately changes during the period attributable to the following:
- total gains or losses for the period recognised in profit or loss, including the reference to related line item(s) in profit or loss;
- total gains or losses for the period recognised in OCI, including the reference to related line item(s) in OCI;
- purchases, sales, issues and settlements (each disclosed separately);
- the amounts of any transfers into or out of level 3 of the fair value hierarchy (disclosed separately), the reasons for those transfers and the entity’s policy for determining when transfers between levels are deemed to have occurred

<table>
<thead>
<tr>
<th>Reference</th>
<th>IFRS 13.97</th>
</tr>
</thead>
</table>

The amount of the total gains or losses in profit or loss attributable to the **change in unrealised gains or losses** relating to those assets and liabilities held at the end of the reporting period (including the reference to related line item(s) in profit or loss)

<table>
<thead>
<tr>
<th>Reference</th>
<th>IFRS 13.93(e)</th>
</tr>
</thead>
</table>

**Description of the valuation processes** used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

IFRS 13.IE65 provides further guidance on information that could be disclosed to comply with this qualitative disclosure requirement:
- for the group within the entity that decides the entity’s valuation policies and procedures:
  - its description;
  - to whom that group reports; and
  - the internal reporting procedures in place (e.g. whether and, if so, how pricing, risk management or audit committees discuss and assess the fair value measurements);
- the frequency and methods for calibration, back testing and other testing procedures of pricing models;
- the process for analysing changes in fair value measurements from period to period;
- how the entity determined that third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed in accordance with the IFRS; and
- the methods used to develop and substantiate the unobservable inputs used in a fair value measurement.

<table>
<thead>
<tr>
<th>Reference</th>
<th>IFRS 13.93(f)</th>
</tr>
</thead>
</table>

\(^9\) if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment), an entity is not required to create quantitative information on significant unobservable inputs. However, an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity (IFRS 13.93(d)).
— **Narrative description** of the **sensitivity of the fair value measurement to changes in unobservable inputs**, if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.

  > NB: to comply with this disclosure requirement in IFRS 13.93(h), the narrative description of the sensitivity to changes in unobservable inputs has to include, at a minimum, the unobservable inputs disclosed when complying with IFRS 13.93(d) (see above).

— If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity must also provide a **description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.**

— for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly:

  > an entity must state that fact and disclose the effect of those changes.

  > The entity has to disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated.

  > For that purpose, significance has to be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in OCI, total equity.

IFRS 13.93(h)
IFRS 13 requires companies to disclose an illustrative example to comply with the requirement of IFRS 13.93(e) and IFRS 13.93(f) to disclose a reconciliation from the opening balances to the closing balances for each class of assets and liabilities with level 3 fair value measurements. This table provides a detailed breakdown of such a reconciliation:

<table>
<thead>
<tr>
<th>Category</th>
<th>Health-care industry</th>
<th>Energy industry</th>
<th>Private equity fund</th>
<th>Residential mortgage-backed securities</th>
<th>Commercial mortgage-backed securities</th>
<th>Collateralised debt obligations</th>
<th>High-yield debt securities</th>
<th>Credit contracts</th>
<th>Asia</th>
<th>Europe</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>49</td>
<td>28</td>
<td>20</td>
<td>105</td>
<td>39</td>
<td>25</td>
<td>145</td>
<td>30</td>
<td>28</td>
<td>26</td>
<td>495</td>
</tr>
<tr>
<td>Transfers into Level 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
</tr>
<tr>
<td>Transfers out of Level 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5)</td>
</tr>
<tr>
<td>Total gains or losses for the period Included</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Included in profit or loss</td>
<td>5</td>
<td>(23)</td>
<td>(5)</td>
<td>(7)</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td>(14)</td>
</tr>
<tr>
<td>&gt; Included in other comprehensive income</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Notes:*
- a: Represents the total gross amount transferred into Level 3 from other levels.
- b: Represents the net amount transferred into Level 3 from other levels.
- c: Represents the total gross amount transferred out of Level 3 to other levels.
- d: Represents the net amount transferred out of Level 3 to other levels.
IFRS 13.93(d) provides an illustrative example complying with the requirements of IFRS 13, fair value measurements using significant unobservable inputs (Level 3).

<table>
<thead>
<tr>
<th>Purchases, issues, sales and settlements</th>
<th>1</th>
<th>3</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>55</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Purchases</td>
<td>1</td>
<td></td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>55</td>
</tr>
<tr>
<td>&gt; Issues</td>
<td></td>
<td></td>
<td>(12)</td>
<td></td>
<td>(62)</td>
<td>(74)</td>
</tr>
<tr>
<td>&gt; Sales</td>
<td></td>
<td>(12)</td>
<td></td>
<td>(62)</td>
<td></td>
<td>(74)</td>
</tr>
<tr>
<td>&gt; Settlements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(15)</td>
<td>(15)</td>
</tr>
<tr>
<td>Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period</td>
<td>5</td>
<td>(3)</td>
<td>(5)</td>
<td>(7)</td>
<td>(5)</td>
<td>2</td>
</tr>
<tr>
<td>Closing balance</td>
<td>53</td>
<td>32</td>
<td>25</td>
<td>125</td>
<td>50</td>
<td>35</td>
</tr>
</tbody>
</table>

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data, resulting from a decrease in market activity for the securities.
(b) The entity’s policy is to recognise transfers into and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.
(c) Transferred from Level 3 to Level 2 because observable market data became available for the securities.
### Figure 16.12

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Fair value at 31/12/X9</th>
<th>Valuation technique(s)</th>
<th>Unobservable input</th>
<th>Range (weighted average)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other equity securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthcare industry</td>
<td>53</td>
<td>Discounted cash flow</td>
<td>weighted average cost of capital</td>
<td>7%–16% (12.1%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>long-term revenue growth rate</td>
<td>2%–5% (4.2%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>long-term pre-tax operating margin</td>
<td>3%–20% (10.3%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>discount for lack of marketability(a)</td>
<td>5%–20% (17%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>control premium(a)</td>
<td>10%–30% (20%)</td>
</tr>
<tr>
<td>Market comparable companies</td>
<td></td>
<td></td>
<td>EBITDA multiple(b)</td>
<td>10–13 (11.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>revenue multiple(b)</td>
<td>1.5–2.0 (1.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>discount for lack of marketability(a)</td>
<td>5%–20% (17%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>control premium(a)</td>
<td>10%–30% (20%)</td>
</tr>
<tr>
<td>Energy industry</td>
<td>32</td>
<td>Discounted cash flow</td>
<td>weighted average cost of capital</td>
<td>8%–12% (11.1%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>long-term revenue growth rate</td>
<td>3%–5.5% (4.2%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>long-term pre-tax operating margin</td>
<td>7.5%–13% (9.2%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>discount for lack of marketability(a)</td>
<td>5%–20% (10%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>control premium(a)</td>
<td>10%–20% (12%)</td>
</tr>
<tr>
<td>Market comparable companies</td>
<td></td>
<td></td>
<td>EBITDA multiple(b)</td>
<td>6.5–12 (9.5)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>revenue multiple(b)</td>
<td>1.0–3.0 (2.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>discount for lack of marketability(a)</td>
<td>5%–20% (10%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>control premium(a)</td>
<td>10%–20% (12%)</td>
</tr>
<tr>
<td>Private equity fund investments</td>
<td>25</td>
<td>Net asset value(c)</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Debt securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential mortgage-backed securities</td>
<td>125</td>
<td>Discounted cash flow</td>
<td>constant prepayment rate</td>
<td>3.5%–5.5% (4.5%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>probability of default</td>
<td>5%–50% (10%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>loss severity</td>
<td>40%–100% (60%)</td>
</tr>
</tbody>
</table>
### Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

<table>
<thead>
<tr>
<th>Description</th>
<th>Fair value at 31/12/X9</th>
<th>Valuation technique(s)</th>
<th>Unobservable input</th>
<th>Range (weighted average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial mortgage-backed securities</td>
<td>50</td>
<td>Discounted cash flow</td>
<td>constant prepayment rate</td>
<td>3%–5% (4.1%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>probability of default</td>
<td>2%–25% (5%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>loss severity</td>
<td>10%–50% (20%)</td>
</tr>
<tr>
<td>Collateralised debt obligations</td>
<td>35</td>
<td>Consensus pricing</td>
<td>offered quotes</td>
<td>20–45</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>comparability adjustments (%)</td>
<td>-10% – +15% (+5%)</td>
</tr>
<tr>
<td>Hedge fund investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-yield debt securities</td>
<td>90</td>
<td>Net asset value(c)</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Derivatives:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit contracts</td>
<td>38</td>
<td>Option model</td>
<td>annualised volatility of credit(d)</td>
<td>10%–20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>counterparty credit risk(e)</td>
<td>0.5%–3.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>own credit risk(e)</td>
<td>0.3%–2.0%</td>
</tr>
<tr>
<td>Investment properties:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial—Asia</td>
<td>31</td>
<td>Discounted cash flow</td>
<td>long-term net operating income margin</td>
<td>18%–32% (20%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>cap rate</td>
<td>0.08–0.12 (0.10)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market comparable approach</td>
<td>price per square metre (USD)</td>
<td>$3,000–$7,000 ($4,500)</td>
</tr>
<tr>
<td>Commercial—Europe</td>
<td>27</td>
<td>Discounted cash flow</td>
<td>long-term net operating income margin</td>
<td>15%–25% (18%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>cap rate</td>
<td>0.06–0.10 (0.08)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market comparable approach</td>
<td>price per square metre (EUR)</td>
<td>€6,000–€12,000 (€8,500)</td>
</tr>
</tbody>
</table>

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

(a) Represents amounts used when the entity has determined that market participants would take into account these premiums and discounts when pricing the investments.

(b) Represents amounts used when the entity has determined that market participants would use such multiples when pricing the investments.

(c) The entity has determined that the reported net asset value represents fair value at the end of the reporting period.

(d) Represents the range of the volatility curves used in the valuation analysis that the entity has determined market participants would use when pricing the contracts.

(e) Represents the range of the credit default swap spread curves used in the valuation analysis that the entity has determined market participants would use when pricing the contracts.
IFRS 13.IE66 provides the following illustrative example focused on residential mortgage-backed securities. It is an example of compliance with the requirement in IFRS 13.93(h) of providing a narrative description of the sensitivity of the fair value measurement to changes in significant unobservable inputs, and a description of any interrelationships between those unobservable inputs.

‘The significant unobservable inputs used in the fair value measurement of the entity’s residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.’

16.6.4.2.7. Specific disclosures for specific cases of financial assets and liabilities with offsetting or credit enhancement features

If an entity holds financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk and makes an accounting policy decision to use the exception provided in IFRS 13.48², it must disclose that fact (IFRS 13.96).

This disclosure is required for both recurring and non-recurring fair value measurements, but in practice will only apply to recurring fair value measurements when it comes to financial instruments (for the reasons explained in section 16.6.4.2.2).

If an entity has issued liabilities measured at fair value with an inseparable third-party credit enhancement, it is required to disclose (IFRS 13.98):

— the existence of that credit enhancement and
— whether it is reflected in the fair value measurement of the liabilities

This disclosure is required for both recurring and non-recurring fair value measurements, but in practice will only apply to recurring fair value measurements when it comes to financial instruments (for the reasons explained in section 16.6.4.2.2).

16.6.4.2.8. Additional information that may need to be disclosed in addition to the minimum disclosure requirements in IFRS 13

To meet the objective presented in section 16.6.4.2.1, judgement is required as the entity has to consider, for example, the level of detail necessary to satisfy the disclosure requirements, or whether users of financial statements need additional information compared to the minimum requirements of the standard (IFRS 13.92).

Examples of such additional information are presented in IFRS 13.IE64. An entity might need to disclose some or all of the following:

— the nature of the item being measured at fair value, including the characteristics of the item being measured that are taken into account in the determination of relevant inputs. For example, for residential mortgage-backed securities, an entity might disclose the following:

² Fair value is measured on the net risk exposure of the group of financial assets and liabilities
> the types of underlying loans (e.g. prime loans or sub-prime loans);
> the collateral;
> the guarantees or other credit enhancements;
> the seniority level of the tranches of securities;
> the year of issue;
> the weighted-average coupon rate of the underlying loans and the securities;
> the weighted-average maturity of the underlying loans and the securities;
> the geographical concentration of the underlying loans;
> information about the credit ratings of the securities.

— how third-party information such as broker quotes, pricing services, net asset values and relevant market data was taken into account when measuring fair value.

16.7. Nature and extent of risks arising from financial instruments

IFRS 7 requires providing general quantitative and qualitative disclosures for each type of risk that arises from financial instruments, both assets and liabilities. These are presented in section 16.7.1.

IFRS 7 also contains specific disclosure requirements for the following types of risks: credit risk, liquidity risk and market risk. They are presented in dedicated sections 16.7.2 to 16.7.4.

16.7.1. General qualitative and quantitative disclosures applicable to all risks arising from financial instruments

16.7.1.1. Objectives of these disclosures

The qualitative and quantitative disclosures about risks arising from financial instruments aim to achieve the second main goal set by IFRS 7.1, i.e. enable users of 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 (IFRS 7.31). These disclosures include a description of risks and how they are being managed (IFRS 7.32).

Such risks typically include, but are not limited to, credit risk, liquidity risk, and market risk (IFRS 7.32). The main risks that are directly linked to financial instruments are defined as follows in IFRS 7 Appendix A:

— credit risk: the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation;
— liquidity risk: 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;
— market risk: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. These three risks are also defined by IFRS 7:
> **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. Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. For the purpose of IFRS 7, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency (IFRS 7.B23);

> **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. Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position (e.g. debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (e.g. some loan commitments) (IFRS 7.B22);

> **other price risk:** the risk that the fair value or future cash flows of a financial instrument will fluctuate because 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 by factors affecting all similar financial instruments traded in the market. Other price risk arises on financial instruments because of changes in, for example, commodity prices, equity prices (IFRS 7.B25), prepayment risk (i.e. the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk (e.g. a lessor of motor cars that writes residual value guarantees is exposed to residual value risk) (IFRS 7.IG.32). Two examples of financial instruments that give rise to equity price risk are (IFRS 7.B26):

- a holding of equities in another entity and
- an investment in a trust that in turn holds investments in equity instruments.

Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.

16.7.1.2. Where in the financial communication should these disclosures be provided?

All the required disclosures have to be either provided in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete (IFRS 7.B6).

16.7.1.3. Qualitative disclosures

For each type of risk arising from financial instruments, an entity must disclose (IFRS 7.33):

- the exposure to risk and how they arise [a];
- its objectives, policies and processes for managing the risk and the methods used to measure the risk [b]; and
- any changes in [a] or [b] from the previous period. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed (IFRS 7.IG.17).
The type of qualitative information that could be disclosed to meet the requirements above includes, but is not limited to, a narrative description of (IFRS 7.IG.15):

— **[a]** the entity’s exposures to risk and how they arose. Information about risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions;

— **[b]** the entity’s policies and processes for accepting, measuring, monitoring and controlling risk, which might include:
  > the structure and organisation of the entity’s risk management function(s), including a discussion of independence and accountability;
  > the scope and nature of the entity’s risk reporting or measurement systems;
  > the entity’s policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and
  > the entity’s processes for monitoring the continuing effectiveness of such hedges or mitigating devices;

— **[b]** the entity’s policies and procedures for avoiding excessive concentrations of risk.

### 16.7.1.4. Quantitative disclosures

For each type of risk arising from financial instruments, an entity must disclose (IFRS 7.34):

— **summary quantitative data** about its exposure to that risk at the end of the reporting period, based on the information provided internally to key management personnel of the entity (as defined in IAS 24 Related Party Disclosures), for example the entity’s board of directors or chief executive officer;

  > IAS 24.9 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

— **specific disclosures required for** credit risk, liquidity risk and market risk, to the extent not provided in within the summary quantitative data mentioned above (see sections 16.7.2 to 16.7.4);

— **concentrations of risk** if not apparent from the disclosures made in accordance with the requirements on summary quantitative data and specific disclosures about credit risk, liquidity risk and market risk presented in the two preceding paragraphs (see section 16.7.1.5).

When an entity uses several methods to manage a risk exposure, the entity must disclose information using the method or methods that provide the most relevant and reliable information. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors discusses relevance and reliability (IFRS 7.B7).

If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity’s exposure to risk during the period, an entity has to provide further information that is representative (IFRS 7.35).

To meet this requirement, an entity might disclose the highest, lowest and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures (IFRS 7.IG.20).
16.7.1.5. Disclosures about concentrations of risk

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 taking into account the circumstances of the entity.

Disclosure of concentrations of risk must include (IFRS 7.B8):

— a description of how management determines concentrations;
— a description of the shared characteristic that identifies each concentration (e.g. counterparty, geographical area, currency or market);
— for example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries (IFRS 7.IG.19);
— the amount of the risk exposure associated with all financial instruments sharing that characteristic.

IFRS 7.IG.18 provides further guidance on the concentrations of credit risk specifying that they may arise, for example, from:

— industry sectors,
— credit rating or other measure of credit quality,
— geographical distribution,
— or from a limited number of individual counterparties or groups of closely related counterparties.

Specific disclosure requirements for credit risk concentrations are detailed in section 16.7.2.6.

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets.

Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.
16.7.2. Credit risk: specific qualitative and quantitative disclosures

Credit risk is one of the major risks exposing many entities, financial institutions in particular, and therefore many qualitative and quantitative disclosures are required by IFRS 7 on this risk to help users of the financial statements assess its impacts and extent.

16.7.2.1. Scope and objectives

The disclosure requirements detailed below apply to financial instruments in the scope of impairment in IFRS 9 (including those rights that IFRS 15 Revenue from Contracts with Customers specifies are accounted for in accordance with IFRS 9 for the purposes of recognising impairment gains or losses) (see section 9.4.1.3) (IFRS 7.5A). Exceptions to this scope will be detailed in each relevant section. For more details on the scope of impairment in IFRS 9, please refer to section 9.4.1.

Credit risk disclosures should enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, disclosure requirements focus on the three following areas (IFRS 7.35B):

— credit risk management practices, including inputs, methods, assumptions and information used to apply IFRS 9 impairment model based on expected credit losses;

— quantitative and qualitative information about amounts arising from expected credit losses, including changes in those amounts and the reasons for those changes;

— entity’s credit risk exposure (i.e. the credit risk inherent in an entity’s financial assets and commitments to extend credit) including significant credit risk concentrations.

Credit risk disclosures detailed below are only minimum requirements that should be completed by the entity if such disclosures are not sufficient to comply with these objectives (IFRS 7.35E).

In providing these disclosures, an entity should consider (IFRS 7.35D):

— how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements;

— the appropriate level of aggregation or disaggregation; and

— whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

16.7.2.2. Level of aggregation for disclosures about credit risk

A lot of disclosures about credit risk must be provided by class of financial instruments. Section 16.4 provides guidance on how a class of financial instrument is determined, including specific aspects to consider for credit risk.

16.7.2.3. Where in the financial communication should these disclosures be provided?

As for other risks arising from financial instruments, this information can be incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk
report that is available to users of the financial statements on the same terms as the financial statements and at the same time (see section 16.7.1.2) (IFRS 7.35C).

16.7.2.4. Credit risk management practices

An entity should explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective, the entity should provide information that enable users to understand and evaluate (IFRS 7.35F):

— how it determined whether the credit risk of financial instruments has increased significantly since initial recognition (see section 9.4.3.2), including, if and how:
  > financial instruments are considered to have low credit risk (see section 9.4.3.4.1), and the classes of financial instruments to which it applies;
  > the presumption has been rebutted that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due (see section 9.4.3.2.4);
— the entity’s definitions of default (see section 9.4.3.3), including the reasons for selecting those definitions. Such information may include (IFRS 7.B8A):
  > the qualitative and quantitative factors considered in defining default;
  > whether different definitions have been applied to different types of financial instruments; and
  > assumptions about the cure rate (i.e. the number of financial assets that return to a performing status) after a default occurred on the financial asset;
— how the instruments were grouped if expected credit losses were measured on a collective basis;
— how an entity determined that financial assets are credit-impaired financial assets (i.e. classified in stage 3, see section 9.4.3.1.3);
— an entity’s write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity (see section 9.4.11);
— how the entity assessed whether there was a significant increase in credit risk on financial assets that were modified or renegotiated but not derecognised (see section 9.4.8), including:
  > how it assesses whether the credit risk of the modified financial assets has improved, for financial assets that were modified while they were in stage 2 or stage 3 and that have been transferred to stage 1 since then;
  > how it monitors the extent to which such modified assets that have been transferred from stage 2 or stage 3 to stage 1 are subject again to lifetime expected credit loss measurement because of a subsequent significant increase in their credit risk;
  — for example, entities could provide quantitative information (e.g. a deterioration rate) about modified financial assets transferred from stage 2 to stage 1 which have been subsequently transferred back to stages 2 or 3 (IFRS 7.B8B).

An entity should also disclose the inputs, assumptions and estimation techniques used to apply the impairment requirements of IFRS 9. For this purpose, the following disclosures about the measurement bases of the loss allowance for expected credit losses should be provided (IFRS 7.35G):
— the basis of inputs and assumptions\textsuperscript{11} and the estimation techniques used to:
  > measure the 12-month and lifetime expected credit losses (see chapter 9);
  > determine whether the credit risk of financial instruments has increased significantly since initial recognition (i.e. describe the criteria applied for transfers from stage 1 to stage 2); and
  > determine whether a financial asset is a credit-impaired financial asset;
— how forward-looking information (see section 9.4.7) has been incorporated into the estimation of expected credit losses, including the use of macroeconomic information

In our opinion, such information could include:

— information about the use of multiple economic scenarios and their weighting when integrating forward-looking information into the calculation of the expected credit losses; or
— the list of macroeconomic factors, such as GDP, used;
— any other relevant quantitative or qualitative information that may have a significant impact on the estimation of the expected credit losses. The more significant the impact of forward-looking information on the expected credit losses is, the more detailed the disclosures explaining the effect of forward-looking information should be (e.g. providing a description of macroeconomic factors by geographical area may be necessary).

— changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

16.7.2.5. Quantitative and qualitative disclosures about the amounts resulting from expected credit losses

16.7.2.5.1. Reconciliation of changes in the loss allowance

IFRS 7 requires entities to provide detailed information regarding the changes in loss allowance during the reporting period, but also to consider these changes together with the changes in the gross carrying amounts of related financial instruments.

To explain the changes in the loss allowance and the reasons for those changes, an entity should provide, by class of financial instrument (see section 16.4 for guidance on classes of financial instruments), a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for (IFRS 7.35H):

— the amount of changes in the loss allowance for 12-month expected credit losses (stage 1);

\textsuperscript{11} IFRS 7.B8C indicates that the data used by the entity to measure expected credit losses or determine the extent of increases in credit risk since initial recognition may include internal historical information or rating reports, and assumptions about the expected life of financial instruments and the timing of the sale of collateral
— the amount of changes in the loss allowance for lifetime expected credit losses, distinguishing between:
  > financial instruments for which credit risk has increased significantly since their initial recognition but that are not credit-impaired (i.e. stage 2 instruments);
  > financial assets that are credit-impaired at the reporting date, but that are not purchased or originated credit-impaired (i.e. stage 3 instruments);
  > and trade receivables, contract assets and lease receivables subject to the simplified impairment approach (see section 9.4.4);
— the amount of changes in the loss allowance for financial assets that are POCI, i.e. purchased or originated credit-impaired assets (see section 9.4.5);
  > in addition, the total amount of undiscounted expected credit losses at initial recognition on new POCI financial assets initially recognised during the reporting period.

In addition to this reconciliation table, an entity should disclose a narrative explanation of the changes in the loss allowance, which may include an analysis of these changes during the period and focus particularly on the following information (IFRS 7.B8D):

— the portfolio composition;
— the volume of financial instruments purchased or originated;
— the severity of the expected credit losses.

If an entity has recognised loan commitments or financial guarantee contracts, it should disclose the loss allowance (recognised as a provision on the statement of financial position) in the reconciliation table separately from the loss allowance for financial assets (IFRS 7.B8E) (see section 9.4.9.1.3 for further details).

16.7.2.5.2. Explanation of how significant changes in the gross carrying amount contributed to changes in the loss allowance

In addition to the loss reconciliation table, to enable users of financial statements to understand the changes in the loss allowance, an entity should provide an explanation on how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. Similarly to what is required for the reconciliation of the change in the loss allowance amount, this information should be presented separately for stage 1 instruments, stage 2 instruments, stage 3 instruments, assets subject to the simplified approach and POCI. The information on changes in the gross carrying amount should include relevant qualitative and quantitative information, which may include for example (IFRS 7.35I):

— changes because of financial instruments originated or acquired during the reporting period;
— the impacts of modification of contractual cash flows on financial assets that have been modified during the reporting period but were not derecognised at the modification date;
— changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period;
— changes arising from whether the loss allowance is measured at an amount equal to 12-month (i.e. stage 1 instruments) or lifetime expected credit losses (i.e. stage 2 and stage 3 instruments).
16.7.2.5.3. Illustrating disclosures described in the previous two sections

The following example, extracted from the implementation guidance of IFRS 7, illustrates how the requirements in IFRS 7.35H-I could be complied with (this example illustrates how (a) quantitative reconciliation of changes in the loss allowance, (b) narrative explanation of how the gross carrying amount contributed to changes in the loss allowance and (c) quantitative reconciliation of changes in the gross carrying amount could be presented for mortgage loans that are not POCI and that are considered as a separate class of financial assets) (IFRS 7.IG.20B):

**Example 16.3**

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of the ABC prime mortgage portfolio increased the residential mortgage book by x%, with a corresponding increase in the loss allowance measured on a 12-month basis.
- The write off of the CUXX DEF portfolio following the collapse of the local market reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.

The significant changes in the gross carrying amount of mortgage loans are further explained below:

<table>
<thead>
<tr>
<th>Mortgage loans–loss allowance</th>
<th>12-month expected credit losses</th>
<th>Lifetime expected credit losses (collectively assessed)</th>
<th>Lifetime expected credit losses (individually assessed)</th>
<th>Credit-impaired financial assets (lifetime expected credit losses)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CU’000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loss allowance as at 1 January</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Changes due to financial instruments recognised as at 1 January:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Transfer to lifetime expected credit losses</td>
<td>(X)</td>
<td>X</td>
<td>X</td>
<td>–</td>
</tr>
<tr>
<td>— Transfer to credit-impaired financial assets</td>
<td>(X)</td>
<td>–</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td>— Transfer to 12-month expected credit losses</td>
<td>X</td>
<td>(X)</td>
<td>(X)</td>
<td>–</td>
</tr>
<tr>
<td>— Financial assets that have been derecognised during the period</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>New financial assets originated or purchased</td>
<td>X</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Write-offs</td>
<td>–</td>
<td>–</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Changes in models/risk parameters</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Foreign exchange and other movements</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Loss allowance as at 31 December</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
16.7.2.5.4. Disclosures about the nature and effects of modifications of contractual cash flows that do not result in the derecognition of the modified assets

Given the potential effect of a modification of contractual cash flows on the amount of expected credit losses, specific disclosures are required for financial assets that have been modified but have not been derecognised. These disclosures aim at enabling users of the financial statements to understand the nature and effect of such modifications on financial assets and on the measurement of expected credit losses (IFRS 7.35J):

- the amortised cost before the modification and the net modification gain or loss recognised for financial assets modified during the reporting period and allocated to stage 2 or stage 3 (and are thus subject to lifetime expected credit losses);
- when an entity has trade receivables, contract assets or lease receivables to which the simplified approach in IFRS 9 is applied (see section 9.4.2.2), this requirement only applies to those financial assets that are modified while more than 30 days past due (IFRS 7.35A);
- the gross carrying amount at the end of the reporting period of all such modified financial assets (including assets modified in previous reporting periods) that have been transferred back to stage 1 during the reporting period (and are thus subject to 12-month expected credit losses).
In our opinion, these disclosure requirements do not apply to POCI financial assets as the loss allowance for such financial assets is equal to the amount of lifetime expected credit losses since initial recognition, and never reverts to a loss allowance based on 12-month expected credit losses.

16.7.2.5.5. Disclosures about the effect of collateral held and other credit enhancements on the expected credit losses

To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity should disclose by class of financial instrument (IFRS 7.35K):

— the amount that best represents the entity’s maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with IAS 32);

  > for a financial asset, this amount is typically the gross carrying amount, net of (IFRS 7.B9):
  > - any amounts offset in accordance with IAS 32; and
  > - any loss allowance recognised in accordance with IFRS 9;

— a narrative description of collateral held as security and other credit enhancements, including:

  > a description of the nature and quality of the collateral held;

  > an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period;

  > information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.

— This narrative description could include information about (IFRS 7.B8G):

  > the main types of collateral held as security and other credit enhancements (guarantees, credit derivatives and netting agreements that do not qualify for offset in accordance with IAS 32);

  > the volume of collateral held and other credit enhancements and its significance in terms of the loss allowance;

  > the policies and processes for valuing and managing collateral and other credit enhancements;

  > the main types of counterparties to collateral and other credit enhancements and their creditworthiness;

  > information about risk concentrations within the collateral and other credit enhancements;

— quantitative information about the collateral held as security and other credit enhancements for financial assets that are credit-impaired at the reporting date (i.e. allocated to stage 3);

  > for example, a quantification of the extent to which collateral and other credit enhancements mitigate credit risk could be provided.

Please note that this requirement does not apply to lease receivables, in accordance with IFRS 7.35A.
An entity is neither required to disclose information about the fair value of collateral and other credit enhancements nor is it required to quantify the exact value of the collateral that was included in the calculation of expected credit losses (i.e. the loss given default) (IFRS 7.B8F).

16.7.2.5.6. Disclosures of amounts written-off

If financial assets have been written-off during the reporting period and are still subject to enforcement activity, an entity should disclose the contractual amount outstanding on these assets (IFRS 7.35L).

16.7.2.6. Credit risk exposure

16.7.2.6.1. Credit risk exposure and significant credit risk concentrations for financial instruments that are in the scope of the impairment requirements of IFRS 9

The following specific disclosure requirements on credit risk exposure and credit risk concentrations supplement the general disclosure requirements presented in section 16.7.1.5 for financial instruments that are in the scope of IFRS 9 impairment requirements.

To enable users of financial statements to assess an entity’s credit risk exposure and understand its significant credit risk concentrations, an entity should disclose, by credit risk rating grades (IFRS 7.35M):

— the gross carrying amount of financial assets; and
— the exposure to credit risk on loan commitments and financial guarantee contracts.

Credit risk rating grades are defined as rating of credit risk based on the risk of a default occurring on the financial instrument (IFRS 7 Appendix A). The number of credit risk rating grades should be consistent with the number that the entity reports to key management personnel for credit risk management purposes.

This information must be provided separately for:

— financial instruments allocated to stage 1 (and thus subject to 12-month expected credit losses);
— financial instruments for which the loss allowance is measured at an amount equal to lifetime expected credit losses, distinguishing between:
  > financial instruments allocated to stage 2 (for which there has been a significant increase in credit risk since initial recognition);
    - if past due information is the only borrower-specific information available and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition, an entity must provide an analysis by past due status for those financial assets (IFRS 7.B8I);
  > financial instruments allocated to stage 3 (financial assets that are credit-impaired at the reporting date but that are not POCI);
  > trade receivables, contract assets and lease receivables to which the simplified approach in IFRS 9 is applied (see section 9.4.2.2);
disclosures according to IFRS 7.35M relating to these assets may be based on the provision matrices used, if any (see section 9.4.6.6.2) (IFRS 7.35N);

POCI financial assets.

The Appendix B of IFRS 7 provides further guidance and describes situations where credit risk concentration may occur. For instance, a concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

An entity should provide information that enables users of financial statements to understand whether there are groups or portfolios of financial instruments with particular features that could affect a large portion of that group of financial instruments such as concentration to particular risks. This could include, for example, loan-to-value groupings, geographical, industry or issuer-type concentrations (IFRS 7.B8H).

When an entity has measured expected credit losses on a collective basis and is unable to allocate the gross carrying amount of individual financial assets (or the exposure to credit risk on loan commitments and financial guarantee contracts) to the credit risk rating grades for which lifetime expected credit losses are recognised, it should:

— apply the requirement above to those financial instruments that can be directly allocated to a credit risk rating grade; and

— disclose separately the gross carrying amount of financial instruments for which lifetime expected credit losses have been measured on a collective basis (IFRS 7.B8J).

The following example illustrates how the requirements in IFRS 7.35M might be complied with (IFRS 7. IG.20C):

**Example 16.4**

<table>
<thead>
<tr>
<th>Internal Grade 1–2</th>
<th>Consumer—credit card</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross carrying amount</td>
</tr>
<tr>
<td>Lifetime</td>
<td>20XX</td>
</tr>
<tr>
<td></td>
<td>CU’000</td>
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<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td>X</td>
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<td>X</td>
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<tr>
<td>Total</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal Grade 3–4</th>
<th>Consumer—credit card</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross carrying amount</td>
</tr>
<tr>
<td>Lifetime</td>
<td>20XX</td>
</tr>
<tr>
<td></td>
<td>CU’000</td>
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<tr>
<td></td>
<td></td>
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<tr>
<td>Total</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal Grade 5–6</th>
<th>Consumer—credit card</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross carrying amount</td>
</tr>
<tr>
<td>Lifetime</td>
<td>20XX</td>
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<tr>
<td></td>
<td>CU’000</td>
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<tr>
<td>Total</td>
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<table>
<thead>
<tr>
<th>Internal Grade 7</th>
<th>Consumer—credit card</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Gross carrying amount</td>
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<tr>
<td>Lifetime</td>
<td>20XX</td>
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<td>CU’000</td>
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<td>Total</td>
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| Total              |                     |
|                    | X                    |
|                    | X                    |

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<thead>
<tr>
<th>Consumer—automotive</th>
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<tbody>
<tr>
<td>Gross carrying amount</td>
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<tr>
<td>Lifetime</td>
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<tr>
<td>20XX</td>
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<tr>
<td>CU’000</td>
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<tr>
<td>Internal Grade 1–2</td>
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<tr>
<th>Internal Grade 3–4</th>
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<table>
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<tr>
<th>Internal Grade 5–6</th>
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<table>
<thead>
<tr>
<th>Internal Grade 7</th>
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<td>Total</td>
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</tbody>
</table>

The following example illustrates how the requirements in IFRS 7.35M might be complied with (IFRS 7. IG.20C):
### Corporate loan credit risk profile by external rating grades

<table>
<thead>
<tr>
<th>20XX CU’000</th>
<th>Corporate-equipement Gross carrying amount</th>
<th>Corporate-construction Gross carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lifetime</td>
<td>12-month</td>
</tr>
<tr>
<td>AAA-AA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB-BB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC-CC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Corporate loan risk profile by probability of default

<table>
<thead>
<tr>
<th>20XX CU’000</th>
<th>Corporate-unsecured Gross carrying amount</th>
<th>Corporate-secured Gross carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lifetime</td>
<td>12-month</td>
</tr>
<tr>
<td>0.00 – 0.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.11 – 0.40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.41 – 1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.01 – 3.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.01 – 6.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.01 – 11.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.01 – 17.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.01 – 25.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25.01 – 50.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50.01+</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

The example below, extracted from the implementation guidance of IFRS 7, shows specifically how to disclose information about an entity’s credit exposure for trade receivables to which simplified approach to impairment is applied (IFRS 7.IG.20D):

**Example 16.5**

Entity A manufactures cars and provides financing to both dealers and end customers. Entity A discloses its dealer financing and customer financing as separate classes of financial instruments and applies the simplified approach to its trade receivables so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:
<table>
<thead>
<tr>
<th></th>
<th>20XX CU000</th>
<th>Trade receivables days past due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>More than 30 days</td>
</tr>
<tr>
<td>Dealer financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected credit</td>
<td>0.10%</td>
<td>2%</td>
</tr>
<tr>
<td>loss rate</td>
<td></td>
<td>Estimated total gross carrying</td>
</tr>
<tr>
<td>amount at default</td>
<td>CU20,777</td>
<td>CU1,416</td>
</tr>
<tr>
<td>Customer financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected credit</td>
<td>0.20%</td>
<td>3%</td>
</tr>
<tr>
<td>loss rate</td>
<td></td>
<td>Estimated total gross carrying</td>
</tr>
<tr>
<td>amount at default</td>
<td>CU19,222</td>
<td>CU2,010</td>
</tr>
<tr>
<td>Lifetime expected</td>
<td>CU21</td>
<td>CU28</td>
</tr>
<tr>
<td>credit losses—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>dealer financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lifetime expected</td>
<td>CU38</td>
<td>CU60</td>
</tr>
<tr>
<td>credit losses—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>customer financing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16.7.2.6.2. Credit risk exposure arising from financial instruments that are excluded from the scope of the impairment requirements of IFRS 9

For financial instruments giving rise to credit risk that fall within the scope of IFRS 7 but not within the scope of the impairment requirements of IFRS 9 (i.e. namely derivatives on the asset side, investments in debt instruments and financial guarantee contracts and loan commitments issued that are measured at FV-PL), it is also required to disclose the following information about their credit risk exposure, by class of financial instrument (see section 16.4) (IFRS 7.36):

— the amount that best represents its **maximum exposure** to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not quality for offset in accordance with IAS 32);
  
  > this disclosure is not required for financial instruments for which carrying amount best represents the maximum exposure to credit risk;

— a **description of collateral held** as security and other credit enhancements, and their financial effect (e.g. quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk;

  > an entity might meet this requirement by disclosing (IFRS 7.IG.22):

  — the policies and processes for valuing and managing collateral and other credit enhancements obtained;

  — a description of the main types of collateral and other credit enhancements (examples of the latter being guarantees, credit derivatives, and netting agreements that do not quality for offset in accordance with IAS 32);
– the main types of counterparties to collateral and other credit enhancements and their creditworthiness; and
– information about risk concentrations within the collateral or other credit enhancements.

Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to (IFRS 7.B10):

— granting loans to customers and placing deposits with other entities;
> in these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
— entering into derivative contracts, e.g. foreign exchange contracts, interest rate swaps and credit derivatives;
> when the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount;
— granting financial guarantees;
> in this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability;
— making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change;
> if the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

16.7.2.7. Assets recognised as a result of taking possession of collateral or other enhancements held as security

When an entity has recognised financial or non-financial assets during the period as a result of taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), it should disclose for such assets held at the reporting date (IFRS 7.38):

— the nature and carrying amount of the assets; and
— when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

16.7.3. Liquidity risk: specific qualitative and quantitative disclosures

As explained in section 16.7.1.1, liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

In relation to this risk, IFRS 7 requires quantitative disclosures (namely the maturity analysis for the financial liabilities) and a description of how entities manage their liquidity risk.
16.7.3.1. Financial instruments for which disclosures about their liquidity risk should be provided

Given the definition of liquidity risk presented above, only liabilities (as opposed to financial assets) are subject to these disclosure requirements, and not all financial liabilities but only those that are settled by delivering cash or another financial asset, whatever their measurement category under IFRS 9 is.

IFRS 7.39 does not explicitly say whether the financial liabilities in question are necessarily in the scope of IFRS 9 (as a reminder, some instruments while meeting the definition of a financial instrument have been scoped out of IFRS 9). However, in accordance with the scope of IFRS 7, and on the basis of the examples provided in its application guidance, we consider that the scope of such disclosures is broader than the sole liabilities in the scope of IFRS 9: for example, items such as financial guarantees issued and loan commitments issued are also in the scope of disclosures about liquidity risk.

Furthermore, as the definition of liquidity risk only refers to financial liabilities that are settled by delivering cash or another financial asset, the following liabilities (and mainly derivatives) would seem de facto out of the scope of such disclosures (IFRS 7.BC58A):

— when the issuer can only settle a financial liability in its own equity instruments; or
— when the issuer has the possibility to settle a financial liability by delivering its own equity instruments rather than by delivering cash or another financial asset.

In such cases the issuer is not exposed to liquidity risk as it can avoid the delivery of cash or another financial asset.

16.7.3.2. Summary quantitative data

As set out in section 16.7.1, an entity must comply with the general disclosure requirements (both qualitative and quantitative) for all risks arising from financial instruments. Those general requirements are emphasised in IFRS 7.B10A which indicates that an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity must explain how such data is determined.

If the outflows of cash (or another financial asset) included in those data could either:

— occur significantly earlier than indicated in the data, or
— be for significantly different amounts from those indicated in the data (e.g. for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),

the entity must disclose that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analysis (see below).
16.7.3.3. Remaining contractual maturity analysis

An entity is required to disclose (IFRS 7.39):

— a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;

> in case of a hybrid (combined) financial instrument, an entity does not separate an embedded derivative and applies this requirement to the whole instrument (IFRS 7.B11A);

— a maturity analysis for derivative financial liabilities. The maturity analysis must include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows, which would be the case for example (IFRS 7.B11B):

> for an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability;

> or all loan commitments;

The determination of appropriate time bands depends on the entity’s judgement (IFRS 7.B11). For example, the following time bands could be considered relevant by an entity:

— [0-1 month];

— ]1-3 months];

— ]3 months-1 year];

— ]1-5 years], etc.

IFRS 7.B11C provides additional guidance regarding the determination of the remaining contractual maturities:

— when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay;

> for example, financial liabilities that an entity can be required to repay on demand (e.g. demand deposits) are included in the earliest time band;

— when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay;

> for example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down;

— for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The application guidance of IFRS 7 (IFRS 7.B11D) also provides further guidance on the amounts to be disclosed in the contractual maturity analysis:

— The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows (and not for example the carrying amount of the related liability recognised on the statement of financial position), for example:

> gross finance lease obligations (before deducting finance charges);

> prices specified in forward agreements to purchase financial assets for cash;
net amounts for pay-floating / receive-fixed interest rate swaps for which net cash flows are exchanged;
contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and
gross loan commitments.

— When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period (e.g. Euribor 6 months forward curve applicable at the reporting date).

The following example, extracted from the implementation guidance of IFRS 7, illustrates how the maturity analysis could be presented for non-derivative financial liabilities (IFRS 7.IG.31A):

Example 16.6

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Total</th>
<th>less than 1 month</th>
<th>1–6 months</th>
<th>6 months–1 year</th>
<th>1–2 years</th>
<th>2–3 years</th>
<th>more than 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>2,100</td>
<td>7</td>
<td>34</td>
<td>40</td>
<td>79</td>
<td>1,940</td>
<td></td>
</tr>
<tr>
<td>Lease liabilities*</td>
<td>4,970</td>
<td>340</td>
<td>310</td>
<td>290</td>
<td>4,030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>980</td>
<td>280</td>
<td>700</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Further information about the maturity of lease liabilities is provided in the table below:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Total</th>
<th>less than 1 year</th>
<th>1–5 years</th>
<th>5–10 years</th>
<th>10–15 years</th>
<th>15–20 years</th>
<th>20–25 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liabilities</td>
<td>4,970</td>
<td>340</td>
<td>1,200</td>
<td>1,110</td>
<td>1,050</td>
<td>970</td>
<td>300</td>
</tr>
</tbody>
</table>

16.7.3.4. Description of how liquidity risk is managed

— Entities are also required to provide a description of how they manage the liquidity risk inherent in their derivative and non-derivative financial liabilities.

— Specifically, they should disclose a maturity analysis of financial assets they hold for managing liquidity risk (e.g. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of the financial statements to evaluate the nature and extent of liquidity risk (IFRS 7.B11E).

— Other factors that an entity might consider in providing this disclosure include, but are not limited to, whether the entity (IFRS 7.B11F):

> has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. stand-by credit facilities) that it can access to meet liquidity needs;
> holds deposits at central banks to meet liquidity needs;
> has very diverse funding sources;
> has significant concentrations of liquidity risk in either its assets or its funding sources;
> has internal control processes and contingency plans for managing liquidity risk;
> has instruments that include accelerated repayment terms (e.g. on the downgrade of the entity’s credit rating);
> has instruments that could require the posting of collateral (e.g. margin calls for derivatives);
> has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or
> has instruments that are subject to master netting agreements.

16.7.4. Market risk: specific qualitative and quantitative disclosures

As set out in section 16.7.1, an entity must comply with the general disclosure requirements (both qualitative and quantitative) for all risks arising from financial instruments. Such requirements also apply to market risks before the application of specific disclosures about this risk that are detailed below.

The specific requirements on market risk mainly consist of a sensitivity analysis. When presenting this sensitivity analysis, an entity may choose one of the following options:

— **option 1**: a sensitivity analysis for each type of market risk to which the entity is exposed; or
— **option 2**: a sensitivity analysis, such as value-at-risk (VaR), that reflects interdependencies between risk variables (e.g. interest rates and exchange rates).

The disclosure requirements differ depending on the methodology applied. They are presented hereafter separately for option 1 and option 2. Besides, an entity must provide sensitivity analyses for the whole of its business, but may provide different types of sensitivity analysis for different classes of financial instruments (IFRS 7.B21).

It should be noted that no sensitivity analysis is required for financial instruments classified as the entity’s own equity instruments, as such instruments are not remeasured: neither profit or loss nor equity will be affected by equity price risk of those instruments (IFRS 7.B28).

16.7.4.1. Disclosing sensitivity analysis by type of market risk (option 1)

Using this approach, an entity must disclose (IFRS 7.40):

— a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
— the methods and assumptions used in preparing the sensitivity analysis; and
— changes from the previous period in the methods and assumptions used, and the reasons for such changes.
16.7.4.1.1. Effect on profit or loss or equity of changes in the relevant risk variables

When showing the effect on profit or loss and equity of reasonably possible changes in the relevant risk variable (e.g. prevailing market interest rates, currency rates, equity prices or commodity prices), entities are not required (IFRS 7.B18):

— to determine what the profit or loss for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on profit or loss and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date.

> For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on profit or loss (i.e. interest expense) for the current year if interest rates had varied by reasonably possible amounts;

— to disclose the effect on profit or loss and equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.

In determining what a reasonably possible change in the relevant risk variable is, an entity should consider (IFRS 7.B19):

— the economic environments in which it operates. A reasonably possible change should not include remote or ‘worst case’ scenarios or ‘stress tests’. Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable.

> For example, if interest rates are 5% and an entity determines that a fluctuation in interest rates of ±50 basis points is reasonably possible, it would disclose the effect on profit or loss and equity if interest rates were to change to 4.5% or 5.5%.

> In the next period, interest rates have increased to 5.5%. The entity continues to believe that interest rates may fluctuate by ±50 basis points (i.e. that the rate of change in interest rates is stable). The entity would disclose the effect on profit or loss and equity if interest rates were to change to 5% or 6%. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by ±50 basis points, unless there is evidence that interest rates have become significantly more volatile.

— and the time frame over which it is making the assessment. The sensitivity analysis must show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.

Risk variables that are relevant to disclosing market risk include but are not limited to (IFRS 7.IG.32 & IFRS 7.IG.33):

— the yield curve of market interest rates. It may be necessary to consider both parallel and non-parallel shifts in the yield curve;

— foreign exchange rates;

— prices of equity instruments;

— market prices of commodities;
— prevailing market interest rates, for interest-sensitive financial instruments such as a variable-rate loan; or
— currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.

An extract from IFRS 7.B16.36 provided below illustrates how the sensitivity analysis required by IFRS 7.40 could be disclosed.

Example 16.7

**Interest rate risk**

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings.

Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity’s debt has matured (see note X).

**Foreign currency exchange rate risk**

At 31 December 20X2, if the CU had weakened 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been CU2.8 million (20X1—CU6.4 million) lower, and other comprehensive income would have been CU1.2 million (20X1—CU1.1 million) higher. Conversely, if the CU had strengthened 10% against the US dollar with all other variables held constant, post-tax profit would have been CU2.8 million (20X1—CU6.4 million) higher, and other comprehensive income would have been CU1.2 million (20X1—CU1.1 million) lower. The lower foreign currency exchange rate sensitivity in profit in 20X2 compared with 20X1 is attributable to a reduction in foreign currency denominated debt. Equity is more sensitive in 20X2 than in 20X1 because of the increased use of hedges of foreign currency purchases, offset by the reduction in foreign currency debt.

16.7.4.1.2. Level of aggregation for disclosing this information

When disclosing the sensitivity analysis, an entity should not aggregate information about exposures to risks from significantly different economic environments, for example (IFRS 7.B17):

— an entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading;

— an entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.

In contrary, if an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.

The sensitivity of profit or loss (that arises, for example, from instruments measured at FV-PL) is disclosed separately from the sensitivity of OCI (that arises, for example, from investments in equity instruments for which changes in fair value are presented in OCI) (IFRS 7.B27).
16.7.4.1.3. Specific disclosures about each market risk

The appendix B of IFRS 7 contains additional guidance on sensitivity analysis separately by type of risk:

<table>
<thead>
<tr>
<th>Market risk</th>
<th>Applicable disclosure</th>
<th>Reference</th>
</tr>
</thead>
</table>
| Interest rate risk  | The sensitivity analysis might show separately the effect of a change in market interest rates on:  
— interest income and expense;  
— other line items of profit or loss (such as trading gains and losses); and  
— when applicable, equity.  
An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk (for example: LIBOR USD, LIBOR GBP, EURIBOR...). | IFRS 7.I6.34 |
| Currency risk       | A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.                                                                                                                                 | IFRS 7.B24 |
| Other price risk    | An entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable.  
For example, if an entity gives residual value guarantees that are financial instruments, the entity could disclose an increase or decrease in the value of the assets to which the guarantee applies. | IFRS 7.B25 |

16.7.4.2. Disclosing sensitivity analysis prepared using “Value-at-risk” type methods (option 2)

If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may disclose that sensitivity analysis in place of the analysis specified above under option 1. In this case, disclosure of the effect on the profit or loss and equity is not required. The entity using option 2 must also disclose (IFRS 7.41):

— an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided;  
— an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain (IFRS 7.B20).

Such an entity might comply with these disclosure requirements by disclosing (IFRS 7.B20):

— the type of value-at-risk model used (e.g. whether the model relies on Monte Carlo simulations);  
— an explanation about how the model works and the main assumptions (e.g. the holding period and confidence level).

Entities might also disclose (IFRS 7.B20):

— the historical observation period and weightings applied to observations within that period;  
— an explanation of how options are dealt with in the calculations; and  
— which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.
CHAPTER 16: DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

16.7.4.3. Other market risk disclosures

When the sensitivity analyses disclosed above are unrepresentative of a risk inherent in a financial instrument, the entity is required to disclose that fact and the reason it believes the sensitivity analyses are unrepresentative (IFRS 7.42). This situation may occur because for example:

- the year-end exposure does not reflect the exposure during the year (IFRS 7.42);
- a financial instrument contains terms and conditions for which effects are not apparent from the sensitivity analysis, e.g. options that remain out of (or in) the money for the chosen change in the risk variable (IFRS 7.IG.37);

> additional disclosure in this case might include (IFRS 7.IG.38):
  - the terms and conditions of the financial instrument (e.g. the options);
  - the effect on profit or loss if the term or condition were met (i.e. if the options were exercised); and
  - a description of how the risk is hedged.

> Example: an entity may acquire a zero-cost interest rate collar that includes an out-of-the-money leveraged written option (e.g. the entity pays ten times the amount of the difference between a specified interest rate floor and the current market interest rate);
  - the entity may regard the collar as an inexpensive economic hedge against a reasonably possible increase in interest rates;
  - However, an unexpectedly large decrease in interest rates might trigger payments under the written option that, because of the leverage, might be significantly larger than the benefit of lower interest rates;
  - neither the fair value of the collar nor a sensitivity analysis based on reasonably possible changes in market variables would indicate this exposure. In this case, additional information described above could be provided by the entity;

- financial assets are illiquid, e.g. when there is a low volume of transactions in similar assets and an entity finds it difficult to find a counterparty (IFRS 7.IG.37);

> additional disclosure in this case might include the reasons for the lack of liquidity and how the entity hedges the risk (IFRS 7.IG.39);

- an entity has a large holding of a financial asset that, if sold in its entirety, would be sold at a discount or premium to the quoted market price for a smaller holding (IFRS 7.IG.37);

> In this situation, additional disclosure might include:
  - the nature of the security (e.g. entity name);
  - the extent of holding (e.g. 15% of the issued shares);
  - the effect on profit or loss;
  - how the entity hedges the risk.
16.8. Transfers of financial assets

Specific disclosures are required for transfers of financial assets. Such disclosures apply to:

- financial assets transferred that have not been derecognised, existing at the reporting date, irrespective of when the related transfer transaction occurred,
- and any continuing involvement (this notion is defined in section 16.8.2.1) in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred.

For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either (IFRS 7.42A):

- transfers the contractual rights to receive the cash flows of that financial asset; or
- retains the contractual rights to receive the cash flows of that financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

It should be noted that the notion of “transfer” in IFRS 7 is broader than the one used in IFRS 9.3.2.4 when determining whether the transferred asset should be derecognised, and also includes “pass-through” arrangements. Pass-through arrangements are not transfers of financial assets strictly speaking (as the initial holder remains their owner) but they may qualify for a derecognition of the financial assets subject to that arrangement if specific requirements in IFRS 9 are met.

The objectives of these disclosures are to enable users of the financial statements (IFRS 7.42B):

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity’s continuing involvement in derecognised financial assets.

If these objectives cannot be met through the minimal disclosures that are required below, an entity should disclose any additional information that it considers necessary to meet the disclosure objectives (IFRS 7.42H).

An entity must present those disclosures in a single note in its financial statements (IFRS 7.42A).

16.8.1. Transferred financial assets that are not derecognised in their entirety

In case of financial assets that have been transferred but continue to be recognised in part or in their entirety, an entity must disclose at each reporting date, separately for each class of such transferred assets (IFRS 7.42D):

- the nature of the transferred assets;
- the nature of the risks and rewards of ownership to which the entity is exposed;
- a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity’s use of the transferred assets;
— a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position, but this information is required only if the counterparties to the associated liabilities have recourse only to the transferred assets;

— when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities;

— when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Those disclosures are required at each reporting date at which the entity continues to recognise the transferred financial assets, regardless of when the transfers occurred (IFRS 7.B32).

IFRS 7.IG.40B illustrates how an entity applying IFRS 9 might meet the quantitative disclosure requirements in IFRS 7.42D presented above:

**Figure 16.13**

**Illustrating the application of paragraph 42D(d) and (e)**

<table>
<thead>
<tr>
<th></th>
<th>Financial assets at fair value through profit or loss</th>
<th>Financial assets at amortised cost</th>
<th>Financial assets at fair value through other comprehensive income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU million</td>
<td>CU million</td>
<td>CU million</td>
</tr>
<tr>
<td>Carrying amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of assets</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>For those</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>liabilities that</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>have recourse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>only to the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>transferred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>assets</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Fair value of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>associated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>liabilities</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Net position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
16.8.2. Transferred financial assets that are derecognised in their entirety

16.8.2.1. Definition of and guidance on “continuing involvement”

For the purposes of applying the disclosure requirements on transfers of financial assets in IFRS 7, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset.

The following do not constitute continuing involvement (IFRS 7.42C):

— normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;
— forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or
— an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the three “pass-through” conditions in IFRS 9.3.2.5(a)–(c) are met.

An entity does not have a continuing involvement in a transferred financial asset (IFRS 7.B30):

— if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset; or
— if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future. The term ‘payment’ in this context does not include cash flows of the transferred financial asset that an entity collects and is required to remit to the transferee.

When an entity transfers a financial asset, the entity may retain the right to service that financial asset for a fee that is included in, for example, a servicing contract. The entity assesses the servicing contract in accordance with the guidance above to decide whether the entity has continuing involvement as a result of the servicing contract for the purposes of the disclosure requirements. IFRS 7.B30A provides some specific guidance on how servicing contracts should be assessed:

— for example, a servicer will have continuing involvement in the transferred financial asset if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset;
— similarly, a servicer has continuing involvement if a fixed fee would not be paid in full because of non-performance of the transferred financial asset;
— in both examples above, the servicer has an interest in the future performance of the transferred financial asset;
— this assessment is independent of whether the fee to be received is expected to compensate the entity adequately for performing the servicing.
IFRS 7.B31 explains which contracts may give rise to continuing involvement in a transferred financial asset by indicating that continuing involvement may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

According to IFRS 7.B29, the assessment of continuing involvement in a transferred financial asset is made at the level of the reporting entity.

— For example, if a subsidiary transfers a financial asset to an unrelated third party in which the parent of the subsidiary has continuing involvement, the subsidiary does not include the parent’s involvement in the assessment of whether it has continuing involvement in the transferred asset in its separate or individual financial statements (i.e. when the subsidiary is the reporting entity).

— However, a parent would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its subsidiary in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (i.e. when the reporting entity is the group).

An entity has to aggregate its continuing involvement into types that are representative of the entity’s exposure to risks (IFRS 7.B33).

— For example, an entity may aggregate its continuing involvement by type of financial instrument (e.g. guarantees or call options) or by type of transfer (e.g. factoring of receivables, securitisations and securities lending).

Entities should be careful when defining the scope of disclosure requirements regarding continuing involvement, as the definition of this notion in IFRS 7 (see above) differs from that in IFRS 9:

— the term “continuing involvement” in IFRS 9 is used in situations where financial risks and rewards have been neither transferred nor retained, meaning part of the transferred asset (corresponding to the entity’s continuing involvement) needs to be maintained on the statement of financial position;

— in IFRS 7 the notion of continuing involvement is different and the disclosures about continuing involvement apply to situations where the derecognition criteria in IFRS 9 are met, meaning the transferred asset has been derecognised in its entirety.

To sum up, the disclosure requirements on transferred assets in IFRS 7 apply as follows:

— if the financial asset is not derecognised in its entirety in accordance with IFRS 9, the entity should comply with the disclosure requirements set out in IFRS 7.42D presented in section 16.8.1;

— however, if a financial asset is derecognised in its entirety but the transferor retains some continuing involvement (as defined in IFRS 7), it should comply with the disclosure requirements in IFRS 7.42E presented in the following section.
16.8.2.2. Disclosure requirements on transferred financial assets that are derecognised in their entirety

When an entity derecognises transferred financial assets in their entirety but has continuing involvement in them, the entity must disclose, as a minimum, for each type of continuing involvement and at each reporting date (IFRS 7.42E):

— the **carrying amount** of the assets and liabilities that are recognised in the entity’s statement of financial position and represent the entity’s continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised (IFRS 7.42E(a));

— the **fair value** of the assets and liabilities that represent the entity’s continuing involvement in the derecognised financial assets (IFRS 7.42E(b));

— the **amount that best represents the entity’s maximum exposure to loss** from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined (IFRS 7.42E(c));

— the **undiscounted cash outflows** that would or may be required to repurchase derecognised financial assets (e.g. the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets (IFRS 7.42E(d));

> if the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date;

The figure below, extracted from the implementation guidance of IFRS 7, shows how an entity could comply with the disclosure requirements in IFRS 7.42E(a)-(d) presented above (IFRS 7.IG.40B):

*Figure 16.14*

<table>
<thead>
<tr>
<th>Type of continuing involvement</th>
<th>Cash outflows to repurchase transferred (derecognised) assets</th>
<th>Carrying amount of continuing involvement in statement of financial position</th>
<th>Fair value of continuing involvement</th>
<th>Maximum exposure to loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU million</td>
<td>CU million</td>
<td>CU million</td>
<td>CU million</td>
</tr>
<tr>
<td>Written put options</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td>Purchased call options</td>
<td>(X)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Securities lending</td>
<td>(X)</td>
<td>(X)</td>
<td>X</td>
<td>(X)</td>
</tr>
<tr>
<td>Total</td>
<td>X</td>
<td>(X)</td>
<td>X</td>
<td>(X)</td>
</tr>
</tbody>
</table>
a maturity analysis of the undiscounted cash outflows detailed in the previous paragraph, showing the remaining contractual maturities of the entity’s continuing involvement (IFRS 7.42E(e));

> this analysis distinguishes between cash flows that are required to be paid (e.g. forward contracts), cash flows that the entity may be required to pay (e.g. written put options) and cash flows that the entity might choose to pay (e.g. purchased call options) (IFRS 7.B34);

> an entity has to use its judgement to determine an appropriate number of time bands in preparing the maturity analysis. For example, an entity might determine that the following maturity time bands are appropriate (IFRS 7.B35):

- [0-1 month];
- [1-3 months];
- [3-6 months];
- [6-12 months];
- [1-3 years];
- [3-5 years]; and
- more than 5 years;

> if there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or is permitted to pay (IFRS 7.B36);

> IFRS 7.IG.40B provides an illustrative example, extracted below, of how entities could comply with the requirement for disclosing the maturity analysis of the undiscounted cash flows relating to the continuing involvement in the transferred assets:

*Figure 16.15*

<table>
<thead>
<tr>
<th>Undiscounted cash flows to repurchase transferred assets</th>
<th>Maturity of continuing involvement CU million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Written put options</td>
<td>X</td>
</tr>
<tr>
<td>Purchased call options</td>
<td>X</td>
</tr>
<tr>
<td>Securities lending</td>
<td>X</td>
</tr>
</tbody>
</table>
— **qualitative information** that explains and supports the quantitative disclosure requirements presented above, in accordance with IFRS 7.42E(f) and IFRS 7.B37:

> the qualitative information includes a **description of the derecognised financial assets and the nature and purpose of the continuing involvement** retained after transferring those assets;

> it also includes a **description of the risks to which an entity is exposed**, including:

  - a description of how the entity manages the risk inherent in its continuing involvement in the derecognised financial assets;
  
  - whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (i.e. its continuing involvement in the asset);
  
  - a description of any triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

An entity may aggregate the information required by IFRS 7.42E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognised financial asset, and report it under one type of continuing involvement (IFRS 7.42F).

In addition, an entity must disclose\(^\text{13}\) for each type of continuing involvement (IFRS 7.42G):

— the **gain or loss recognised at the date of transfer** of the assets;

> the entity is required to disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset (i.e. the interest in the asset derecognised and the interest retained by the entity) were different from the fair value of the previously recognised asset as a whole;

> in that situation, the entity must also disclose whether the fair value measurements included significant inputs that were not based on observable market data (see section 16.6.4.2.5) (IFRS 7. B38);

— **income and expenses recognised**, both in the reporting period and cumulatively, **from the entity's continuing involvement** in the derecognised financial assets (e.g. fair value changes in derivative instruments);

— if the total amount of **proceeds from transfer** activity (that qualifies for derecognition) in a reporting period is **not evenly distributed** throughout the reporting period (e.g. if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

> when the greatest transfer activity took place within that reporting period (e.g. the last five days before the end of the reporting period),

> the amount (e.g. related gains or losses) recognised from transfer activity in that part of the reporting period, and

> the total amount of proceeds from transfer activity in that part of the reporting period.

\(^{13}\) This information should be provided for each period for which a statement of comprehensive income is presented.
16.9. Focus on information required for interim financial reporting (IAS 34)

IAS 34 – *Interim Financial Reporting* prescribes the minimum content of an interim financial report and the principles for recognition and measurement in complete or condensed financial statements for an interim period.

If events or transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period occurred, an entity should explain them and update the relevant information presented in the most recent annual financial report accordingly (IAS 34.15).

We present hereafter some selected disclosure requirements in IAS 34 that specifically mention financial instruments and that seem the most relevant to us. Entities should also carefully read the other more generic requirements in IAS 34 and use judgement when determining whether they apply to their financial instruments.

For instance, IAS 34 contains an indicative list of events or transactions for which disclosures would be required if they are significant (IAS 34.15B). Here are some examples of events or transactions relating to financial instruments extracted from that list:

- recognition of a loss from the impairment of financial assets and the reversal of such an impairment loss;
- changes in the business or economic circumstances that affect the fair value of the entity’s financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
- any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
- transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
- changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

For ease of reference, we included a table below that provides a link between the events and transactions listed in IAS 34.15B and the related parts of IFRS 7 and/or IFRS 13 regarding disclosures in the annual financial statements that could be used as a basis for related disclosures in the interim financial reporting:
IAS 34 also adds other disclosures that are required in interim financial reports even if no significant event or transaction occurred (unless such information is not material). The information must normally be reported on a financial year-to-date basis. The disclosure requirements related to financial instruments concern the fair value disclosures required by IFRS 7 and IFRS 13, as detailed in section 16.6.4 (IAS 34.16A).

In addition, if an entity changes its accounting policies regarding financial instruments during the interim period, it should provide a description of the nature and effect of the change (IAS 34.16A).

<table>
<thead>
<tr>
<th>Event / transaction</th>
<th>IFRS reference</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment loss / reversal</td>
<td>IFRS 7.35H to IFRS 7.38</td>
<td>16.7.2</td>
</tr>
<tr>
<td>Loan default or breach of a loan agreement</td>
<td>IFRS 7.18 to IFRS 7.19</td>
<td>16.6.1.9</td>
</tr>
<tr>
<td>Transfers between levels of the fair value hierarchy</td>
<td>IFRS 13.93(c), IFRS 13.93(e), IFRS 13.95</td>
<td>16.6.4.2</td>
</tr>
<tr>
<td>Changes in the classification of financial assets</td>
<td>IFRS 7.12B to IFRS 7.12D</td>
<td>16.6.1.4</td>
</tr>
</tbody>
</table>