



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

DATE: February 11, 2009
MEMO TO: Members, Technical Advisors and Observers of the IPSASB
FROM: Stephenie Fox and Matthew Bohun-Aponte
SUBJECT: ED 39: “Financial Instruments: Disclosures”

OBJECTIVE OF THIS SESSION

The objective of this session is to approve Exposure Draft 39 (ED39), “Financial Instruments: Disclosures.”

ACTION REQUIRED

Members, Technical Advisors and Observers are asked to:

- **Consider** draft ED 39, “Financial Instruments: Disclosures”;
- **Consider** the issues raised in this memorandum and **confirm** the Staff action or **provide** alternative directions;
- **Highlight** further issues that are not considered in this memorandum and provide directions;
- **Agree** a course of action on the withdrawal of IPSAS 15; and
- **Approve** ED 39, “Financial Instruments: Disclosures”.

AGENDA MATERIAL

- 2.C1 Cut and Paste of proposals for additional disclosures and elimination of existing IFRS 7 disclosures for public sector specific reasons
- 2.C2 Draft ED 39, “Financial Instruments: Disclosures”. (Marked-up to show changes from IFRS 7, “Financial Instruments: Disclosures”)

BACKGROUND

At the Zurich Meeting in October 2008 Staff was directed to develop EDs based on IAS 32, “Financial Instruments: Presentation”, IAS 39, “Financial Instruments: Recognition and Measurement” and IFRS 7, “Financial Instruments: Disclosure”.

For IFRS 7, the IPSASB decided that:

- Members should provide staff with suggestions for additions to, or deletions from, IFRS 7 to reflect public sector specific issues (by November 21, 2008); and
- Similar to IAS 32 and IAS 39, an exposure draft should be prepared for the February 2009 meeting that proposes an IPSAS equivalent to IFRS 7.

The “cut and paste” analysis of responses are shown at Agenda Item 2.C1.

OVERVIEW OF APPROACH

As noted, the IPSASB agreed it would consider any proposals for additional disclosures or any possible deletions of the required disclosures in IFRS 7. Members were asked to provide proposals for such amendments for public sector specific issues. In all other respects the approach to developing an ED based on IFRS 7 would be the same as for IAS 32 and IAS 39, i.e. the IFRSs should be amended only to ensure connectivity with the IPSASs and to include application guidance on specific public sector issues as identified in October.

Staff received comments from nine respondents, including members, TAs and observers. As noted these are included at agenda item 2C.1. Staff have reviewed all comments and made proposals for some amendments based on analysis of the issues raised. In approaching this analysis staff adhered to the IPSASB’s direction that changes to IFRS 7 be minimized, consistent with the approach for ED37 and ED38, and that any proposed additions or deletions to IFRS 7 requirements should be solely to address public sector specific issues.

Based on the responses received, and considering the analysis of the issues raised along with recent government actions in acquiring financial institutions globally, staff has concluded that none of the disclosures in IFRS 7 should be deleted from the related draft IPSAS, ED39. As a result of governments becoming, in effect, financial intermediaries the users of government financial statements need to know the effects of government acquisition of financial institutions. While many of these institutions being acquired may be applying IFRSs already, given the range of practice and the uncertainty regarding the structure of many of these acquisitions, staff is of the view that it would be conservative to leave all existing disclosures in ED39. This is also supported by the fact that the standards do not apply to immaterial items and in many cases the disclosures won’t apply. Therefore at this stage staff is proposing no deletions from IFRS 7.

To summarize, staff has used the following approach in preparing ED39:

- ED39 reflects the final text of IFRS 7 as at December 31, 2008 along with the proposed amendments of the October 2008 Exposure Draft (shaded in grey). Proposed amendments of a December 2008 ED were also to be included. However, in January 2009 the IASB decided not to proceed with the proposed disclosures relating to investments in debt instruments, issued for consultation in December 2008. Therefore these proposals have not been included in ED39 as presented.
- No disclosures have been deleted;
- Potential additional disclosures proposed have been assessed and analyzed in the context of whether they are public sector specific issues;
- Proposed additions to disclosures have been made only for public sector specific issues;
- Some changes have been made for public sector terminology;

- Changes to IFRS 7 have been, in all other respects, minimized, consistent with the approach for ED37 and ED38.
- ED39 has been provided as a mark-up from IFRS 7, with corresponding paragraphs annotated in the margin for ease of reference. Once approved, the ED will be issued as a “clean” document.
- Since the final approved ED will be issued in “clean” format, all paragraphs have been renumbered as appropriate, including the standard, the application guidance and the implementation guidance. The application guidance has used the convention of “AG” rather than “B” used in IFRS 7. This is consistent with ED37 and ED38.

SPECIFIC MATTERS FOR COMMENT, CROSS-REFERENCES TO ED 37 & ED 39 AND CONSEQUENTIAL AMENDMENTS

No Specific Matters for Comment have been included. Decisions on whether, and, if so, what Specific Matters for Comment are necessary are contingent on decisions to be made in February 2009. Cross-references to ED 37, “Financial Instruments: Presentation” and ED 38, “Financial Instruments: Recognition and Measurement” have been made but may need to be amended once the text and Application Guidance of those EDs is finalized. Consequential amendments to other IPSASs have been included in ED39.

OVERVIEW OF RESPONSES

Staff received comments from nine respondents. Respondents’ comments varied. Some respondents proposed amendments that did not relate solely to public sector specific issues. In providing an analysis of the issues staff has highlighted these where appropriate. The major issues raised are analyzed below. Staff has split the issues into three categories:

- those that have been reflected in ED39 – note that these are only proposed additions since staff is recommending that no disclosures be deleted as noted above.
- those that are issues that have not been reflected in ED39 but which staff consider need further discussion by the IPSASB; and
- those which have results in no amendments and which staff consider require little further discussion. These have been addressed in the “cut and paste” analysis in 2C.1.

Staff highlights that for any of these proposals, if a resolution is difficult, a possible solution is to include a specific matter for comment to deal with individual issues that the IPSASB has trouble reaching a consensus about.

**PROPOSALS FOR ADDITIONAL DISCLOSURES OR DELETIONS OF
DISCLOSURES THAT HAVE BEEN REFLECTED IN THE MARKED-UP ED 39**

i) Concessionary Loans

Concessionary loans were discussed at length during the meeting in October 2008. Members noted that concessionary loans are far more prevalent in the public sector than in the private sector and that this may be a public sector specific issue that warrants additional disclosures. Members were asked to provide examples of potential additional disclosures that are necessary to address this public sector issue. During the October meeting, the IPSASB agreed that it would not change the principles established in the IFRSs for the recognition and measurement of such loans. This will mean that the lending entity will recognize an expense, and the borrower revenue, in the period in which the loan is transacted, for the difference in the present value of the concessionary loan and a market rate loan. ED38 includes additional application guidance on concessionary loans.

Three respondents (04,06,07) provided some feedback on concessional loans. One respondent (04) commented on the inherent difficulties in valuing balances originating from transactions that are non-exchange transactions or that are not originated in a competitive market place, such as concessional loans. Two respondents (06, 07) provided suggestions for additional disclosures related to concessional loans.

Analysis

Concessionary loans are more common in the public sector than the private sector and are more likely to be material in the public sector. These types of loans are often undertaken to reflect public policy. Staff is of the view that this is a public sector specific issue and that additional disclosures would therefore be valuable. Staff has therefore proposed additional disclosure requirements at paragraph 37. This is consistent with including application guidance in ED38 on concessionary loans.

Staff recommendation: Include additional disclosures for concessionary loans.

**PROPOSALS FOR ADDITIONAL DISCLOSURES OR DELETIONS OF
DISCLOSURES THAT HAVE NOT BEEN REFLECTED IN THE MARKED-UP
ED 39 BUT STAFF CONSIDER NEED FURTHER DISCUSSION**

The following proposals for additions have not been include in the mark-up because Staff have reservations whether there is a sufficient public sector reason to include them. Staff considers that they should be discussed further at the meeting in February 2009.

i) Liquidity Risk and Currency Risk

One member (05) suggested that the disclosures of liquidity risk, in particular the maturity analysis of financial liabilities be augmented by the addition of a disclosure by currency. The respondent noted that public sector entities, particularly national governments, often have significant borrowings denominated in a currency other than

their functional currency, which poses a significant risk to the entity. By disclosing financial liabilities by currency, entities enable users to make assessments about the currency risks the entity faces over the maturity profile of the entity's liabilities.

Analysis

Staff has considered this issue in the context of the directions the IPSASB provided and is not persuaded this is a public sector specific issue. While foreign currency denominated borrowings may be significant for some public sector entities, there are presumably many multi-national private sector companies that have significant foreign currency denominated borrowings.

The proposed disclosures could be provided in a tabular form, such as:

Maturity	Domestic	USD	EUR	JPY	GBP	CHF	CAD	Other
Current	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
1 – 2 yrs	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
2 – 3 yrs	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
3 – 5 yrs	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Greater than 5 yrs	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

On balance however, staff does not support the inclusion of such disclosures.

Staff recommendation: No change proposed

ii) Sensitivity Analysis

A number of respondents (06, 07, 08, 09) provided some feedback on the required sensitivity analysis. One respondent (06) wanted clarification as to the meaning of “equity” in paragraph 40(a). Three respondents (07, 08, 09) questioned the usefulness of the sensitivity analysis and thought the requirements were onerous.

Analysis

The sensitivity analysis is meant to represent the significance of the risks related to financial instruments and the impact of movements in those risks on an entity's financial position and performance. While one third of those who responded questioned including the sensitivity analysis, none of the 3 respondents provided a public sector specific reason for why it should be deleted. Moreover, the fourth respondent to comment on the disclosures commented on their usefulness.

The directions the IPSASB provided were that additions or deletions were to be assessed in the context of public sector specific issues. Sensitivity analysis is an area where objections often arise in the private sector as well.

Based on this, staff has not included these proposed additional disclosures in ED39. This is an area where a specific matter for comment may be viable.

Staff recommendation: No change proposed.

In a related comment, one respondent (07) noted that there did not seem to be much benefit for a wholly owned controlled entity to disclose a detailed sensitivity analysis when its parent entity would do the same. The sensitivity analysis is meant to represent the significance of the risks related to financial instruments and the impact of movements in those risks on an entity's financial position and performance. There is little correlation that a controlling entity's performance and position would have to a controlled entity's performance and position. If sensitivity analysis is deemed useful then there seems little reason for an exemption on this basis.

Staff recommendation: No change proposed.

iii) Disclosures of Items of revenue, expense, gains or losses (IFRS7.20/ED39.23)

Four respondents (06, 07, 08, 09) provided some feedback on aspects of paragraph 20 in IFRS 7 (now paragraph 23 in ED39). Two respondents (08, 09) commented on the fact that these were likely to be outside the core business in the public sector and therefore unnecessary disclosures. One respondent (06) thought the disclosures too detailed and largely irrelevant and suggested that disclosures at an aggregated level would be more useful. One respondent (07) commented on his experience applying the disclosure requirement in paragraph 20(a) and noted that there was a range of interpretations. The respondent suggested that the requirement be omitted or more guidance be provided.

Analysis

As a starting point disclosures do not apply to immaterial items. If these are not material to a public sector reporting entity they would not be applied.

Staff has considered the other concerns highlighted regarding excessive detail and varying interpretations. In the context of the directions the IPSASB provided staff is not persuaded that either of these are public sector specific issues. The respondent that had experience implementing the disclosures did not comment on excessive detail. In addition, while additional guidance to assist in applying might be desirable, this is not seen as a public sector specific problem.

Given the desire to minimize changes to the financial instruments standards, staff does not support any changes to these disclosures.

Staff recommendation: No change proposed

iv) Disclosures about Liquidity Risk (IFRS7.39/ED39.46 & B12/AG15(a))

One respondent (06) noted that the liquidity risk disclosure requires the impact of financial guarantees to be factored into the maturity analysis based on the earliest date that a guarantee can be called. The respondent thought this could be misleading.

Analysis

Financial guarantees are prevalent in the public sector. There are two considerations to this respondents' comment. The first is whether financial guarantees are financial liabilities. If they are not, these disclosures do not apply. Staff is of the view that these likely are financial liabilities and therefore the disclosures would be required. There is a case to be made that these disclosures are more appropriate given the scale of financial guarantees in the public sector.

On balance staff is not persuaded that there is any public sector specific reason for a departure.

Staff recommendation: No change proposed.

v) Disclosures of Fair Value (IFRS7.25-30/ED39.28-36)

Two respondents (04, 06) commented on some aspect of the fair value disclosures. One respondent (04) questioned whether requiring governments to disclose fair values of assets and liabilities arising from non-exchange and non-commercial transactions will provide users with information of sufficient quality and usefulness. The other respondent (06) commented that the disclosures are not subject to a cost/benefit criterion and suggested that an exception be incorporated into paragraph IFRS7.29 (ED39.35) to include cost/benefit considerations.

Analysis

If the implication here is that the disclosures are too onerous to be of value, then staff is of the view that the exemptions in paragraph 35 of ED39 need to be considered in the context of the four categories of financial instruments set out in ED38.10. Most particularly, exemptions for held to maturity investments and loans and receivables could be considered. Staff does not see adding an exemption for cost/benefit to paragraph 35 as a viable solution.

However, staff is not persuaded that this is a public sector specific issue that requires a departure.

Staff recommendation: No change proposed.

vi) Control of Assets

One respondent (07) noted that in some circumstances a public sector entity may hold financial instruments but not make day to day decisions. The respondent suggested additional disclosure requirements.

Analysis

Staff is somewhat unclear as to who controls the financial instruments in this situation. If the government entity controls the asset, notwithstanding that it does not make day to day investing decisions, then is this not just an alternate vehicle for implementing its policy? If the government entity does not control the investment these would not be recognized.

In any case, the question of whether this is a public sector specific issues needs to be considered. Without having direct knowledge of such a circumstance, staff wonders if this scenario could not also arise in the private sector. On balance staff does not support a change in the disclosures based on the current information.

Staff recommendation: No change proposed.

vii) Quantitative Disclosures of Risk (paragraph 34(a) ED39.41(a))

One respondent (06) commented that these disclosures are not practical at the whole of government level and that this practical limitation needs to be addressed in the standard. The respondent noted that disclosures need to be practical in a public sector context.

Analysis

Staff has considered this issue in the context of the directions the IPSASB provided, specifically whether this is a public sector specific issue. The respondent provided little information to support the impracticality of this required disclosure. Staff has been unable to develop any rationale that supports this. If there are members with experience in this it would be appreciated if they could come prepared to support this as impractical. In the absence of specific evidence staff does not support any change from the IFRS.

Staff recommendation: No change proposed, but discuss issue in light of experiences.

viii) Collateral

Three respondents (04, 06, 09) commented on the required disclosures related to collateral. Two of these respondents (04, 09) questioned whether providing collateral is a

usual feature of borrowing in the public sector. The other respondent (06) suggested that the disclosures for collateral be extended.

Analysis

At the national level of government it is rare to have pledges of collateral. However, there may be instances at the sub-national level of government or for public sector organizations where collateral has been provided. In these cases this should be appropriately reflected in a public sector entity's financial statements. No disclosures are required if no collateral is pledged. On balance staff recommends that the disclosures be maintained.

Staff recommendation: No change proposed.

ix) Concentration of Source of Borrowing

One member (06) noted that IFRS 7 requires disclosures of concentration of credit risk for assets, but does not include an explicit requirement for concentration of sources of borrowing. The respondent thought that this would improve clarity.

Analysis

Staff has considered this issue in the context of the directions the IPSASB provided and is not persuaded this is a public sector specific issue. While financial difficulty due to reliance on one or two sources of borrowing may be an increasing problem, as highlighted by the respondent, this is presumably also the case in the private sector companies.

Staff does not support the inclusion of such disclosures as it is not a public sector specific issue.

Staff recommendation: No change proposed

x) Disclosures of Credit Risk (IFRS 7.36-38/ED39 43-45 & AG9-AG10)

Two respondents (03, 06) expressed concern about the disclosures required about credit risk. One respondent (06) thinks they are excessive and undermined by the volume of disclosures required. The other respondent (03) noted that they do not reflect the fact that for public sector entities financial instruments are not usually core business but a subsidiary tool.

Analysis

Public sector entities may be involved in making loans as part of a social benefit program, for example, student loans. In many of these cases the credit worthiness of the borrower is not a factor in determining whether a loan will be made. Individual loans may

be immaterial, though the class of financial asset to which the loans belong may be material. Disclosures are made about the class of financial asset, not the individual counterparty. Where there are a large number of individual borrowers with small loan balances it is unlikely that the credit worthiness of individual borrowers will affect the class as a whole.

Staff has considered this issue in the context of the directions the IPSASB provided and is not persuaded this is a public sector specific issue. There could be private sector circumstances where a class of financial assets likewise is comprised of a portfolio of small or immaterial balances, e.g. a mortgage portfolio.

Staff does not support the deletion of such disclosures as it is not a public sector specific issue.

Staff recommendation: No change proposed

WITHDRAWAL OF IPSAS 15

As part of the consideration of the Financial Instruments project, the IPSASB will need to consider the future status of IPSAS 15. At the meeting in October 2008, the IPSASB reiterated its view that this project will result in three new IPSASs, and that IPSAS 15 would be withdrawn. As a team, staff have considered the potential options related to the timing of the withdrawal of IPSAS 15 and considered two possible options:

1. Withdraw IPSAS 15 when the EDs proposing the new IPSASs are approved;
or
2. Withdraw IPSAS 15 when the IPSASs developed from this project are approved;

In developing new accounting standards, an existing standard that is being replaced would normally be withdrawn when the new standards are approved. Under this scenario, IPSAS 15 would be superseded by the new standards and would be withdrawn when the new IPSASs are approved and issued.

The IPSASB could consider withdrawing IPSAS 15 at the same time as approving the ED's, along with issuing a statement that the IPSASB has every expectation that entities will apply the IFRSs until the new IPSASs come into effect. Doing this would emphasize the importance of updating the financial reporting requirements in respect of financial instruments. IPSAS 3 directs entities towards the IFRSs in the absence of an IPSAS, when an entity is developing accounting policies for the recognition and measurement of assets. It is noted however that IPSAS 3 does not address accounting policies for disclosures in the absence of an IPSAS.

One problem with this approach is that it appears to presume the ultimate approval of the ED's, irrespective of respondents' comments. If the ED's are not supported and the final standards are delayed as a result, there could be a lack of guidance.

On balance, the staff view is that a due process for standard setting exists and that, with very rare exception, this due process should be followed. This due process is what gives a standard setting board like the IPSASB its credibility. It provides a framework for decision making in a transparent process. Based on this view, staff recommends that IPSAS 15 be withdrawn only on final approval of the IPSASs on financial instruments.

Staff recommendation: Withdraw IPSAS 15 when the final IPSASs are approved.

CUT & PASTE OF RESPONSES

Respondent	Paragraph	Proposed Change	Comments
<u>01 Izkovich</u>	References to IAS 39	IFRS 7 contains many references to IAS 39, the amendments to IFRS 7 should be synchronized with the amendments to IAS 39.	<i>Done</i>
	Appendix	An appendix with examples (e.g. illustrative financial statements) will be very helpful	Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons. <i>No change made.</i>
	Definitions	Ensure that the IPSAS definitions align with the IFRS definitions	<i>Done</i>
	New IN1	The dynamic nature of international financial markets has resulted in the widespread use of a variety of financial instruments ranging from traditional primary instruments, such as bonds, to various forms of derivative instruments, such as interest rate swaps. Public sector entities use a wide range of financial instruments from simple instruments such as payables and receivables to more complex instruments (such as cross-currency swaps to hedge commitments in foreign currencies) in their operations. To a lesser extent, public sector entities may issue equity instruments or compound liability/equity instruments. This may occur where an economic entity includes a partly-privatized Government Business Enterprise (GBE) that issues equity instruments into the financial markets or where a public sector entity issues debt instruments that convert to an ownership interest under certain conditions.	From IPSAS 15 Objective section (1 st paragraph); Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons. <i>No change made.</i>

Respondent	Paragraph	Proposed Change	Comments
	IN1	In recent years, the techniques used by public sector entities for measuring and managing exposure to risks arising from financial instruments have evolved and new risk management concepts and approaches have gained acceptance. In addition, International Financial Reporting Standards addressing financial instruments presentation issues were revised due to many public and private sector initiatives have proposed improvements to the disclosure framework for risks arising from financial instruments, and a new IFRS 7 was issued, in an attempt to remove duplications in publications and to simplify the disclosures about concentrations of risk, credit risk, liquidity risk and market risk.	Not considered necessary/appropriate given direction to minimize changes and the fact that all EDs are being considered for approval simultaneously based on most up to date IASB standards. <i>No change made.</i>
	IN2	The International <u>Public Sector</u> Accounting Standards Board believes that users of financial statements need information about an-a public sector entity's exposure to risks and how those risks are managed, <u>as part of a wider accountability process</u> . Such information can influence a user's assessment of the financial position and financial performance of an-a <u>government or other public sector</u> entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgments about risk and return.	Direction was to minimize changes; most proposed amendments not seen as necessary <i>Only change made is addition of "Public Sector" in first sentence</i>
	IN3	Propose deleting IN3, which discusses IAS 30, "Disclosures in the Financial Statements of Banks and Similar	<i>Done</i>

Respondent	Paragraph	Proposed Change	Comments
		Institutions” because the IPSASB never issued an IPSAS based on that Standard.	
	IN4	IFRS 7 IPSAS X applies to all risks arising from all financial instruments, except those instruments listed in paragraph 3. The IFRS-IPSAS applies to all entities, including entities that have few financial instruments (e.g. a manufacturer departments whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (e.g. a financial institution most of whose assets and liabilities are financial instruments government accountable for all government issues of financial instruments such as bonds and other instruments). However, the extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk.	<p><i>Editorial changes made</i></p> <p>Change to first example reflects public sector terminology – <i>proposed change made</i></p> <p>Second example left unchanged given that governments control and are acquiring financial institutions.</p> <p><i>No change made</i></p>
	IN5(a)	Include a reference to the cash flows of an entity.	<p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Liquidity disclosures would incorporate cash flows.</p> <p><i>No change made.</i></p>
	Paragraphs on scope	Include the additional material that was included in IPSAS 15 re insurance contracts and social insurance obligations.	<i>Scope exclusions aligned with ED37 and ED38</i>

Respondent	Paragraph	Proposed Change	Comments
	After paragraph 6	<p>Include an additional paragraph:</p> <p><i>Determination of the level of detail to be disclosed about particular financial instruments is a matter for the exercise of judgment taking into account the relative significance of those instruments. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring significant information as a result of too much aggregation. For example, when an entity is party to large numbers of financial instruments with similar characteristics and no one contract is individually significant, summarized information by reference to particular classes of instruments is appropriate. On the other hand, specific information about an individual instrument may be important when that instrument represents, for example, a significant element in an entity's capital structure.</i></p>	<p>This is ¶ 52 of IPSAS 15.</p> <p>AG3 addresses this in a way that aligns the IPSAS more directly with IFRS 7.</p> <p><i>No change made.</i></p>
	After paragraph 7	<p>Include an additional paragraph:</p> <p><i>The purpose of the disclosures required by this Standard is to provide information that will enhance understanding of the significance of on-balance- sheet and off-balance-sheet financial instruments to an entity's financial position, performance and cash flows and assist in assessing the amounts, timing and certainty of future cash flows associated with those instruments. In addition to providing specific information about</i></p>	<p>This is ¶ 48 of IPSAS 15.</p> <p>Paragraph 1 sets out the objective of ED39 and is aligned with IFRS 7.</p> <p>Direction was to minimize changes.</p> <p><i>No change made.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		<i>particular financial instrument balances and transactions, entities are encouraged to provide a discussion of the extent to which financial instruments are used, the associated risks and the financial purposes served. A discussion of management's policies for controlling the risks associated with financial instruments, including policies on matters such as hedging of risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks, provides a valuable additional perspective that is independent of the specific instruments outstanding at a particular time. Some entities provide such information in a commentary that accompanies their financial statements rather than as part of the financial statements.</i>	
	After 24	<p>Add an additional paragraph:</p> <p><i>The usefulness of information about the extent and nature of financial instruments is enhanced when it highlights any relationships between individual instruments that may affect the amount, timing or certainty of the future cash flows of an entity. For example, it is important to disclose hedging relationships such as might exist when a central borrowing authority holds an investment in shares for which it has purchased a put option. Similarly, it is important to disclose relationships between the components of "synthetic instruments" such as fixed rate debt created by borrowing at a floating</i></p>	<p>This is ¶ 58 of IPSAS 15.</p> <p>Direction was to minimize changes.</p> <p>Based on this premise staff did not consider that this additional paragraph is required.</p> <p>No change made.</p>

Respondent	Paragraph	Proposed Change	Comments
		<i>rate and entering into a floating to fixed interest rate swap. In each case, an entity presents the individual financial assets and financial liabilities in its statement of financial position according to their nature, either separately or in the class of financial asset or financial liability to which they belong. The extent to which a risk exposure is altered by the relationships among the assets and liabilities may be apparent to financial statement users from information of the type described in previous paragraphs but in some circumstances further disclosure is necessary.</i>	
	After 42	Include paragraphs 63, 65 and 67 from current IPSAS 15, which require the disclosure of interest rate risk as this is highly relevant to the public sector.	Interest rate risk is a component of market risk and is dealt with in ED39 as part of the proposed Standard and in the Application Guidance. Direction was to minimize changes. <i>No change made.</i>
<u>02 Bean</u>	12, 12A, 44E, 44F	Include the most recent amendments and proposed amendments for IFRS 7.	<i>Done</i>
<u>03 Bergmann/Berger</u>	Application Guidance	Do not remove any of the required disclosures. However, we are of the view that the application guidance requires substantial changes as the narrative is focused on financial corporations, i.e. entities of the corporate sector which make financial transactions as part of their core business.	Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons. AG in IFRS 7 is more generic than the AG in IAS 39 and IAS 32 and can be applied equally to the public sector. <i>No change made</i>

Respondent	Paragraph	Proposed Change	Comments
	36(c) & (d)	<p>This is not reflecting the situation of public sector entities, for which financial instruments are not usually the core business, but only a subsidiary tool in order to achieve its primary purpose. Example:</p> <p>Student loans are not issued because the government intends to enter the credit and loans business. The loans only help the government to increase participation in education programs of groups of the population which couldn't afford otherwise. The idea of financial instruments being used only subsidiarily needs to be reflected in the application guidance.</p>	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Questionable whether this is a public sector specific issue.</p> <p><i>No change made but issue to be discussed.</i></p>
		<p>Furthermore, the application guidance should also stress that many if not most public sector entities only use a small subset of the financial instruments discussed in IFRS 7. Furthermore, financial instruments used are often way below the materiality threshold (i.e. an invoice for a book purchased abroad and payable in a foreign currency – this invoice is obviously subject to a currency risk, but clearly below materiality).</p>	<p>Paragraph 13 of the Preface notes that IPSASs are not meant to apply to immaterial items.</p> <p>Materiality explained in IPSAS1.</p> <p>IG3-IG4 aligned with IFRS 7 and deal with materiality, with reference to IPSAS1.</p> <p><i>No change made.</i></p>
<u>04 Neville/ Salole</u>	Scope	<p>Paragraph 3(d) excludes insurance contracts as defined in IFRS 4, "Insurance Contracts". The definition of insurance contracts and examples of insurance contracts in paragraph B18 (and what is not in B19) focus on commercial, competitively issued products. In Canada, governments are involved in many types of insurance-like transactions. The insured may not pay the premium (an example being insurance of income for workers injured on the job). Premiums may not be set in a competitive market place (for example, unemployment insurance, crop loss insurance). Discussion is warranted as to whether such</p>	<p>This issue has been addressed in the memorandum accompanying the mark up of IAS 32.</p> <p><i>No change made..</i></p>

Respondent	Paragraph	Proposed Change	Comments
		arrangements are within or outside of scope.	
		In its “Statement of Principles: Financial Instruments”, PSAB indicated that “rights and obligations under an insurance contract held or issued by a government” would be excluded from the scope of a future financial instruments standard (staff expects this would include its disclosure requirements). PSAB’s existing standard CONTRACTUAL OBLIGATIONS, Section PS 3390 establishes disclosure requirements in respect of current financial position or operations. We are not considering issues associated with the disclosure of broader non-contractual obligations in relation to our project.	Scope paragraphs in the three proposed IPSASs amended so that they do not refer to IFRS 4. <i>Paragraph 3(c)modified</i>
		We understand that the staff recommendation to exclude non-contractual assets and liabilities with characteristics of financial instruments from the convergence phase of the project as proposed in Agenda Paper 11.0 (Zurich, Oct 08) was accepted by IPSASB. We support this position. Within the context of developing a converged IFRS 7, we would question whether requiring governments to disclose fair values for assets and liabilities arising from non-exchange transactions and non-commercial transactions for <u>2</u> will provide users with information that is of sufficient quality and usefulness in relation to the effort to prepare it.	See memorandum for discussion of issue. <i>No change made but issue to be discussed.</i>
	29	Balances originating from transactions that are non-exchange transactions or that are not originated in a competitive market place may be inherently challenging to value creditably. We assert that in many cases values presented would be based on Level 3 or at best Level 2 assessments (based on	See memorandum for discussion of issue. At this stage the IPSASB does not contemplate changing the requirements of the IFRSs in respect of concessionary

Respondent	Paragraph	Proposed Change	Comments
		<p>the three level fair value hierarchy referred to in the proposals to amend IFRS 7 issued by the IASB in October). The course we expect to follow in developing an equivalent standard to IFRS 7 is based on:</p> <ul style="list-style-type: none"> • Disclosing when, where and why governments have used fair value in preparing their financial reports; • How they determined fair value when it was used; • Explaining risks arising from financial instruments and their management; but • Limiting requirements to broadly disclose fair value information that is of limited quality. We think this may be accomplished through broadening the situations where fair value information is not required (paragraph 29). <p>Similarly, governments may find it challenging to provide a meaningful analysis of credit risk in respect of balances that originate due to transactions that are non-exchange in their origins or although contractually based may not have arisen in a competitive marketplace. For example, a government that offers loans to support higher education would not likely evaluate a borrower's credit as would a commercial lender. When credit information is not required when a loan is originated, we suspect the lender is unlikely to maintain this information in managing the loan portfolio. Accordingly, it may only be reasonable to require information on how the government has assessed the carrying value of its asset, and processes such as impairment evaluation. Given that governments are not generally lenders in the commercial sense, broader measures of overall credit exposure and trend information</p>	<p>loans.</p> <p>ED38 includes additional application guidance on concessionary loans.</p> <p><i>Additional disclosures proposed – ED39.37</i></p>

Respondent	Paragraph	Proposed Change	Comments
		about recoveries may prove more relevant.	
		In Canada, pledges of collateral at a sovereign level are rare, although we acknowledge this is possible in the case of government organizations whose obligations are not backed by the “full faith and security” of the controlling government. Similarly, provisions applicable to defaults seem ill suited and might be refocused on disclosing any loan terms and breaches should they occur. We acknowledge that it may be useful in the broader international context to include these requirements in the standard.	<p>See memorandum for discussion of issue.</p> <p>Collateral could be an issue at government entity level; Direction was to minimize changes.</p> <p><i>No change made but issue to be discussed.</i></p>
	17	We are not aware of situations where governments or government organizations in Canada are issuers of financial instruments that contain both a liability and an equity component.	<p>See memorandum regarding deletions of disclosures.</p> <p><i>No change made</i></p>
05 Sekikawa		Generally, I do not find significant matters to cause modification of IFRS 7.	
	39	<p>Re Liquidity Risk: IFRS 7 requires a maturity analysis and description of how the entity manages the risk. I think central governments generally do not have to care about liquidity risk of their domestic currency due to its sovereign nature. However, it is quite important to disclose liquidity risk of foreign currency denominated borrowings.</p> <p>It may be worth considering and discussing whether it is a public sector difference. My preliminary ideas to modification are either:</p> <ol style="list-style-type: none"> 1. Disclose a maturity analysis by major currencies. 2. Disclose a maturity analysis by domestic and foreign currencies. 3. Disclose a maturity analysis for 	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Questionable whether this is a public sector specific issue.</p> <p><i>No change proposed but issue to be discussed.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		only that denominated in foreign currencies.	
<u>06 Schollum</u>	N/A	<p>(1) Require disclosure of the gross amounts, terms and valuation assumptions of financial assets fair value differs significantly from face value (e.g. concessional loans).</p> <p>IAS 39 requires these types of assets to be initially recognized at fair value, which normally means a large write down on initial recognition to an amount well below the gross amount (face value) of the loan.</p> <p>If accountability is to be properly served, not only should the initial write down be transparent in the period that the loan is made (as, in effect, that reflects the element of grants implicit in the transaction) but so should, on an ongoing basis, the gross amount of the loan, the associated terms of the loan and the valuation assumptions, (i.e. timing of future cash flows).</p> <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>Concessional loans are a greater feature of the public sector than the private.</p> <p><i>Additional disclosures proposed- ED39.37.</i></p>
	N/A	<p>(2) Require disclosure of the gross amounts/terms and valuation assumptions where fair value differs significantly from face value (e.g. concessional loans).</p> <p>As in (1) above but from a borrower's perspective.</p>	<p>See memorandum for discussion of issue.</p> <p>Concessional loans are a greater feature of the public sector than the private.</p> <p><i>Additional disclosures proposed- ED39.37.</i></p>
	N/A	<p>(3) Require disclosure of the rationale for the granting of concessional loans.</p> <p>Given the substance of a concessional loan, the public sector entity providing the concessional loan should be required to explain the rationale for the transaction.</p>	<p>See memorandum for discussion of issue.</p> <p>Concessional loans are a greater feature of the public sector than the private.</p> <p><i>Additional disclosures proposed- ED39.37.</i></p>

Respondent	Paragraph	Proposed Change	Comments
	N/A	<p>(4) Require a reconciliation of opening and closing balances of significant asset or liability portfolios (e.g. student loans)</p> <p>Such a reconciliation is not currently required to be shown and yet would provide very useful information to users about the key movements in the overall portfolio (such as student loans), including:</p> <ul style="list-style-type: none"> • new loans during the period; • loans written down to fair value on initial recognition; • loans repaid during the period. <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>Concessionary loans are a greater feature of the public sector than the private.</p> <p><i>Additional disclosures proposed- ED39.37.</i></p>
	N/A	<p>(5) Require a description of any restrictions on borrowing, lending or investing imposed on the entity through legislation or regulation and disclosure of the entity's compliance with any such restrictions.</p> <p>Any restrictions imposed on the Government (including those self imposed restrictions) in its exercise of fiscal management are highly relevant to the users of GPFR. The recent interventions of many Governments around the world has reinforced the importance of such disclosures. Such disclosures will also be relevant to the IPSASB's Long term Fiscal Sustainability project.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>Legislative or regulatory restrictions generally should be covered by IPSAS1 para. 150(c).</p> <p>Unclear that these restrictions specific to FI differ.</p> <p><i>No change made.</i></p>
	N/A	<p>(6) Require disclosure of concentration of sources of borrowing.</p> <p>IFRS 7 requires disclosures of concentration of credit risk for assets, but it could be interpreted that it does not include a similar requirement for concentration of the sources of borrowing. A specific requirement to</p>	<p>See discussion of issue in memorandum.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p>

Respondent	Paragraph	Proposed Change	Comments
		disclose information about the concentration of the sources of borrowing would improve clarity. Increasingly we are seeing cases of entities around the world have financial difficulty due to having over reliance on 1 or 2 sources of borrowing. This would therefore be useful information for users, and again would link with the Long term Fiscal Sustainability project. [Rules of the Road Step 3 v)]	Questionable whether this is a public sector specific issue. <i>No change made but issue to be discussed.</i>
	14	(7) Extend required disclosures of collateral. IFRS 7 (para 14) requires disclosure of the carrying value of financial assets pledged as collateral. This should be extended to include disclosure of any collateral pledged (which may not even be an asset on the balance sheet). What collateral an entity has pledged to 3 rd parties is highly relevant information and it is important, therefore, not to restrict the scope of such disclosures. [Rules of the Road Step 3 v)]	See discussion of issue in memorandum. Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons. Questionable whether this is a public sector specific issue. Other respondents suggested deleting disclosures. <i>No change made but issue to be discussed.</i>
	3 – 5	The scope section should be clarified so it is clear that non-contractual financial assets and liabilities (e.g. tax receivables arising from the exercise of statutory power) are outside of the scope of the disclosure IPSAS. It is important to have consistency between the IPSASs based on IAS 32, IAS 39 and IFRS 7. [Rules of the Road Step 3 vii)]	Scope to be contractual only consistent with ED37 and ED38. Non-contractual therefore already out of the scope – noting in exclusions not seen as necessary. <i>No change made.</i>
	9 – 11	The disclosures required by paragraphs 9 – 11 in relation to loans and receivables and financial liabilities categorized as “fair value through profit	See memorandum regarding deletions of disclosures. <i>No change made</i>

Respondent	Paragraph	Proposed Change	Comments
		<p>or loss” should be deleted.</p> <p>The disclosures required by paragraphs 9 – 11 are not very useful in the public sector context, and particularly those associated with changes in fair value due to changes in credit risk, are seen as overly complex and subjective.</p> <p>[Rules of the Road Step 3 v)]</p>	
	20	<p>The disclosures required by paragraph 20 (by category) are too detailed.</p> <p>The disclosures as prescribed are complex and largely irrelevant. It would make more sense to require disclosures at an aggregated level, i.e. a single net gain or loss for financial instruments at fair value through profit or loss.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>If not material, disclosures would not apply.</p> <p><i>No change made but issue to be discussed.</i></p>
	25 – 30	<p>The disclosures required by paragraphs 25 – 30 are not subject to a cost/benefit criterion. As such, the disclosures appear to be required irrespective of the costs of doing so.</p> <p>The exceptions in paragraph 29 could usefully be extended to include cost/benefit considerations.</p> <p>It is important that cost/benefit considerations are incorporated into disclosures of fair value if the standard is to be suitable for the international public sector environment.</p> <p>Fair value for many financial instruments in the public sector will be difficult to determine (as there is often no active market) and often involve the use of experts.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>No cost/benefit criterion explicitly stated for any disclosures - unclear how these differ.</p> <p>To consider in context of categories of financial instruments.</p> <p><i>No change made but issue to be discussed.</i></p>

Respondent	Paragraph	Proposed Change	Comments
	34(a)	<p>The disclosure required by paragraph 34(a) is not practical at a Whole of Government level and this practical limitation needs to be allowed for in the standard.</p> <p>All disclosures required need to be practical in the public sector context. Where this is not the case, change should be made.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Questionable whether this is a public sector specific issue.</p> <p><i>No change proposed but issue to be discussed.</i></p>
	36 – 38	<p>The required disclosures on credit risk (paragraphs 36 – 38) are excessive and should be reduced. Paragraphs 36a) and b) appear to be useful. However, the balance of these paragraphs could be deleted.</p> <p>The usefulness of the disclosures on credit risk is undermined by the volume of disclosure which is currently required.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Questionable whether this is a public sector specific issue.</p> <p><i>No change made but issue to be discussed.</i></p>
	39, B12	<p>The disclosure of liquidity risk required by paragraph 39 requires the impact of financial guarantees to be factored into the analysis based on the earliest date that a guarantee can be called (refer B12 of application guidance).</p> <p>The information disclosed must be relevant and meaningful otherwise the risk is that users will be misled by the disclosures. Given the recent trend of Governments providing guarantees, this is particularly problematic and, if left unchanged, will be significantly misleading.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>See memorandum for discussion of issue.</p> <p>AG15(a) now addresses what was in B12.</p> <p>Consider whether financial guarantees are financial liabilities and, if so, is information required misleading?</p> <p><i>No change made but issue to be discussed.</i></p>

Respondent	Paragraph	Proposed Change	Comments
	40 – 42	<p>The sensitivity analysis disclosures required by paragraphs 40 – 42 are seen as useful, but it would be helpful to clarify what is meant by ‘equity’ in paragraph 40(a).</p> <p>There are different interpretations in relation to this requirement, with some people interpreting equity as total equity/net assets and others interpreting equity as a component of equity such as a cash flow hedge reserve. Clarification that the intention is for total equity/net assets would be helpful.</p> <p>[Rules of the Road Step 3 v)]</p>	<p>“Equity” changed to “net assets/equity”.</p>
	44	<p>Paragraph 44 sets out the transition arrangements within the context of IFRS, which will need to be tailored for the IPSAS environment.</p> <p>It would be sensible to specify an early adoption date, with no requirement for any comparatives in the first year of adoption.</p> <p>In the interests of reducing compliance costs, removing the requirement for comparatives in the first year of adoption makes sense.</p> <p>[Rules of the Road Step 4 viii)]</p>	<p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Public sector environment for adopting FI standards may warrant different transition requirements. Transition requirements of ED37 and ED38 also allow some relief but do not drop comparatives completely.</p> <p><i>No change made.</i></p>
07 Batten	3 – 5	<p>The requirements of IFRS 7 only apply to contractual financial instruments, not to statutory receivables/payables. If the IPSASB intends to expand the scope of IAS 32/39 to include statutory receivables/payables, then the requirements will automatically extend to these items. If however, the IPSASB has not made a decision with regard to recognition and measurement of these statutory receivables/payables, but instead were considering applying the presentation requirements of IFRS 7 to these instruments, then the simplest</p>	<p>Scope to be contractual only consistent with ED37 and ED38.</p> <p>Non-contractual therefore already out of the scope – noting in exclusions not seen as necessary.</p> <p><i>No change made.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		<p>approach would be that the ‘Scope’ section of IFRS 7 be expanded to also include statutory instruments. This would avoid the need to amend IAS 39 requirements for application to statutory receivables/payables. However, we do have concerns about applying IFRS 7 in a blanket way to statutory receivables/payables.</p> <p>For ease of reference, the IPSASB may also consider creating a universal term for the statutory type of receivables/payables that have similar characteristics to contractual receivables/payables, except for the fact that they are backed by statutes/legislations (e.g.: statutory instruments). The universal term could then be explained in the Appendix A Defined Terms section of the standard.</p>	
		<p><i>Consider exemption for certain public sector entities from providing own sensitivity parameters</i></p> <p>Recent feedback from Victorian Public Sector reporting entities confirmed that having to separately disclose an entity’s own parameters for their sensitivity analysis in addition to providing sensitivity data using the centrally provided parameters, came at too much cost of compliance for these entities.</p> <p>Many of these government entities, especially the smaller ones, have no expertise to determine reasonably possible movements in the next 12 months for the sensitivity parameters required by IFRS 7. They either pay a fee to acquire a professional accounting service to determine the parameters or they simply use the WoG AFR parameters provided by the central agency (DTF), which is not from their own management’s perspective as required by IFRS 7. In this situation,</p>	<p>See memorandum for discussion of issue.</p> <p><i>No change made but issue to be discussed.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		IPSASB could consider giving an allowance to these entities to use the centrally provided sensitivity parameters for their own AFRs, to reduce this increased cost in preparing their own sensitivity disclosures.	
	9 – 11 36 – 37	<p>We noticed some overlaps between the requirements in paragraph 36-37 and 9-10 in IFRS 7. This may lead to confusion and repetitive disclosures of similar information by reporting entities. We appreciate the fact that paragraphs 9-11 apply to one category of financial asset and liability, whilst paragraphs 36-37 apply to classes of financial assets. However we think that it is possible to combine the credit risk requirements into one section with a few modifications.</p> <p>We suggest that IPSASB consider combining the requirements of paragraph 9-11 related to credit risk (9(a), 9(c), 10(a), and 11(a)(b)), into paragraph 36 of the standard or as a new section under ‘credit risk’ section as appropriate. In addition, IPSASB may also wish to consider modifying the requirements for credit risk disclosures from ‘by class’ into ‘by category’ then ‘by class’.</p>	<p>See memorandum regarding deletions of disclosures.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Little public sector specific reason for reducing level of disclosure.</p> <p><i>No change made.</i></p>
	10(b)	<p>We noticed that paragraph 10(b) may fit better into the requirement of paragraph 39 under the ‘liquidity risk’ section of the standard.</p> <p>Some constituents identified that it is common in the public sector to have very long term, or perpetual, loans where repayments of principal are not explicit and/or there is no fixed maturity date. In such situations complying with the required disclosures that relate to “contractual” maturities (e.g. 10(b) and 39) demands that arbitrary assumptions be made</p>	<p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p><i>No change made.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		about maturity dates (e.g. when making disclosures about liquidity risk and maturity dates. We note that the proposed amendments to paragraph 39 in IFRS 7 would head in this direction, however, the IPSASB should consider how these amendments could be applied where contractual maturities are unknown and difficult to determine.	
	9(b) & (d)	<p>We noted that the requirements of paragraphs 9(b) and (d) could be applied to all types of risks that an entity is exposed to, and not isolated merely to credit risk. Therefore, possibly these requirements should be incorporated into paragraph 33 ‘qualitative disclosures’ and 34 ‘quantitative disclosures’ sections of the standard as appropriate.</p> <p>We believe that for any type of risk for which derivatives or similar instruments exist to mitigate this risk, this fact should be disclosed, including the amount mitigated by these instruments (9(b)) and the amount of change in the fair value of these instruments (9(d)). As part of risk management disclosure of an entity, to enable users of its financial report to evaluate the nature and extent of its risks, derivatives used for mitigating certain risks should be disclosed, not just in the instance of credit risk</p>	<p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p><i>No change made.</i></p>
	20(a)	<p>The Victorian State’s AFR disclosed ‘net gain/loss on financial instruments’ on the face of the Operating Statement and a further reconciliation to the net amount was provided in the Notes, which include gains and losses in relation to contractual financial instruments and statutory receivables/payables.</p> <p>In complying with paragraph 20(a), we found that there was no common</p>	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p><i>No change made but issue to be discussed.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		<p>method for calculating these net gains or losses between different reporting entities. There were different interpretations as to what should and should not be included in the calculation of these net gains/losses by categories. Therefore, different entities may include different variables in the calculations (e.g.: may or may not include dividend and/or interest, may or may not include realisedrealized gains/losses). In addition, we also had to exclude statutory receivables/payables, therefore calculations of net gains/losses by category did not add-up to the net amount provided in the Operating Statement. This potentially can be confusing to users instead of value-adding.</p> <p>We suggest that either the requirement of this paragraph be omitted, or more guidance should be provided.</p>	
	25 – 30	<p>We believe that the fair value section could be better presented and less confusing. We suggest that the requirements of these paragraphs be sectioned accordingly into, ‘financial instruments in an active market’, ‘financial instruments with no active market’, and ‘exceptions from fair value disclosures’ to increase readability and understanding.</p>	<p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p><i>No change made.</i></p>
		<p>Public policy loans are recorded as financial instruments. Whilst it can be argued that the concept behind such loans is different to that behind the loans mentioned in IAS 39 as being issued at below market interest, constituents agree that a loan on concessional terms results in the government giving away economic value. However, it has been identified that parliamentary users are also interested in the “nominal” value of</p>	<p>See memorandum for discussion of issue.</p> <p>Concessionary loans are a greater feature of the public sector than the private.</p> <p><i>Additional disclosures proposed- ED39.37.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		such loans outstanding. The IPSASB should consider including a requirement that discloses the nominal value of concessional loan programs in public sector financial statements.	
		It seems that current practice under existing accounting standards is to recognize grants only when controlled (i.e. when cash is paid/received). Therefore there are often no grants payable/receivable recognized on the balance sheet of a government entity (i.e. effectively still using cash accounting). However, if grants payable/receivable were to be recognized, there is a question whether this grant payable/receivable is contractual or statutory or some hybrid? It is often the case the receivables/payables between government entities within a whole of government have indeterminable dates of payments, therefore the subordinate entities often have issues with the measurement and disclosure of such transactions. Arguably, they are payable on demand, but history shows that this is not what really happens. This is a case where recognition at a nominal amount may well have significant cost benefit advantages, with very little downside given that at the whole of government level they eliminate.	<p>This current practice may be at odds with IPSAS 23. Within an economic entity it is certainly possible to make a determination about the likelihood that a grant will be received or paid.</p> <p><i>No change made.</i></p>
		For any government entity that holds financial instruments and invests for a specified purpose, but does not make the day to day investment decisions on asset acquisition and disposal for a material part of that portfolio, the disclosure requirements should be amended to require explanation of who is responsible for decision making, the purpose and objectives of the investment portfolio, the agreed allocation constraints the managers	<p>See memorandum for discussion of issue.</p> <p>Consider whether the entity is a custodian of the instrument rather than the owner.</p> <p><i>No change made but issue to be discussed.</i></p>

Respondent	Paragraph	Proposed Change	Comments
		operate within, and special conditions or constraints on that allocation (e.g. limits to currency exposure and to disclose the actual portfolio allocation to the material asset classes at balance date, irrespective of the vehicle through which the investment is held. This should be additional to the detail in the balance sheet prepared in accordance with IFRS 7.	
	40 – 41	The sensitivity requirements should be deleted. They are onerous to prepare and fundamentally misleading.	<p>See memorandum for discussion of issue.</p> <p>Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons.</p> <p>Questionable whether this is a public sector specific issue.</p> <p><i>No change proposed but issue to be discussed.</i></p>
<u>08 Aldea</u> <u>Busquets</u>	17	We propose to delete this paragraph for IPSAS purposes. The reason for this proposal is that the existence of such instruments in public sector entities tends to be zero, because generally most of the financial regulations of public sector entities prohibit them from entering into such contracts. Within the EC, it is not allowed to have such financial instruments. There thus appears to be no relevance for this disclosure requirement.	<p>See memorandum regarding deletions of disclosures.</p> <p><i>No change made.</i></p>
	18 & 19	Defaults and breaches of loans payable are rare in the public sector context. Thus, there is no need for this disclosure requirement.	<p>See memorandum regarding deletions of disclosures.</p> <p>May be rare but have occurred therefore guidance deemed necessary.</p> <p><i>No change made</i></p>

Respondent	Paragraph	Proposed Change	Comments
	20 (b), (c) & (d) Interest income & expense, fee income & expense	We propose not to incorporate these parts of IFRS 7 in an IPSAS> IT is not the core business of the EC and probably not for other public sector entities to enter into borrowing or lending activities, and therefore information about interest income/expense is not really necessary for the users of public sector accounts.	See memorandum regarding deletions of disclosures. If not material disclosures would not be required. <i>No change made</i>
	28 Financial assets – no active market	We propose not to incorporate this paragraph in an IPSAS. In the EC, such financial instruments are not used and we do not see the application of those financial instruments in public sector entities. Consequently, there is no need to disclose the treatment of day-one profits.	See memorandum regarding deletions of disclosures. If not material disclosures would not be required. <i>No change made.</i>
	39 Maturity analysis	One of the main reasons for this paragraph is that the notes shall provide information about the risk that the entity could have regarding problems to pay its liabilities earlier than expected (BC 57). The maturity analysis shall be a worst case scenario so that the addressees of private sector financial statements are able to assess whether they want to bear the risk of investing in the company or not. As mentioned above, the annual accounts of public sector entities are not for the purpose of giving information to risk capital providers and therefore it is not necessary to disclose such information. Even in the case that for example, the EC would have to pay its liabilities at the earliest contractual maturity date, it would not cause an insolvency risk for the EC. For these reasons we think that this paragraph could be deleted.	See memorandum regarding deletions of disclosures. Liquidity risk is required disclosure under IPSAS 15. Future cash outflows important information; no reason seen to delete given direction to minimize changes. <i>No change made.</i>
	40 – 42 Sensitivity analysis	We are of the opinion not to disclose any sensitivity analyses. The main objective of a sensitivity analysis is to disclose the effect of an increase/decrease of certain variables on profit/loss and equity. These	See memorandum for discussion of issue. Direction was to minimize changes similar to ED37 and ED38 other than for

Respondent	Paragraph	Proposed Change	Comments
		disclosures may help addressees of financial statements to assess the risk of a change in dividends from an entity because of the change of some risk variables. In other words it shows the risk of receiving less or more money from an entity. As mentioned above the EC and most of public sector entities have no shareholders or potential investors who could be interested in such information. Consequently, if there is no demand for such information it is not necessary to disclose it.	additional disclosures or deletions for public sector specific reasons. Questionable whether this is a public sector specific issue. <i>No change proposed but issue to be discussed.</i>
09 Verrinder	3(e)	Might be deleted if we believe that share-based payment is not an issue for government anyway	See memorandum regarding deletions of disclosures. Share based payment is normally not a feature of the public sector, however when a public sector entity obtains control of an existing entity, such as a bank, that entity may have such programs in place that need to be honored. <i>No change made.</i>
	4	This is a place where the development of measurement for sovereign receivables and payables may need to be reflected, if the chosen direction is not to amend IAS 39 when converting to IPSAS but to require disclosures of other financial instruments, as for example in the NZ accounts.	At this time only sovereign contractual receivables and payables will be in scope. <i>No change made.</i>
	8 (a) and (e)	Does government hold financial assets for trading? Perhaps social security funds do so? If not, or if this is expected to be a relatively small issue, this distinction could be dropped (and similar deletions made in the paragraphs that follow).	See memorandum regarding deletions of disclosures. Possibly rare but this is interlinked with ED38; if not material disclosures would not be required. <i>No change made.</i>

Respondent	Paragraph	Proposed Change	Comments
	9(b)	Here we are talking about credit derivatives or similar instruments on government assets, such as loans. I'm not aware that governments use credit derivatives in this way, at least in Europe. It might be deleted.	<p>See memorandum regarding deletions of disclosures.</p> <p>Some sub-national governments have been active in the derivatives market and acquisition of financial institutions could make this a bigger issue; if not material disclosures do not apply.</p> <p><i>No change made.</i></p>
	9(c)(i)	This might be deleted in favor of item (ii) because government loan programs might not be subject to market conditions in the sense that they are described here.	<p>See memorandum regarding deletions of disclosures.</p> <p>If not material disclosures do not apply.</p> <p><i>No change made.</i></p>
	9(d)	Could be deleted if 9(b) is deleted.	<p>See memorandum regarding deletions of disclosures.</p> <p>If not material disclosures do not apply.</p> <p><i>No change made.</i></p>
	12	Reclassification might be rare for government bodies, since the intention of holding the asset or liability would usually be quite clear from the start, so it could be deleted.	<p>Members have indicated that they don't want to change the reclassification requirements in IAS 39 (as recently amended);</p> <p>Direction to minimize changes consistent with ED37 and ED38.</p> <p><i>No change made</i></p>
	14	I'm not aware of EU governments pledging assets against their liabilities, so this para could be deleted, though perhaps some governments around the world do so?	<p>See memorandum for discussion of issue.</p> <p><i>No change made</i></p>

Respondent	Paragraph	Proposed Change	Comments
	16 Allowance account for credit losses	Is this allowed in IPSASs?	Allowed <i>No change made.</i>
	20(c) Fee income	I wonder if governments would receive much fee income or incur expenses in these financial type activities? Could this be deleted?	See memorandum for discussion of issue. If not material disclosures would not be required. <i>No change made</i>
	33 – 38	Perhaps these paragraphs do not need to be applied to all government financial assets, but could be applied only to the most common, for example loans.	Disclosures do not apply to immaterial items; <i>No change made</i>
	41	Would governments prepare such an analysis and would it be useful? This could be deleted.	See memorandum for discussion of issue. Direction was to minimize changes similar to ED37 and ED38 other than for additional disclosures or deletions for public sector specific reasons. Questionable whether this is a public sector specific issue. <i>No change proposed but issue to be discussed.</i>

Exposure Draft 39

March 2009

Comments are requested by July 31 2009

*Proposed International Public Sector Accounting
Standard*

Financial Instruments: Disclosures

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, "Financial Instruments: Disclosures", for publication in March 2009. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by July 30, 2009. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Email responses should be sent to: publicsectorpubs@ifac.org and stepheniefox@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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ACKNOWLEDGMENT

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OBJECTIVE

Governments around the world have been extensively involved in providing financial support to financial institutions and other entities affected by the current global economic crisis. The IPSASB identified the need to provide appropriate accounting guidance to governments and their entities for these specific transactions. Consequently, it agreed to issue a suite of standards providing principles for the recognition, measurement, presentation and disclosure of financial instruments which would be drawn primarily from IAS 32, “Financial Instruments: Presentation”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7, “Financial Instruments: Disclosure”. This Exposure Draft is based on IFRS 7, “Financial Instruments: Disclosures” and proposes disclosure requirements for financial instruments; ED 37 addresses the presentation of financial instruments and ED 38 the recognition and measurement of financial instruments.

The IPSASB has not deviated from the principles in IFRS 7, but has amended the text to align it with other IPSASs and has addressed public sector specific issues. This approach is in line with the IPSASB’s strategy of converging IPSASs with IFRSs where appropriate. Differences between this Standard and IFRS 7 are highlighted in the Comparison with IFRS 7. This Exposure Draft also includes relevant Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as Appendices to the Standard.

REQUEST FOR COMMENTS

The IPSASB invites comments on all the changes proposed in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

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Basis for Conclusions

Comparison with IFRS 7

International Public Sector Accounting Standard XX *Financial Instruments: Disclosures* (IPSAS XX) is set out in paragraphs 1–45 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Public Sector Accounting Standards. [IFRS 7](#) [ED/39](#) should be read in the context of its objective, the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Reasons for issuing the IPSAS

IN1 [The Standard prescribes disclosure requirements for financial instruments and is based on IFRS 7, “Financial Instruments: Disclosures” \(including final and proposed amendments published up to December, 31 2008\).](#)

IN2 [In](#) recent years, the techniques used by entities for measuring and managing exposure to risks arising from financial instruments have evolved and new risk management concepts and approaches have gained acceptance. In addition, many public and private sector initiatives have proposed improvements to the disclosure framework for risks arising from financial instruments.

Comment [ts1]:
IFRS 7IN1

IN3 [The](#) International [Public Sector](#) Accounting Standards Board ([IPSASB](#)) believes that users of financial statements need information about an entity’s exposure to risks and how those risks are managed. Such information can influence a user’s assessment of the financial position and financial performance of an entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed [judgements-judgments](#) about risk and return.

Comment [ts2]:
IFRS 7IN2

~~IN3 Consequently, the Board concluded that there was a need to revise and enhance the disclosures in IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and IAS 32 *Financial Instruments: Disclosure and Presentation*. As part of this revision, the Board removed duplicative disclosures and simplified the disclosures about concentrations of risk, credit risk, liquidity risk and market risk in IAS 32.~~

Deleted, No equivalent
IPSAS

Main features of the ~~IFRS~~[IPSAS](#)

IN4 ~~IFRS 7~~[IPSAS XX](#) applies to all risks arising from all financial instruments, except those instruments listed in paragraph 3. The ~~IFRS~~ [Standard](#) applies to all entities, including entities that have few financial instruments ([eg-e.g. a manufacturer government department](#) whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments ([eg-e.g. a financial institution](#) most of whose assets and liabilities are financial instruments). However, the extent of disclosure required depends on the extent of the entity’s use of financial instruments and of its exposure to risk.

Comment [ts3]:
IFRS 7IN4

IN5 [The](#) ~~IFRS~~ [Standard](#) requires disclosure of:

Comment [ts4]:
IFRS 7IN5

- (a) ~~the~~[The](#) significance of financial instruments for an entity’s financial position, ~~and financial~~ performance [and cash flows](#). These disclosures incorporate many of the requirements previously in ~~IAS 32~~[IPSAS 15](#).

- (b) ~~qualitative~~ Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

IN6 The ~~IFRS~~ Standard includes in Appendix B mandatory application guidance that explains how to apply the requirements in the ~~IFRS~~ Standard. The ~~IFRS~~ Standard is accompanied by non-mandatory Implementation Guidance that describes how an entity might provide the disclosures required by the ~~IFRS~~ Standard.

Comment [ts5]:
IFRS 7IN6

IN7 The ~~IFRS~~ Standard supersedes ~~IAS 30 and~~ the disclosure requirements of ~~IAS 32~~ IPSAS 15. ~~The presentation requirements of IAS 32 remain unchanged.~~

Comment [ts6]:
IFRS 7IN7

IN8 The ~~IFRS~~ Standard is effective for annual periods beginning on or after ~~1 January 2007~~ Month, Day, Year. Earlier application is encouraged.

Comment [ts7]:
IFRS 7IN8

PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD ED 39
FINANCIAL INSTRUMENTS: DISCLOSURES

International Financial Reporting Standard 7
Financial Instruments: Disclosures

Objective

1. The objective of this ~~IFRS~~ Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:
 - (a) The significance of financial instruments for the entity's financial position and performance; and
 - (b) 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.
2. The principles in this ~~IFRS~~ Standard complement the principles for ~~recognising~~ recognizing, measuring and presenting financial assets and financial liabilities in ~~IAS 32~~ ~~XX-ED 37~~, "Financial Instruments: Presentation" and ~~IAS 39~~ ~~XXED 38~~, "Financial Instruments: Recognition and Measurement".

Comment [ts8]:
IFRS 7.1

Comment [ts9]:
IFRS 7.2

Scope

3. This ~~IFRS~~ Standard shall be applied by all entities to all types of financial instruments, except:
 - (a) Those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with ~~IAS 27~~ ~~IPSAS 6~~, "Consolidated and Separate Financial Statements", ~~IAS 28~~ ~~IPSAS 7~~, "Investments in Associates" or ~~IAS 31~~ ~~IPSAS 8~~, "Interests in Joint Ventures". However, in some cases, ~~IAS 27~~ ~~IPSAS 6~~, ~~IAS 28~~ ~~IPSAS 7~~ or ~~IAS 31~~ ~~IPSAS 8~~ permits an entity to account for an interest in a ~~subsidiary controlled entity~~, associate or joint venture using ~~IAS 39~~ ~~XX (FI: R & M) ED 38~~; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this ~~IFRS~~ Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in ~~IAS 32~~ ~~XX (FI: P) ED 37~~.
 - (b) Employers' rights and obligations arising from employee benefit plans, to which ~~IAS 19~~ ~~IPSAS 26~~, "Employee Benefits" applies.
 - (c) [deleted]

Comment [ts10]:
IFRS 7.3

(dc) Rights and obligations arising under insurance contracts as defined in IFRS 4 Insurance Contracts. However, this IFRS Standard applies to:

(i) Financial guarantee contracts; and

(ii) Derivatives that are embedded in insurance contracts if IAS 39 XX (FI:R&M)ED 38 requires the entity to account for them separately. Moreover, an issuer shall apply this IFRS to financial guarantee contracts if the issuer applies IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.

Notwithstanding (i) above, an entity may apply this Standard to other financial instruments that take the form of insurance contracts which involve the transfer of financial risk.

(e) Financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 Share-based Payment the relevant international or national accounting standard dealing with share based payment applies, except for contracts that this IFRS applies to contracts within the scope of paragraphs 5–7–8 of IAS 39 IPSAS XX (FI:R&M)ED 38, to which that Standard applies.

(f) Instruments that are required to be classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of ED 37.

4 This IFRS Standard applies to recognised-recognized and unrecognised-unrecognized financial instruments. Recognised-Recognized financial instruments include financial assets and financial liabilities that are within the scope of XX (FI:R&M)ED 38IAS 39. Unrecognised-Unrecognized financial instruments include some financial instruments that, although outside the scope of XX (FI:R&M)IAS 39ED 38, are within the scope of this IFRS Standard (such as some loan commitments).

Comment [ts11]:
IFRS 7.4

5 This IFRS Standard applies to contracts to buy or sell a non-financial item that are within the scope of XX (FI:R&M)ED 38 IAS 39 (see paragraphs 5–8 of XX (FI:R&M)ED 38IAS 39).

Comment [ts12]:
IFRS 7.5

6 This Standard applies to all public sector entities other than Government Business Enterprises.

Comment [ts13]:
Standard

7 The Preface to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB).

Comment [ts14]:
Standard

Classes of financial instruments and level of disclosure

- 8 When this ~~IFRS Standard~~ requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Comment [ts15]:
IFRS 7.6

Significance of financial instruments for financial position and financial performance

- 9 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Comment [ts16]:
IFRS 7.7

Statement of financial position

Categories of financial assets and financial liabilities

- 10 The carrying amounts of each of the following categories, as defined in ~~XX (FI:R&M)ED 38IAS 39~~, shall be disclosed either in the statement of financial position or in the notes:

Comment [ts17]:
IFRS 7.8

- (a) ~~financial~~ Financial assets at fair value through ~~profit-surplus~~ or ~~loss~~ deficit, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with ~~XX (FI:R&M)ED 38IAS 39~~;
- (b) ~~held~~ Held-to-maturity investments;
- (c) ~~loans~~ Loans and receivables;
- (d) ~~available~~ Available-for-sale financial assets;
- (e) ~~financial~~ Financial liabilities at fair value through ~~profit-surplus~~ or ~~loss~~ deficit, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with ~~XX (FI:R&M)ED 38IAS 39~~; and
- (f) ~~financial~~ Financial liabilities measured at ~~amortised~~ amortized cost.

Financial assets or financial liabilities at fair value through profit-surplus or loss deficit

- 11 If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit-surplus or loss deficit, it shall disclose:

Comment [ts18]:
IFRS 7.9

- (a) ~~the~~The maximum exposure to *credit risk* (see paragraph 43(a)) of the loan or receivable (or group of loans or receivables) at the end of the reporting period.
- (b) ~~the~~The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
- (c) ~~the~~The amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:
 - (i) ~~as~~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
 - (ii) ~~using~~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.

- (d) ~~the~~The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

12 ~~If~~ the entity has designated a financial liability as at fair value through ~~profit surplus~~ or ~~loss-deficit~~ in accordance with paragraph 9 of ~~XX (FI-R&M) ED 38 IAS 39~~, it shall disclose:

Comment [ts19]:
IFRS 7.10

- (a) ~~the~~The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:
 - (i) ~~as~~As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph AG4); or
 - (ii) ~~using~~Using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in

market conditions include changes in the performance of the related internal or external investment fund.

- (b) ~~the~~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.

13 The entity shall disclose:

Comment [ts20]:
IFRS 7.11

- (a) ~~the~~The methods used to comply with the requirements in paragraphs 11(c) and 12(a).
- (b) ~~if~~If the entity believes that the disclosure it has given to comply with the requirements in paragraph 11(c) or 12(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Reclassification

14 If the entity has reclassified a financial asset (in accordance with paragraphs 53–54 of ED 38) as one measured:

Comment [ts21]:
IFRS 7.12

- (a) ~~at~~At cost or ~~amortised~~amortized cost, rather than at fair value; or
- (b) ~~at~~At fair value, rather than at cost or ~~amortised~~amortized cost,

it shall disclose the amount reclassified into and out of each category and the reason for that reclassification (~~see paragraphs 51–54 of IAS 39~~).

15 If the entity has reclassified a financial asset out of the fair value through ~~profit surplus~~ or ~~loss deficit~~ category in accordance with paragraph 55 or 57 of ~~IAS 39 ED 38~~ or out of the available-for-sale category in accordance with paragraph 58 of ~~IAS 39~~ED38, it shall disclose:

Comment [ts22]:
IFRS 7.12A

- (a) ~~the~~The amount reclassified into and out of each category;
- (b) ~~for~~For each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;
- (c) ~~if~~If a financial asset was reclassified in accordance with paragraph 55, the rare situation, and the facts and circumstances indicating that the situation was rare;
- (d) ~~for~~For the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset ~~recognised~~recognized in ~~profit~~

surplus or loss-deficit or other comprehensive income in net assets/equity in that reporting period and in the previous reporting period;

- (e) ~~for~~ For each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been ~~recognised~~ recognized in profit-surplus or loss-deficit or other comprehensive income in net assets/equity if the financial asset had not been reclassified, and the gain, loss, ~~income~~ revenue and expense ~~recognised~~ recognized in profit-surplus or loss-deficit; and
- (f) ~~the~~ The effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

Derecognition

16 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 17-39 of ~~XX (FI-R&M)ED 38~~ IAS 39). The entity shall disclose for each class of such financial assets:

Comment [ts23]:
IFRS 7.13

- (a) ~~the~~ The nature of the assets;
- (b) ~~the~~ The nature of the risks and rewards of ownership to which the entity remains exposed;
- (c) ~~when~~ When the entity continues to ~~recognise~~ recognize all of the assets, the carrying amounts of the assets and of the associated liabilities; and
- (d) ~~when~~ When the entity continues to ~~recognise~~ recognize the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to ~~recognise~~ recognize, and the carrying amount of the associated liabilities.

Collateral

17 An entity shall disclose:

Comment [ts24]:
IFRS 7.14

- (a) ~~the~~ The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 39(a) of ~~IAS 39~~ XX (FI-R&M)ED 38; and
- (b) ~~the~~ The terms and conditions relating to its pledge.

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

Comment [ts25]:
IFRS 7.15

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

Allowance account for credit losses

- 19 ~~When~~ financial assets are impaired by credit losses and the entity records the impairment in a separate account (~~eg~~e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets. -

Comment [ts26]:
IFRS 7.16

Compound financial instruments with multiple embedded derivatives

- 20 ~~If~~ an entity has issued an instrument that contains both a liability and an equity component (see paragraph 33 of ~~XX (FI-P)ED 37~~IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Comment [ts27]:
IFRS 7.17

Defaults and breaches

- 21 ~~For~~ ~~loans payable~~ ~~recognised~~recognized at the end of the reporting period, an entity shall disclose:
- (a) ~~details~~Details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
 - (b) ~~the~~The carrying amount of the loans payable in default at the end of the reporting period; and
 - (c) ~~whether~~Whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were ~~authorised~~authorized for issue.
- 22 ~~If~~ during the period, there were breaches of loan agreement terms other than those described in paragraph 21, an entity shall disclose the same information as required by paragraph 21 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Comment [ts28]:
IFRS 7.18

Comment [ts29]:
IFRS 7.19

Statement of ~~comprehensive income~~financial performance

Items of ~~income~~revenue, expense, gains or losses

23 An entity shall disclose the following items of ~~income~~revenue, expense, gains or losses either in the statement of ~~comprehensive income~~financial performance or in the notes:

Comment [ts30]:
IFRS 7.20

- (a) ~~net~~Net gains or net losses on:
 - (i) ~~financial~~Financial assets or financial liabilities at fair value through ~~profit-surplus~~ or ~~loss~~deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with ~~ED 38~~IAS 39;
 - (ii) ~~available~~Available-for-sale financial assets, showing separately the amount of gain or loss ~~recognised~~recognized in ~~other comprehensive income~~net assets/equity during the period and the amount reclassified from equity to ~~profit-surplus~~ or ~~loss~~deficit for the period;
 - (iii) ~~held~~Held-to-maturity investments;
 - (iv) ~~loans~~Loans and receivables; and
 - (v) ~~financial~~Financial liabilities measured at ~~amortised~~amortized cost;
- (b) ~~total~~Total interest ~~income~~revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through ~~profit-surplus~~ or ~~loss~~deficit;
- (c) ~~fee~~Fee ~~income~~revenue and expense (other than amounts included in determining the effective interest rate) arising from:
 - (i) ~~financial~~Financial assets or financial liabilities that are not at fair value through ~~profit-surplus~~ or ~~loss~~deficit; and
 - (ii) ~~trust~~Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
- (d) ~~interest~~Interest ~~income~~revenue on impaired financial assets accrued in accordance with paragraph AG130 of ~~XX (FI-R&M)~~ED 38IAS 39; and
- (e) ~~the~~The amount of any impairment loss for each class of financial asset.

Other disclosures

Accounting policies

- 24 In accordance with paragraph ~~117-132~~ of IAS-IPSAS 1 “Presentation of Financial Statements” (as revised in ~~2007~~2006), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Comment [ts31]:
IFRS 7.21

Hedge accounting

- 25 An entity shall disclose the following separately for each type of hedge described in ~~XX (FI-R&M)ED 38 IAS 39~~ (ie i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):

Comment [ts32]:
IFRS 7.22

- (a) ~~a~~A description of each type of hedge;
- (b) ~~a~~A description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
- (c) ~~the~~The nature of the risks being hedged.

- 26 For cash flow hedges, an entity shall disclose:

Comment [ts33]:
IFRS 7.23

- (a) ~~the~~The periods when the cash flows are expected to occur and when they are expected to affect ~~profit surplus~~ or ~~loss deficit~~;
- (b) ~~a~~A description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
- (c) ~~the~~The amount that was ~~recognised~~ recognized in ~~other comprehensive income surplus or deficit~~ net assets/equity during the period;
- (d) ~~the~~The amount that was reclassified from ~~net assets/equity~~ to ~~profit surplus~~ or ~~loss deficit~~ for the period, showing the amount included in each line item in the statement of ~~comprehensive income~~ financial performance; and
- (e) ~~the~~The amount that was removed from ~~net assets/equity~~ during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

- 27 An entity shall disclose separately:

Comment [ts34]:
IFRS 7.24

- (a) ~~in~~In fair value hedges, gains or losses:
 - (i) ~~on~~On the hedging instrument; and

- (ii) ~~on~~On the hedged item attributable to the hedged risk.
- (b) ~~the~~The ineffectiveness ~~recognised~~recognized in ~~profit~~surplus or ~~loss~~deficit that arises from cash flow hedges; and
- (c) ~~the~~The ineffectiveness ~~recognised~~recognized in ~~profit~~surplus or ~~loss~~deficit that arises from hedges of net investments in foreign operations.

Fair value

28 ~~Except~~ as set out in paragraph 35, for each class of financial assets and financial liabilities (see paragraph 8), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

Comment [ts35]:
IFRS 7.25

29 ~~In~~ disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

Comment [ts36]:
IFRS 7.26

30 ~~An~~ entity shall disclose for each class of financial instruments:

Comment [ts37]:
IFRS 7.27

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- (a) ~~the~~The methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.
- (b) ~~whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71-AG79 of IAS 39).~~
- (c) ~~whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.~~

- (d) ~~if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.~~

31 **To** make the disclosures required by paragraphs 32 and 33 an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

Comment [ts38]:
IFRS 7.27A

- (a) Qquoted prices in active markets for the same instrument (~~ie i.e.~~ without modification or repackaging) (Level 1);
- (b) Qquoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
- (c) Vvaluation techniques for which any significant input is not based on observable market data (Level 3).

For the purposes of the fair value hierarchy, a significant input is an input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires ~~judgement~~ judgment.

32 **For** fair value measurements ~~recognised~~ recognized in the statement of ~~financial~~ financial position an entity shall disclose for each class of financial instruments:

Comment [ts39]:
IFRS 7.27B

- (a) The level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.
- (b) For fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
- (i) Total gains or losses for the period (~~realised~~ realized and ~~unrealised~~ unrealized) ~~recognised~~ recognized in ~~profit-surplus~~ or ~~loss/deficit~~, and a description of where they are presented in the statement of ~~comprehensive income~~ financial performance;
- (ii) Total gains or losses ~~recognised~~ recognized in ~~other comprehensive income~~ net assets/equity;
- (iii) Ppurchases, sales, issues and settlements (net); and
- (iv) Transfers into and/or out of Level 3 (eg transfers attributable to changes in the observability of market data).

- (c) ~~The~~ total amount of ~~unrealised~~~~unrealized~~ gains or losses for the period in (b)(i) included in ~~profit-surplus~~ or ~~loss-deficit~~ for those assets and liabilities still held at the end of the reporting period and a description of where those ~~unrealised~~~~unrealized~~ gains or losses are presented in the statement of ~~comprehensive income~~~~financial performance~~.
- (d) ~~F~~for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes for each class of financial instrument. For this purpose, significance shall be judged with respect to ~~profit-surplus~~ or ~~lossdeficit~~, and total assets or total liabilities, or, when changes in fair value are ~~recognised~~~~recognized~~ in ~~other-comprehensive income~~~~net assets/equity~~, total equity.
- (e) ~~A~~any movements between the levels of the fair value hierarchy (in addition to those disclosed to comply with paragraph 27B(b)(iv)). The entity shall also disclose the reasons for all movements between any of the levels of the hierarchy.

An entity shall provide the information required by this paragraph in tabular format unless another format is more appropriate. In addition, an entity shall also disclose any other information that is necessary for users to evaluate the quantitative information disclosed (~~e.g.g.~~ information about those instruments in one level of the hierarchy that are hedged by instruments in another level of the hierarchy).

- 33 ~~An~~ entity shall disclose the fair value, by level of the fair value hierarchy into which the financial instruments are ~~catergorised~~~~categorized~~ in their entirety, of the financial instruments or the classes of financial instruments that are not measured at fair value in the statement of financial position.

Comment [ts40]:
IFRS 7.27C

- 34 ~~If~~ the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG110–AG116 of ~~IAS-39~~ ~~ED~~ 38). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG112 of ~~IAS-39~~ ~~ED~~ 38 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

Comment [ts41]:
IFRS 7.28

- (a) ~~its-Its~~ accounting policy for ~~recognising~~~~recognizing~~ that difference in ~~profit-surplus~~ or ~~loss-deficit~~ to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG113 of ~~IAS-39~~ ~~ED~~ 38); and

- (b) ~~the~~The aggregate difference yet to be ~~recognised~~recognized in ~~profit surplus~~ or ~~loss~~deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

35 Disclosures of fair value are not required:

Comment [ts42]:
IFRS 7.29

- (a) ~~when~~When the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
- (b) ~~for~~For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 ED 38 because its fair value cannot be measured reliably; or
- (c) ~~for~~For a contract containing a discretionary participation feature (~~as described in IFRS 4~~) if the fair value of that feature cannot be measured reliably.

36 In the cases described in paragraph 35(b) and (c), an entity shall disclose information to help users of the financial statements make their own ~~judgements~~judgments about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

Comment [ts43]:
IFRS 7.30

- (a) ~~the~~The fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- (b) ~~a~~A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
- (c) ~~information~~Information about the market for the instruments;
- (d) ~~information~~Information about whether and how the entity intends to dispose of the financial instruments; and
- (e) ~~if~~If financial instruments whose fair value previously could not be reliably measured are ~~derecognised~~derecognized, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss ~~recognised~~recognized.

Concessionary Loans

37 Concessionary loans are more commonly made by public sector entities than by private sector entities and are more likely to be a material in a public sector entity's statement of financial performance. Where the fair value of a class of financial asset comprising concessionary loans differs significantly from its face value, an entity shall disclose:

Comment [ts44]:
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- (a) The gross amounts of the loans;
- (b) A reconciliation of the opening and closing positions of the loans;
- (c) The terms of the loans;
- (d) Valuation assumptions; and
- (e) The reason for making the loans.

Nature and extent of risks arising from financial instruments

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

Comment [ts45]:
IFRS 7.31

39 The disclosures required by paragraphs 40–49 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, *liquidity risk* and market risk.

Comment [ts46]:
IFRS 7.32

Qualitative disclosures

40 For each type of risk arising from financial instruments, an entity shall disclose:

Comment [ts47]:
IFRS 7.33

- (a) ~~the~~The exposures to risk and how they arise;
- (b) ~~its~~Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- (c) ~~any~~Any changes in (a) or (b) from the previous period.

Quantitative disclosures

41 For each type of risk arising from financial instruments, an entity shall disclose:

Comment [ts48]:
IFRS 7.34

- (a) ~~summary~~Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in ~~IAS 24~~IPSAS 20, “Related Party Disclosures”), for example the entity’s ~~board of directors~~governing body or chief executive officer.
- (b) ~~the~~The disclosures required by paragraphs 43-49, to the extent not provided in (a), unless the risk is not material (see paragraphs 29–31 of IAS-IPSAS 1 for a discussion of materiality).
- (c) ~~concentrations~~Concentrations of risk if not apparent from (a) and (b).

- 42 ~~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 shall provide further information that is representative.

Comment [ts49]:
IFRS 7.35

Credit risk

- 43 ~~An~~ entity shall disclose by class of financial instrument:

Comment [ts50]:
IFRS 7.36

- (a) ~~the~~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~~e~~g~~g, netting agreements that do not qualify for offset in accordance with ~~IAS 32~~ ED 37);
- (b) ~~in~~In respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
- (c) ~~information~~Information about the credit quality of financial assets that are neither *past due* nor impaired; and
- (d) ~~the~~The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial assets that are either past due or impaired

- 44 ~~An~~ entity shall disclose by class of financial asset:

Comment [ts51]:
IFRS 7.37

- (a) ~~an~~An analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
- (b) ~~an~~An analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
- (c) ~~for~~For the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and other credit enhancements obtained

- 45 ~~When~~ an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (~~e~~e~~g~~g, guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:

Comment [ts52]:
IFRS 7.38

- (a) ~~the~~The nature and carrying amount of the assets obtained; and
- (b) ~~when~~When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

46 An entity shall disclose:

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- (a) A maturity analysis for derivative financial liabilities that is based on how the entity manages the liquidity risk associated with such instruments.
- (b) a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities ~~maturities~~; for such financial liabilities. If the entity manages liquidity on the basis of expected maturities, it also shall disclose the remaining expected maturities for those financial ~~liabilities~~; and
- ~~(b)~~(c) a description of how it manages the liquidity risk inherent in (a) and (b).

Market risk

Sensitivity analysis

47 ~~Unless~~ an entity complies with paragraph 48, it shall disclose:

Comment [ts53]:
IFRS 7.40

- (a) ~~a~~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-surplus~~ or ~~loss-deficit~~ and net assets/equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
- (b) ~~the~~The methods and assumptions used in preparing the sensitivity analysis; and
- (c) ~~changes~~Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

48 ~~If~~ an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (~~e.g.g.~~ interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:

Comment [ts54]:
IFRS 7.41

- (a) ~~an~~An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
- (b) ~~an~~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.

Other market risk disclosures

- 49 When the sensitivity analyses disclosed in accordance with paragraph 47 or 48 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Comment [ts55]:
IFRS 7.42

Effective date and transition

- 50 An entity shall apply this ~~IFRS-~~ International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after ~~1 January 2007~~ Month, Day, Year. Earlier application is encouraged. If an entity applies this ~~IFRS-Standard~~ for ~~an earlier~~ a period beginning before Month, Day, Year, it shall disclose that fact.

Comment [ts56]:
IFRS 7.43

- 51 An entity shall not apply this International Public sector Accounting Standard before Month, Day, Year, unless it also applies ED 37 and ED 38

Comment [ts57]:
ED38 - new

- 52 When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Comment [ts58]:
ED 38 - new

- 53 If an entity applies this ~~IFRS-Standard~~ for annual periods beginning before ~~Month XX, 20XX~~ Month, Day, Year, 1 January 2006, it need not present comparative information for the disclosures required by paragraphs 31–42 about the nature and extent of risks arising from financial instruments.

- 44A ~~IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 20, 21, 23(e) and (d), 27(e) and B5 of Appendix B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.~~

- 44B ~~IFRS 3 (as revised in 2008) deleted paragraph 3(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period.~~

- 44E ~~Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7), issued in October 2008, amended paragraph 12 and added paragraph 12A. An entity shall apply those amendments on or after from 1 July 2008.~~

- 44F ~~Reclassification of Financial Assets Effective Date and Transition (Amendments to IAS 39 and IFRS 7), issued in November 2008, amended paragraph 44E. An entity shall apply that amendment on or after 1 July 2008.~~

~~44G — An entity shall apply paragraph 30A for annual periods ending on or after [15 December 2008]. However, comparative information relating to periods before the date of initial adoption is not required.~~

Appendix A Defined terms

This appendix is an integral part of the ~~IFRS~~IPSAS.

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.
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
loans payable	Loans payable are financial liabilities, other than short-term trade payables on normal credit terms.
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 .
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 factors affecting all similar financial instruments traded in the market.
past due	A financial asset is past due when a counterparty has failed to make a payment when contractually due.

The following terms are defined in paragraph 9 of [IAS 32-ED 37](#) or paragraph 10 of [IAS 39-ED 38](#) and are used in the [IFRS-IPSAS](#) with the meaning specified in [IAS 32-ED 37](#) and [IAS 39-ED 38](#).

- ~~amortised~~[amortized](#) cost of a financial asset or financial liability
- available-for-sale financial assets
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value
- financial asset
- financial instrument

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

Appendix B Application guidance

This appendix is an integral part of the ~~IFRS~~IPSAS.

Classes of financial instruments and level of disclosure (paragraph 8)

AG1 Paragraph 8 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 8 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in ~~IAS 39~~ ED 38 (which determine how financial instruments are measured and where changes in fair value are ~~recognised~~recognized).

Comment [ts59]:
IFRS 7.B1

AG2 In determining classes of financial instrument, an entity shall, at a minimum:

Comment [ts60]:
IFRS 7.B2

(a) ~~distinguish~~Distinguish instruments measured at ~~amortised~~amortized cost from those measured at fair value.

(b) ~~treat~~Treat as a separate class or classes those financial instruments outside the scope of this ~~IFRS~~ Standard.

AG3 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this ~~IFRS~~ IPSASStandard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to 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. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

Comment [ts61]:
IFRS 7.B3

Significance of financial instruments for financial position and financial performance

Financial liabilities at fair value through ~~profit-surplus~~ or ~~loss-deficit~~ (paragraphs 11-13)

AG4 If an entity designates a financial liability as at fair value through ~~profit-surplus~~ or ~~loss-deficit~~, paragraph 12(a) requires it to disclose the amount of change in the fair value of the financial liability that is attributable to changes in the liability's credit risk. Paragraph 12(a)(i) permits an entity to determine this amount as the amount of change in the liability's fair value that is not attributable to changes in market conditions that give rise to market risk. If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:

Comment [ts62]:
IFRS 7.B4

- (a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.
- (b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a).
- (c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

This example assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in interest rates are not significant. If the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed in accordance with paragraph 12(a).

Other disclosure – accounting policies (paragraph 24)

AG5 **Paragraph 24** requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

Comment [ts63]:
IFRS 7.B5

- (a) ~~for~~**For** financial assets or financial liabilities designated as at fair value through ~~profit-surplus~~ or ~~loss-deficit~~:
 - (i) ~~the~~**The** nature of the financial assets or financial liabilities the entity has designated as at fair value through ~~profit-surplus~~ or ~~loss-deficit~~;
 - (ii) ~~the~~**The** criteria for so designating such financial assets or financial liabilities on initial recognition; and
 - (iii) ~~how~~**How** the entity has satisfied the conditions in paragraph 10, 13 or 14 of ~~IAS-39 ED 38~~ for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through ~~profit-surplus~~ or ~~loss-deficit~~ in ~~IAS-39 ED 38~~, that disclosure includes a

narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through ~~profit-surplus~~ or ~~loss-deficit~~ in ~~IAS 39~~ ED 38, that disclosure includes a narrative description of how designation at fair value through ~~profit-surplus~~ or ~~loss-deficit~~ is consistent with the entity's documented risk management or investment strategy.

- (b) ~~the~~The criteria for designating financial assets as available for sale.
- (c) ~~whether~~Whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 40 of ~~IAS 39~~ ED 38).
- (d) ~~when~~When an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:
 - (i) ~~the~~The criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
 - (ii) ~~the~~The criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 19).
- (e) ~~how~~How net gains or net losses on each category of financial instrument are determined (see paragraph 23(a)), for example, whether the net gains or net losses on items at fair value through ~~profit-surplus~~ or ~~loss-deficit~~ include interest or dividend ~~income~~revenue.
- (f) ~~the~~The criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 23(e)).
- (g) ~~when~~When the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 43(d)).

Paragraph ~~122-132~~ of ~~IAS-IPSAS~~ 1 (as revised in ~~2007~~2006) also requires entities to disclose, in the summary of significant accounting policies or other notes, the ~~judgements~~judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts ~~recognised~~recognized in the financial statements.

Nature and extent of risks arising from financial instruments (paragraphs 38-49)

AG6 ~~The~~ disclosures required by paragraphs 38-49 shall be either given 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.

Comment [ts64]:
IFRS 7.B6

Quantitative disclosures (paragraph 41)

AG7 Paragraph 41(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. ~~IAS 8~~IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" discusses relevance and reliability.

Comment [ts65]:
IFRS 7.B7

AG8 Paragraph 41(c) requires 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~~judgment taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

Comment [ts66]:
IFRS 7.B8

- (a) ~~a~~A description of how management determines concentrations;
- (b) ~~a~~A description of the shared characteristic that identifies each concentration (~~e.g.~~ counterparty, geographical area, currency or market); and
- (c) ~~the~~The amount of the risk exposure associated with all financial instruments sharing that characteristic.

Maximum credit risk exposure (paragraph 43(a))

AG9 Paragraph 43(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

Comment [ts67]:
IFRS 7.B9

- (a) ~~any~~Any amounts offset in accordance with ~~IAS 32~~ED 37; and
- (b) ~~any~~Any impairment losses ~~recognised~~recognized in accordance with ~~IAS 39~~ED 38.

AG10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

Comment [ts68]:
IFRS 7.B10

- (a) ~~granting~~Granting loans and receivables 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.
- (b) ~~entering~~Entering into derivative contracts, ~~eg.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.
- (c) ~~granting~~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~~recognized as a liability.
- (d) ~~making~~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~~recognized as a liability.

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AG11-pre-AG17

Contractual maturity analysis Maturity analyses (paragraph 46(a))

AG11 In preparing the ~~contractual~~ maturity ~~analysis for financial liabilities~~ analyses required by paragraph 46(a) ~~and (b)~~, an entity uses its ~~judgement~~judgment to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

Comment [ts69]:
IFRS 7.B11

- (a) ~~not~~Not later than one month;
- (b) ~~later~~Later than one month and not later than three months;
- (c) ~~later~~Later than three months and not later than one year; and
- (d) ~~later~~Later than one year and not later than five years.

AG12 In meeting the requirements of paragraph 46(a) and (b), an entity shall not separate an embedded derivative from a hybrid instrument. For such an instrument, an entity shall apply paragraph 46(b).

Comment [ts70]:
IFRS 7.B11A

AG13 An entity shall explain how the estimates in the maturity analyses required by paragraph 46(a) and (b) are determined. For example, the entity shall explain how it determines the remaining expected maturities of those items for which liquidity risk is managed on that basis. If the estimated cash (or other financial asset) outflows included in the quantitative analyses could either:

Comment [ts71]:
IFRS 7.B11B

- (a) Occur significantly earlier than indicated in the maturity analyses, or

(b) Be for significantly different amounts from those indicated in the maturity analyses (eg for a derivative that is expected to be settled net but for which the counterparty has the option to require gross settlement).

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk.

AG14 Paragraph 46(a) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities (including financial instruments that would meet the definition of a derivative financial liability if they were recognised) that is based on how the entity manages liquidity risk. For example:

Comment [ts72]:
IFRS 7.B11C

(a) When an entity manages liquidity risk for a trading portfolio of derivatives on the basis of fair value it shall disclose the total fair value of the derivative financial liabilities in the earliest time band.

(b) When an entity manages the liquidity risk of interest rate swaps on the basis of expected contractual cash flows it shall disclose the expected net cash flows of those swaps that are financial liabilities at the reporting date in each of the appropriate time bands.

(c) When an entity manages the liquidity risk associated with loan commitments and financial guarantees on the basis of expected cash outflows it shall disclose those expected cash outflows in the time bands when the entity expects the loan commitments or financial guarantees to be drawn.

AG15 Paragraph 46(b) requires an entity to disclose a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities for such financial liabilities. In this disclosure:

Comment [ts73]:
IFRS 7.B11D

(a) When a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.

(b) 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.

(c) The contractual amounts disclosed in the maturity analysis for non-derivative financial liabilities are the contractual undiscounted cash flows.

AG16 Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 46(a) and (b). If appropriate, the entity shall disclose a maturity

Comment [ts74]:
IFRS 7.B11E

analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities). Other factors that the entity might consider in providing this disclosure include, but are not limited to, whether the entity:

- (a) Has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;
- (b) Holds deposits at central banks to meet liquidity needs;
- (c) Has very diverse funding sources;
- (d) Has significant concentrations of liquidity risk in either its assets or its funding sources;
- (e) Has internal control processes and contingency plans for managing liquidity risk; or
- (f) Has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating) and how the entity would manage accelerated repayment.

~~B12 When a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg e.g. demand deposits) are included in the earliest time band.~~

~~B13 When an entity is committed to make amounts available in instalmentsinstallments, each instalmentinstallment 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.~~

~~B14 The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, for example:~~

- ~~(a) grossGross finance lease obligations (before deducting finance charges);~~
- ~~(b) pricesPrices specified in forward agreements to purchase financial assets for cash;~~
- ~~(c) netNet amounts for pay floating/receive fixed interest rate swaps for which net cash flows are exchanged;~~
- ~~(d) contractualContractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and~~

~~(e) — gross~~ Gross loan commitments.

~~Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.~~

~~B15 — If appropriate, an entity shall disclose the analysis of derivative financial instruments separately from that of non-derivative financial instruments in the contractual maturity analysis for financial liabilities required by paragraph 39(a). For example, it would be appropriate to distinguish cash flows from derivative financial instruments and non-derivative financial instruments if the cash flows arising from the derivative financial instruments are settled gross. This is because the gross cash outflow may be accompanied by a related inflow.~~

~~B16 — 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 reporting period.~~

Market risk – sensitivity analysis (paragraphs 47 and 48)

AG17 Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph AG3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:

Comment [ts75]:
IFRS 7.B17

(a) ~~an~~An entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading.

(b) ~~an~~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.

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

AG18 Paragraph 47(a) requires the sensitivity analysis to show the effect on ~~profit surplus~~ or ~~loss deficit~~ and ~~net assets~~/equity of reasonably possible changes in the relevant risk variable (eg prevailing market interest rates, currency rates, equity prices or commodity prices). For this purpose:

Comment [ts76]:
IFRS 7.B18

(a) ~~entities~~Entities are not required to determine what the ~~profit surplus~~ or ~~loss deficit~~ for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on ~~profit surplus~~ or ~~loss~~

deficit and net assets/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-surplus or loss-deficit (ie interest expense) for the current year if interest rates had varied by reasonably possible amounts.

- (b) ~~entities~~Entities are not required to disclose the effect on profit-surplus or loss-deficit and net assets/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.

AG19 In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:

Comment [ts77]:
IFRS 7.B19

- (a) ~~the~~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, assume that interest rates are 5 per cent and an entity determines that a fluctuation in interest rates of ± 50 basis points is reasonably possible. It would disclose the effect on profit-surplus or loss-deficit and net assets/equity if interest rates were to change to 4.5 per cent or 5.5 per cent. In the next period, interest rates have increased to 5.5 per cent. The entity continues to believe that interest rates may fluctuate by ± 50 basis points (~~ie~~i.e. that the rate of change in interest rates is stable). The entity would disclose the effect on profit-surplus or loss-deficit and net assets/equity if interest rates were to change to 5 per cent or 6 per cent. 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.
- (b) ~~the~~The time frame over which it is making the assessment. The sensitivity analysis shall 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.

AG20 Paragraph 48 permits an entity to use a sensitivity analysis that reflects interdependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 48(a) by disclosing the type of value-at-risk model used (~~e.g.~~e.g. whether the model relies on Monte Carlo simulations), an explanation about how the model works and the

Comment [ts78]:
IFRS 7.B20

main assumptions (~~eg~~e.g. the holding period and confidence level). Entities might also disclose 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.

- AG21 An entity shall provide sensitivity analyses for the whole of its business, but may provide different types of sensitivity analysis for different classes of financial instruments.

Interest rate risk

- AG22 ~~Interest~~ rate risk arises on interest-bearing financial instruments ~~recognised~~recognized in the statement of financial position (~~eg~~e.g. loans and receivables and debt instruments issued) and on some financial instruments not ~~recognised~~recognized in the statement of financial position (~~eg~~e.g. some loan commitments).

Comment [ts79]:
IFRS 7.B22

Currency risk

- AG23 ~~Currency~~ risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, ~~i.e.~~i.e. in a currency other than the functional currency in which they are measured. For the purpose of this ~~IFRS~~ Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

Comment [ts80]:
IFRS 7.B23

- AG24 ~~A~~ sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Comment [ts81]:
IFRS 7.B24

Other price risk

- AG25 ~~Other~~ price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 47, 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 discloses an increase or decrease in the value of the assets to which the guarantee applies.

Comment [ts82]:
IFRS 7.B25

- AG26 ~~Two~~ examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity and (b) 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.

Comment [ts83]:
IFRS 7.B26

- AG27 ~~In~~ accordance with paragraph 47(a), the sensitivity of ~~profit-surplus or loss-deficit~~ (that arises, for example, from instruments classified as at fair value through ~~profit~~ surplus or loss-deficit and impairments of available-for-sale financial assets) is disclosed separately from the sensitivity of ~~net assets/equity~~ (that arises, for example, from instruments classified as available for sale).

Comment [ts84]:
IFRS 7.B27

AG28 **Financial** instruments that an entity classifies as equity instruments are not remeasured. Neither ~~profit-surplus~~ or ~~loss-deficit~~ nor net assets/equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Comment [ts85]:
IFRS 7.B28

Amendments to other ~~IFRSs~~ IPSASs

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after Month Day Year. If an entity applies this ~~IFRS~~ Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. IPSAS 1, paragraph 75 is amended as follows:

75. Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. ~~IPSAS 15, “Financial Instruments: Disclosure and Presentation” IPSAS ED 39, “Financial Instruments: Disclosures”~~ requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

A2. IPSAS 1, paragraph 129(d)(ii) shall refer to ED 39.

A3. IPSAS 1, paragraph 148 is amended as follows:

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other Standards. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. ~~IPSAS~~ 15 ED 39 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 17 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

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Implementation Guidance ~~IFRS 7~~ ED 39, “Financial Instruments: Disclosures”

This guidance accompanies, but is not part of, ~~IFRS 7~~ ED 39.

Introduction

IG1 ~~This~~ guidance suggests possible ways to apply some of the disclosure requirements in ~~IFRS 7~~ ED 39. The guidance does not create additional requirements.

Comment [ts86]:
IFRS 7.IG1

IG2 ~~For~~ convenience, each disclosure requirement in the ~~IFRS~~ Standard is discussed separately. In practice, disclosures would normally be presented as an integrated package and individual disclosures might satisfy more than one requirement. For example, information about concentrations of risk might also convey information about exposure to credit or other risk.

Comment [ts87]:
IFRS 7.IG2

Materiality

IG3 ~~IAS-IPSAS 1~~ “Presentation of Financial Statements” notes that a specific disclosure requirement in an ~~IFRS-IPSAS~~ need not be satisfied if the information is not material. ~~IAS-IPSAS~~ 1 defines materiality as follows:

Comment [ts88]:
IFRS 7.IG3

Omissions or misstatements of items are material if they could, individually or collectively, influence the ~~economic~~ decisions ~~or assessments of that users make~~ made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The ~~nature size~~ or ~~nature size~~ of the item, or a combination of both, could be the determining factor.

IG4 ~~IAS-IPSAS~~ 1 also explains that definition as follows:

Comment [ts89]:
IFRS 7.IG4

Assessing whether an omission or misstatement could influence ~~economic~~ decisions of users, and so be material, requires consideration of the characteristics of those users. ~~The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25 that ‘users~~ Users are assumed to have a reasonable knowledge of ~~business and the public sector and~~ economic activities and accounting and a willingness to study the information with reasonable diligence.² Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making ~~economic and evaluating~~ decisions.

Classes of financial instruments and level of disclosure (paragraphs 8 and AG1–AG3)

IG5 ~~Paragraph~~ AG3 states that ‘an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this ~~IFRS~~ Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics.’ To satisfy the requirements, an entity may not need to disclose all the information suggested in this guidance.

Comment [ts90]:
IFRS 7.IG5

IG6 Paragraph 1729(c) of IAS-IPSAS 1 requires an entity to ‘provide additional disclosures when compliance with the specific requirements in IFRSs-IPSASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.’

Comment [ts91]:
IFRS 7.IG6

Significance of financial instruments for financial position and financial performance (paragraphs 9-37, AG4 and AG5)

Financial liabilities at fair value through profit-surplus or loss-deficit (paragraphs 12(a)(i) and AG4)

IG7 The following example illustrates the calculation that an entity might perform in accordance with paragraph AG4 of Appendix B of the IFRS Standard.

Comment [ts92]:
IFRS 7.IG7

IG8 On 1-January 1, 20X1, an entity issues a 10-year bond with a par value of CU150,000 and an annual fixed coupon rate of 8 per cent, which is consistent with market rates for bonds with similar characteristics.

Comment [ts93]:
IFRS 7.IG8

IG9 The entity uses LIBOR as its observable (benchmark) interest rate. At the date of inception of the bond, LIBOR is 5 per cent. At the end of the first year:

Comment [ts94]:
IFRS 7.IG9

(a) LIBOR has decreased to 4.75 per cent.

(b) The fair value for the bond is CU153,811, consistent with an interest rate of 7.6 per cent.*

IG10 The entity assumes a flat yield curve, all changes in interest rates result from a parallel shift in the yield curve, and the changes in LIBOR are the only relevant changes in market conditions.

Comment [ts95]:
IFRS 7.IG10

IG11 The entity estimates the amount of change in the fair value of the bond that is not attributable to changes in market conditions that give rise to market risk as follows:

Comment [ts96]:
IFRS 7.IG11

<p>[paragraph AG4(a)]</p> <p>First, the entity computes the liability’s internal rate of return at the start of the period using the observed market price of the liability and the liability’s contractual cash flows at the start of the period.</p> <p>It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.</p>	<p>At the start of the period of a 10-year bond with a coupon of 8 per cent, the bond’s internal rate of return is 8 per cent.</p> <p>Because the observed (benchmark) interest rate (LIBOR) is 5 per cent, the instrument-specific component of the</p>
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* This reflects a shift in LIBOR from 5 per cent to 4.75 per cent and a movement of 0.15 per cent which, in the absence of other relevant changes in market conditions, is assumed to reflect changes in credit risk of the instrument.

	internal rate of return is 3 per cent.
<p>[paragraph AG4(b)]</p> <p>Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in accordance with paragraph B4(a).</p>	<p>The contractual cash flows of the instrument at the end of the period are:</p> <ul style="list-style-type: none"> • Interest: CU12,000^a per year for each of years 2–10. • Principal: CU150,000 in year 10. <p>The discount rate to be used to calculate the present value of the bond is thus 7.75 per cent, which is 4.75 per cent end of period LIBOR rate, plus the 3 per cent instrument-specific component.</p> <p>This gives a present value of CU152,367.^b</p>
<p>[paragraph AG4(c)]</p> <p>The difference between the observed market price of the liability at the end of the period and the amount determined in accordance with paragraph AG4(b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.</p>	<p>The market price of the liability at the end of the period is CU153,811.^c</p> <p>Thus, the entity discloses CU1,444, which is CU153,811 – CU152,367, as the increase in fair value of the bond that is not attributable to changes in market conditions that give rise to market risk.</p>
a $CU150,000 \times 8\% = CU12,000$	
b $PV = [CU12,000 \times (1 - (1 + 0.0775)^{-9})/0.0775] + CU150,000 \times (1 + 0.0775)^{-9}$	
c $\text{market price} = [CU12,000 \times (1 - (1 + 0.076)^{-9})/0.076] + CU150,000 \times (1 + 0.076)^{-9}$	

Defaults and breaches (paragraphs 21 and 22)

IG12 Paragraphs 21 and 22 require disclosures when there are any defaults or breaches of loans payable. Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with [IAS-IPSAS 1](#).

Comment [ts97]:
IFRS 7.IG12

Total interest expense (paragraph 23(b))

IG13 Total interest expense disclosed in accordance with paragraph 23(b) is a component of the finance costs, which paragraph 102(b) of [IAS-IPSAS 1](#) requires to be presented separately in the statement of [comprehensive income/financial performance](#). The line item for finance costs may also include amounts associated with non-financial liabilities.

Comment [ts98]:
IFRS 7.IG13

Fair value (paragraphs 30-34)

IG14 [ED39](#) requires disclosures about the level in the fair value hierarchy in which fair value measurements are categorized for assets and liabilities measured in the statement of financial position. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 32(a). (Disclosures by class of financial instruments would also be required, but are not included in the following example.)

October
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IG14-
IG15

Comment [ts99]:
IFRS 7.IG13A

Assets measured at fair value		Fair value measurement at end of the reporting period based on:		
Description	31 Dec 20X2	quoted prices in active markets for the same instrument (Level 1) CU million	valuation techniques for which all significant inputs are based on observable market data (Level 2) CU million	valuation techniques for which any significant input is not based on observable market data (Level 3) CU million
Financial assets at fair value through profit or loss	60	25	15	20
Available-for-sale financial assets	75	65	-	10
Total	135	90	15	30

IG15 [ED39](#) requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a valuation technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 32(b).

Comment [ts100]:
IFRS 7.IG13B

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3)			
	Fair value measurement at reporting date		
	Financial assets at fair value through profit or loss CU million	Available-for-sale financial assets CU million	Total CU million
Beginning balance	14	11	25
Total gains or losses in profit or loss	11	(3)	8
in other comprehensive income	4		4
Purchases, issues and settlements (net)	(7)	2	(5)

Transfers into and/or out of Level 3	(2)	-	(2)
Ending balance	20	10	30
Total unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	7	-	7
Gains or losses (realised and unrealised) included in profit or loss for the period are presented in trading income and in other income as follows:			
		Trading income	Other income
Total gains or losses included in profit or loss for the period		11	(3)
Change in unrealised gains or losses for assets held at the end of the reporting period		7	

IG16 The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG112 of [IAS 39 ED 38](#). However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be ~~recognised~~[recognized](#) in ~~profit-surplus~~ or ~~loss-deficit~~ in subsequent periods in accordance with [IAS 39 ED 38](#) and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG113 of [IAS 39 ED 38](#)). Paragraph 34 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 34:

Comment [ts101]:
IFRS 7.IG14

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 establish the financial assets' fair value. This valuation technique includes variables 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 determine 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 [IAS 39 ED 38](#), 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 **IAS 39 ED 38**, the fair value of an instrument at inception is generally 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~~recognized in profit-surplus or loss-deficit are as follows:

	31 Dec X2	31 Dec X1
	CU million	CU million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognised <u>recognized</u> in <u>profit-surplus</u> or <u>loss-deficit</u> during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	4.5	5.3

Nature and extent of risks arising from financial instruments (paragraphs 38-49 and AG6–AG28)

Qualitative disclosures (paragraph 40)

IG17 **The** type of qualitative information an entity might disclose to meet the requirements in paragraph 40 includes, but is not limited to, a narrative description of:

Comment [ts102]:
IFRS 7.IG15

- (a) ~~the~~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~~The entity's policies and processes for accepting, measuring, monitoring and controlling risk, which might include:
 - (i) ~~the~~The structure and ~~organisation~~organization of the entity's risk management function(s), including a discussion of independence and accountability;
 - (ii) ~~the~~The scope and nature of the entity's risk reporting or measurement systems;

- (iii) ~~the~~The entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and
- (iv) ~~the~~The entity's processes for monitoring the continuing effectiveness of such hedges or mitigating devices.
- (c) ~~the~~The entity's policies and procedures for avoiding excessive concentrations of risk.

IG18 **Information** about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.

Comment [ts103]:
IFRS 7.IG16

IG19 **In** accordance with paragraph 40(c), entities disclose any change in the qualitative information from the previous period and explain the reasons for the change. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed.

Comment [ts104]:
IFRS 7.IG17

Quantitative disclosures (paragraphs 41-49 and AG9–AG28)

IG20 **Paragraph** 41 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

Comment [ts105]:
IFRS 7.IG18

- (a) ~~industry~~Industry sectors. Thus, if an entity's counterparties are concentrated in one or more industry sectors (such as retail or wholesale), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (b) ~~credit~~Credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans or unsecured loans) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (c) ~~geographical~~Geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical markets (such as Asia or Europe), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (d) ~~a~~A limited number of individual counterparties or groups of closely related counterparties.

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~~-realize 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.

IG21 **In** accordance with paragraph AG8, disclosure of concentrations of risk includes a description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries.

Comment [ts106]:
IFRS 7.IG19

IG22 **When** quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 42 requires further disclosure. 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.

Comment [ts107]:
IFRS 7.IG20

Credit risk (paragraphs 43-45, AG9 and AG10)

IG23 **Paragraph** 43 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured consumer loans, and commercial loans each have different economic characteristics.

Comment [ts108]:
IFRS 7.IG21

Collateral and other credit enhancements pledged (paragraph 43(b))

IG24 **Paragraph** 43(b) requires an entity to describe collateral available as security for assets it holds and other credit enhancements obtained. An entity might meet this requirement by disclosing:

Comment [ts109]:
IFRS 7.IG22

- (a) ~~the~~-The policies and processes for valuing and managing collateral and other credit enhancements obtained;
- (b) ~~a~~-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 qualify for offset in accordance with IAS 32 ED 37);
- (c) ~~the~~-The main types of counterparties to collateral and other credit enhancements and their creditworthiness; and

- (d) ~~information~~ Information about risk concentrations within the collateral or other credit enhancements.

Credit quality (paragraph 43(c))

IG25 **Paragraph** 43(c) requires an entity to disclose information about the credit quality of financial assets with credit risk that are neither past due nor impaired. In doing so, an entity might disclose the following information:

Comment [ts110]:
IFRS 7.IG 23

- (a) ~~an~~ An analysis of credit exposures using an external or internal credit grading system;
- (b) ~~the~~ The nature of the counterparty;
- (c) ~~historical~~ Historical information about counterparty default rates; and
- (d) ~~any~~ Any other information used to assess credit quality.

IG26 **When** the entity considers external ratings when managing and monitoring credit quality, the entity might disclose information about:

Comment [ts111]:
IFRS 7.IG24

- (a) ~~the~~ The amounts of credit exposures for each external credit grade;
- (b) ~~the~~ The rating agencies used;
- (c) ~~the~~ The amount of an entity's rated and unrated credit exposures; and
- (d) ~~the~~ The relationship between internal and external ratings.

IG27 **When** the entity considers internal credit ratings when managing and monitoring credit quality, the entity might disclose information about:

Comment [ts112]:
IFRS 7.IG25

- (a) ~~the~~ The internal credit ratings process;
- (b) ~~the~~ The amounts of credit exposures for each internal credit grade; and
- (c) ~~the~~ The relationship between internal and external ratings.

Financial assets that are either past due or impaired (paragraph 44)

IG28 **A** financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, an entity enters into a lending agreement that requires interest to be paid every month. On the first day of the next month, if interest has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

Comment [ts113]:
IFRS 7.IG26

IG29 ~~When~~ the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

Comment [ts114]:
IFRS 7.IG27

IG30 Paragraph 44(a) requires an analysis by class of the age of financial assets that are past due but not impaired. An entity uses its ~~judgement~~judgment to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

Comment [ts115]:
IFRS 7.IG28

- (a) ~~not~~Not more than three months;
- (b) ~~more~~More than three months and not more than six months;
- (c) ~~more~~More than six months and not more than one year; and
- (d) ~~more~~More than one year.

IG31 Paragraph 44(b) requires an analysis of impaired financial assets by class. This analysis might include:

Comment [ts116]:
IFRS 7.IG29

- (a) ~~the~~The carrying amount, before deducting any impairment loss;
- (b) ~~the~~The amount of any related impairment loss; and
- (c) ~~the~~The nature and fair value of collateral available and other credit enhancements obtained.

Liquidity risk (paragraphs 39 and B11)

Liquidity management (paragraph 39(b))

IG30 ~~If an entity manages liquidity risk on the basis of expected maturity dates, it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. If an entity discloses such an expected maturity analysis, it might clarify that expected dates are based on estimates made by management, and explain how the estimates are determined and the principal reasons for differences from the contractual maturity analysis that is required by paragraph 39(a).~~

IG31 ~~Paragraph 39(b) requires the entity to describe how it manages the liquidity risk inherent in the maturity analysis of financial liabilities required in paragraph 39(a). The factors that the entity might consider in providing this disclosure include, but are not limited to, whether the entity:~~

- (a) ~~expects~~Expects some of its liabilities to be paid later than the earliest date on which the entity can be required to pay (as may be the case for customer deposits placed with a bank);

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- (b) ~~expects~~ Expects some of its undrawn loan commitments not to be drawn;
- (c) ~~holds~~ Holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs;
- (d) ~~has~~ Has committed borrowing facilities (eg ~~e.g.~~ commercial paper facilities) or other lines of credit (eg ~~e.g.~~ stand by credit facilities) that it can access to meet liquidity needs;
- (e) ~~holds~~ Holds financial assets for which there is not a liquid market, but which are expected to generate cash inflows (principal or interest) that will be available to meet cash outflows on liabilities;
- (f) ~~holds~~ Holds deposits at central banks to meet liquidity needs;
- (g) ~~has~~ Has very diverse funding sources; or
- (h) ~~has~~ Has significant concentrations of liquidity risk in either its assets or its funding sources.

Market risk (paragraphs 47-49 and AG17–AG28)

IG32 Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. There are three types of market risk: interest rate risk, currency risk and other price risk. Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (~~ie 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 (~~eg e.g.~~ a lessor of motor cars that writes residual value guarantees is exposed to residual value risk). Risk variables that are relevant to disclosing market risk include, but are not limited to:

Comment [ts117]:
IFRS 7.IG32

- (a) ~~the~~ The yield curve of market interest rates. It may be necessary to consider both parallel and non-parallel shifts in the yield curve.
- (b) ~~foreign~~ Foreign exchange rates.
- (c) ~~prices~~ Prices of equity instruments.
- (d) ~~market~~ Market prices of commodities.

IG33 Paragraph 47(a) requires the sensitivity analysis to show the effect on profit surplus or ~~loss deficit~~ and net assets/equity of reasonably possible changes in the relevant risk variable. For example, relevant risk variables might include:

Comment [ts118]:
IFRS 7.IG33

- (a) ~~prevailing~~ Prevailing market interest rates, for interest-sensitive financial instruments such as a variable-rate loan; or

- (b) ~~currency~~ Currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.

IG34 For interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:

- (a) ~~interest~~ Interest ~~income~~ revenue and expense;
- (b) ~~other~~ Other line items of profit-surplus or ~~loss~~ deficit (such as trading gains and losses); and
- (c) ~~when~~ When applicable, net assets/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.

IG35 Because the factors affecting market risk vary depending on the specific circumstances of each entity, the appropriate range to be considered in providing a sensitivity analysis of market risk varies for each entity and for each type of market risk.

Comment [ts119]:
IFRS 7.IG35

IG36 The following example illustrates the application of the disclosure requirement in paragraph 47(a):

Comment [ts120]:
IFRS 7.IG36

Interest rate risk

At ~~31~~ December 31, 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, ~~post-tax profit~~ surplus 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, and other ~~comprehensive income~~ revenue would have been CU2.8 million (20X1—CU3.2 million) higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale. If interest rates had been 10 basis points higher, with all other variables held constant, ~~post-tax profit~~ surplus would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings, and other ~~comprehensive income~~ revenue would have been CU3.0 million (20X1—CU3.4 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale. Profit-Surplus 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).^a

Foreign currency exchange rate risk

At ~~31~~ December 31, 20X2, if the CU had weakened 10 per cent against the US dollar with all other variables held constant, ~~post-tax profit~~ surplus for the year would have been CU2.8 million (20X1—CU6.4 million) lower, and other ~~comprehensive income~~ revenue would have been CU1.2 million (20X1—CU1.1 million) higher. Conversely, if the CU had strengthened 10 per cent against the US dollar with all other variables held constant, ~~post-tax profit~~ surplus would have been CU2.8 million (20X1—CU6.4 million) higher, and other ~~comprehensive income~~ revenue would have been CU1.2 million (20X1—CU1.1 million) lower. The lower foreign currency exchange rate sensitivity in profit-surplus in 20X2 compared with 20X1 is attributable to a reduction in foreign currency denominated debt. Net

~~assets/equity~~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.

- a Paragraph 39(a) requires disclosure of a maturity analysis of liabilities.

Other market risk disclosures (paragraph 49)

IG37 Paragraph 49 requires the disclosure of additional information when the sensitivity analysis disclosed is unrepresentative of a risk inherent in a financial instrument. For example, this can occur when:

Comment [ts121]:
IFRS 7.IG37

- (a) ~~a~~A financial instrument contains terms and conditions whose effects are not apparent from the sensitivity analysis, ~~eg e.g.~~ options that remain out of (or in) the money for the chosen change in the risk variable;
- (b) ~~financial~~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; or
- (c) ~~an~~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.

IG38 In the situation in paragraph IG37(a), additional disclosure might include:

Comment [ts122]:
IFRS 7.IG38

- (a) ~~the~~The terms and conditions of the financial instrument (~~eg e.g.~~ the options);
- (b) ~~the~~The effect on ~~profit surplus~~ or ~~loss deficit~~ if the term or condition were met (~~ie i.e.~~ if the options were exercised); and
- (c) ~~a~~A description of how the risk is hedged.

For example, an entity may acquire a zero-cost interest rate collar that includes an out-of-the-money leveraged written option (~~eg 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, the entity might provide the additional information described above.

IG39 In the situation described in paragraph IG38(b), additional disclosure might include the reasons for the lack of liquidity and how the entity hedges the risk.

Comment [ts123]:
IFRS 7.IG39

IG40 In the situation described in paragraph IG38(c), additional disclosure might include:

Comment [ts124]:
IFRS 7.IG40

- (a) ~~the~~The nature of the security (~~eg e.g.~~ entity name);
- (b) ~~the~~The extent of holding (~~eg e.g.~~ 15 per cent of the issued shares);
- (c) ~~the~~The effect on ~~profit-surplus~~ or ~~lossdeficit~~; and
- (d) ~~how~~How the entity hedges the risk.

Transition (paragraph 53)

IG41 The following table ~~summarises~~ ~~summarizes~~ the effect of the exemption from presenting comparative accounting and risk disclosures for accounting periods beginning before ~~1 January 2006~~Month, Day, Year —, before ~~1 January 2007~~Month, Day, Year, and on or after ~~1 January 2007~~ Month, Day, Year. In this table:

Comment [ts125]:
IFRS 7.IG41

- (a) ~~a~~A **first-time adopter** is an entity preparing its first ~~IFRS-IPSAS~~ financial statements (~~see IFRS 1 First time Adoption of International Financial Reporting Standards~~).
- (b) ~~an~~An **existing IFRS-IPSAS user** is an entity preparing its second or subsequent ~~IFRS-IPSAS~~ financial statements.

	Accounting disclosures (paragraphs 9-37)	Risk disclosures (paragraphs 38-49)
Accounting periods beginning before 1 January 2006Month, Day, Year		
First-time adopter not applying IFRS 7 ED 39 early	Applies IAS 32 IPSAS 15 but exempt from providing IAS 32 IPSAS 15 comparative information	Applies IPSAS 15 IAS 32 but exempt from providing IPSAS 15 IAS 32 comparative information
First-time adopter applying ED 39 IFRS 7 early	Exempt from presenting ED 39 IFRS 7 comparative information	Exempt from presenting ED 39 IFRS 7 comparative information
Existing IFRS-IPSAS user not applying ED 39 IFRS 7 early	Applies IAS 32 IPSAS 15. Provides full IAS 32 IPSAS 15 comparative information	Applies IAS 32 IPSAS 15. Provides full IAS 32 IPSAS 15 comparative information
Existing IFRS-IPSAS user applying ED 39 IFRS 7 early	Provides full ED 39 IFRS 7 comparative information	Exempt from presenting ED 39 IFRS 7 comparative information ^a
Accounting periods beginning on or after 1 January 2006Month, Day, Year and before 1 January 2007Month, Day, Year		
First-time adopter not applying ED 39 IFRS 7 early	Applies IAS 32 IPSAS 15. Provides full IAS 32 IPSAS 15 comparative information	Applies IAS 32 IPSAS 15. Provides full IAS 32 IPSAS 15 comparative information
First-time adopter applying ED 39 IFRS 7 early	Provides full ED 39 IFRS 7 comparative information	Provides full ED 39 IFRS 7 comparative information
Existing IFRS-IPSAS user not applying ED 39 IFRS 7 early	Applies IPSAS 15 IAS 32. Provides full IPSAS 15 IAS 32 comparative information	Applies IPSAS 15 IAS 32. Provides full IPSAS 15 IAS 32 comparative information
Existing IFRS-IPSAS user applying ED 39 IFRS 7 early	Provides full ED 39 IFRS 7 comparative information	Provides full ED 39 IFRS 7 comparative information
Accounting periods beginning on or after 1 January 2007Month, Day, Year (mandatory application of ED 39 IFRS 7)		
First-time adopter	Provides full ED 39 IFRS 7 comparative information	Provides full ED 39 IFRS 7 comparative information
Existing IFRS-IPSAS user	Provides full ED 39 IFRS 7 comparative information	Provides full ED 39 IFRS 7 comparative information
a See paragraph 44 of ED 39 IFRS 7		

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, ED 39.

Introduction

- BC1. This Basis for Conclusions summarizes the International Public Sector Accounting Standards Board's (IPSASB) considerations in reaching the conclusions in ED 39, "Financial Instruments: Disclosures". As this IPSAS is based on IFRS 7, "Financial Instruments: Disclosures" issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where the ED 39 deviates from the main requirements of IFRS 7.
- BC2. This project on financial instruments is noted as a key part of the IPSASB's convergence program which aims to converge IPSASs with International Financial Reporting Standards (IFRSs).
- BC3. In developing this IPSAS, the IPSASB agreed to retain the existing text of IFRS 7 making changes to ensure consistency with the terminology and presentational requirements of other IPSASs, and to add or delete disclosures to address any public sector specific issues.
- BC4. In September 2007 the IASB issued amendments to IAS 1, "Presentation of Financial Statements" which introduced a new component into the presentation of financial statements called "comprehensive income". As the IPSASB has not yet considered this, along with some of the other amendments proposed in IAS 1, those amendments have not been included in ED 39.

Concessionary Loans

- BC5. Concessionary loans are an important feature of the public sector. These loans are often made to implement a government's or other public sector entity's social policies. For some public sector entities, concessionary loans may represent the majority of its assets. In the private sector concessionary loans are unlikely to constitute the majority of an entity's assets. Consequently, the IPSASB concluded that more comprehensive disclosure are required by public sector entities in respect of concessionary loans and have included additional disclosure requirements in respect of concessionary loans.

Comparison with IFRS 7

International Public Sector Accounting Standard, XX (ED 39) “Financial Instruments: Disclosures” is drawn primarily from International Financial Reporting Standard 7, “Financial Instruments: Disclosures” (originally issued in 2005, including amendments to December 31, 2008). At the time of issuing this Standard, The IPSASB has not yet considered the revision made by the IASB to IAS1, “presentation of Financial Statements” which introduces the concept of comprehensive income. As the IPSASB has not considered the concept of comprehensive income in the public sector, ED 39 does not reflect amendments made to IFRS 7 as a consequence of the revisions made to IAS1. The main differences between ED 39 and IFRS 7 (2005) are as follows:

- ED 39 contains requirements additional to IFRS 7 for disclosure of the fair value of concessional loans.
- In certain instances, ED 39 uses different terminology from IFRS 7. The most significant examples are the use of the terms “revenue”, “statement of financial performance” and “net assets/equity” in ED 39. The equivalent terms in IFRS 7 are “income”, “statement of comprehensive income” and “equity”.