

FINANCIAL REPORTING
EXPOSURE DRAFT

PROPOSED AMENDMENTS TO
FRS 29 (IFRS 7)
‘FINANCIAL INSTRUMENTS: DISCLOSURES’

IMPROVEMENTS TO FINANCIAL
INSTRUMENT DISCLOSURES



ACCOUNTING
STANDARDS
BOARD

This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by email to:

asbcommentletters@frc-asb.org.uk

Comments may also be sent in hard copy form to:

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Comments should be despatched so as to be received no later than 30 January 2009. All replies will be regarded as on the public record, unless confidentiality is requested by the commentator.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC and/or any of its operating bodies unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to be published should be submitted.

We aim to publish responses within 10 working days of receipt.

We will publish a summary of the consultation responses, either as part of, or alongside, our final decision.

**PROPOSED AMENDMENTS
TO FRS 29 (IFRS 7)
'FINANCIAL INSTRUMENTS: DISCLOSURES'**

**IMPROVEMENTS TO FINANCIAL
INSTRUMENT DISCLOSURES**



**ACCOUNTING
STANDARDS
BOARD**

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PREFACE

Background

- 1 In December 2005, the Accounting Standards Board (ASB) issued Financial Reporting Standard (FRS) 29 (IFRS 7) 'Financial Instruments: Disclosures'. FRS 29 implemented the requirements of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' for those applying UK standards.
- 2 In October 2008, the International Accounting Standards Board (IASB) issued 'Improving Disclosures about Financial Instruments – Proposed amendments to IFRS 7'. The proposed amendments seek to improve the information, available to users of financial reports, about fair value measurements and the liquidity risk of financial instruments. The ASB is proposing to make equivalent amendments to FRS 29 to ensure its continued convergence with IFRS 7.

The IASB's proposed amendments

- 3 The proposed amendments will enhance financial reporting disclosures about financial instruments measured at fair value. It will require disclosures about the measurement of financial instruments at fair value to be categorised based on a three-level fair value hierarchy.
- 4 The proposed amendments also introduce changes to the disclosures about the nature and extent of liquidity risk. The IASB's constituents raised concerns that existing requirements of IFRS 7 were unclear, difficult to apply and did not always result in useful information. They also indicated that many entities did not manage liquidity risk associated with derivative financial liabilities on the basis of remaining contractual maturities. To respond to those concerns and current market conditions, the IASB has proposed amendments to: clarify that liquidity risk

disclosures are only required for financial liabilities that will result in the outflow of cash or another financial asset; require quantitative disclosures to be based on how an entity manages liquidity risk (including an expected maturities basis for derivatives); and strengthen the relationship between quantitative and qualitative information about liquidity risk.

- 5 The ASB notes that some users of the financial statements may find information about the contractual maturities of derivative financial liabilities useful in understanding an entity's maximum exposure to liquidity risk in the event that expected values are not realistic or achievable. The ASB is keen to understand constituents' views on this issue and has included a question inviting comments on the relevance and usefulness of such disclosures.

Maintenance of FRS 29

- 6 When FRS 29 was first introduced, the ASB had reservations about the value of the consequential disclosures resulting from the IASB's Fair Value Option amendment to IAS 39. These included disclosure requirements introduced in paragraph 9 on the credit risk of loans and receivables designated at fair value through profit and loss. The ASB's view was that these disclosures were unnecessarily burdensome on some preparers, given the general credit risk disclosure requirements included in paragraph 36. Taking into account the subsequent development of financial reporting standards on financial instruments and the relevance of such disclosures highlighted by current market conditions, the ASB view is that the requirements of paragraph 9 in IFRS 7 should be incorporated into FRS 29. This will result in FRS 29 being fully converged with IFRS 7. The ASB notes this is imposing a new requirement on preparers applying UK GAAP and, therefore, has invited comments on the implications of this proposed change to FRS 29.

Regulatory Impact

- 7 In the ASB's view, the proposals set out in this Financial Reporting Exposure Draft (FRED) should not impose significant additional costs of preparation. The ASB believes that the amendments will result in information which is of benefit to users of the financial statements. The ASB would, however, welcome views on whether there are any significant costs resulting from these proposals and, if so, whether they can be quantified. The ASB would also welcome views on whether the benefits arising from the proposals in this FRED would outweigh any costs involved.

Conclusion

- 8 In summary, the ASB proposes to amend FRS 29 to maintain consistency with IFRS 7. The ASB expects to incorporate any changes the IASB makes to its exposure draft, unless those changes are a significant departure from the requirements proposed in this FRED.

Invitation to Comment

- 9 The ASB is requesting comments on the IASB's proposals and on the ASB's proposals for implementing them in the UK, by 30 January 2009. The IASB's Invitation to Comment is set out on pages 9 to 12 of this FRED; note that the IASB is asking for comments to be received by 15 December 2008. In addition, the ASB would welcome comments on the following issues:

ASB Q1: Do you agree that disclosure of information about the contractual maturities of derivative financial liabilities, in addition to the requirements of paragraph 39(a), is warranted where an entity does not manage liquidity risk on that basis? If so, are there any difficulties in meeting those additional disclosure requirements?

ASB Q2: Do you agree that the credit risk disclosure requirement for loans and receivables in paragraph 9 of IFRS 7 should be adopted in FRS 29? If not, why not?

ASB Q3: Are you aware of any issues that would affect UK entities in implementing the proposals set out in this FRED?

ASB Q4: Do you agree that the benefits of the proposals in this FRED would outweigh any additional costs involved? If not, why not?

10 The ASB would also be pleased to receive copies of responses to the IASB submitted by UK and Irish commentators.

**PROPOSED AMENDMENT TO FINANCIAL REPORTING
STANDARD 29 (IFRS 7) FINANCIAL INSTRUMENTS:
DISCLOSURES**

CONTENTS

Introduction

Invitation to comment

**Proposed amendments to FRS 29 (IFRS 7)
*Financial Instruments: Disclosures***

Proposed Amendments to Implementation Guidance

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Basis for Conclusions

INTRODUCTION*

- 1 IFRS 7 *Financial Instruments: Disclosures* was issued in 2005 with mandatory application for annual periods beginning on or after 1 January 2007. This exposure draft contains proposals by the International Accounting Standards Board to amend IFRS 7. The proposals would enhance disclosures about fair value measurements and the liquidity risk of financial instruments.
- 2 The Board has been informed by users of financial statements and others that enhanced disclosures about fair value measurements are required, especially in the light of the present market conditions. Many suggested that the Board should consider disclosures similar to those included in Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board (FASB). Those disclosures are based on a three-level hierarchy for the inputs to the valuation techniques that are used to measure fair value.
- 3 This exposure draft proposes amendments to disclosure requirements that are based on a three-level fair value hierarchy (similar to that used in SFAS 157). The amendments would apply to financial instruments and require disclosures about:
 - (a) the level of the fair value hierarchy into which fair value measurements are categorised in their entirety. This requirement would apply both for fair values included in the statement of financial position and for other fair values that are disclosed but not included in that statement.

* ASB footnote: this introduction and invitation to comment has been prepared by the IASB and is included unamended. References to the 'Board' are to the IASB.

- (b) the fair value measurements resulting from the use of significant unobservable inputs to valuation techniques. For these measurements, the disclosures include a reconciliation from the beginning balances to the ending balances.
 - (c) the movements between different levels of the fair value hierarchy, and the reasons for those movements.
- 4 After IFRS 7 was applied in 2007, the Board was informed that some of the disclosure requirements about the nature and extent of liquidity risk were unclear and difficult to apply and did not always result in useful information for users of financial statements.
- 5 This exposure draft proposes amendments to IFRS 7 that would:
 - (a) clarify that liquidity risk disclosures are required only for financial liabilities that will result in the outflow of cash or another financial asset.
 - (b) require entities to provide quantitative disclosures based on how they manage liquidity risk for derivative financial liabilities.
 - (c) require entities to disclose the remaining expected maturities of non-derivative financial liabilities if they manage liquidity risk on the basis of expected maturities.
 - (d) strengthen the relationship between qualitative and quantitative disclosures about liquidity risk.

Invitation to comment

The Board invites comments on the amendments to IFRS 7 proposed in this exposure draft, particularly on the questions set out below. Comments are helpful if they:

- (a) comment on the questions as stated,

- (b) indicate the specific paragraph or group of paragraphs to which they relate,
- (c) contain a clear rationale, and
- (d) include any alternative the IASB should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant consideration.

The Board is not requesting comments on matters not addressed in this exposure draft.

Comments should be submitted in writing so as to be received no later than **15 December 2008***.

Fair value disclosures

Question 1

Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

Question 2

Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

* ASB footnote: the ASB comment period closes on 30 January 2009.

Question 3

Do you agree with the proposals in:

- (a) paragraph 27B to require expanded disclosures about the fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?
- (b) paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?

Liquidity risk disclosures

Question 4

Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?

Question 5

Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non-derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?

Question 6

Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?

Effective date and transition

Question 7

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

Question 8

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

PROPOSED AMENDMENTS TO FRS 29 (IFRS 7) FINANCIAL INSTRUMENTS: DISCLOSURES

[ASB note: The text of FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' includes strike-through and underlining to show changes made by the ASB to the original text of the IFRS. The amended text of FRS 29 set out below adopts the same convention; as a result, it is not possible to use strike-through and underlining to illustrate the changes that are proposed in this FRED. Instead, changes are described in the text boxes appearing at the start of each set of proposed changes.]

Remove strike-through on paragraph 9.

Paragraph 27 is amended (~~new text is underlined and deleted text is struck through~~) to read as follows. Paragraphs 27(b) – 27(d) are deleted. Paragraphs 27A–27C are added. Paragraphs 25, 26 and 28–30 are not proposed for amendment but are included here for ease of reference.

Significance of financial instruments for financial position and performance

Other disclosures

Fair value

- 25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), 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.
- 26 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~~ balance sheet.

- 27 An entity shall disclose for each class of financial instruments 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.
- 27A To make the disclosures required by paragraphs 27B and 27C 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:
- (a) quoted prices in active markets for the same instrument (ie without modification or repackaging) (Level 1);
 - (b) quoted 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) valuation 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.

- 27B For fair value measurements recognised in the ~~statement of financial position~~ balance sheet an entity shall disclose for each class of financial instruments:

- (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 and unrealised) recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income profit and loss account;
 - (ii) total gains or losses recognised through ~~other comprehensive income~~ the statement of total recognised gains and losses;
 - (iii) purchases, 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 gains or losses for the period in (b)(i) included in profit or loss for those assets and liabilities still held at the ~~end of the reporting period~~ balance sheet date and a description of where those unrealised gains or losses are presented in the ~~statement of comprehensive income~~ profit and loss account.
- (d) 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 or loss, and total assets or total liabilities, or, when changes in fair value are recognised through ~~other comprehensive income~~ the statement of total recognised gains and losses, total ~~equity reserves~~.

- (e) 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 (eg information about those instruments in one level of the hierarchy that are hedged by instruments in another level of the hierarchy).

- 27C An entity shall disclose the fair value, by level of the fair value hierarchy into which the financial instruments are categorised 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~~ balance sheet.
- 28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of ~~IAS 39~~ FRS 26). 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 AG76 of ~~IAS 39~~ FRS 26 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:
- (a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including

time) that market participants would consider in setting a price (see paragraph AG76A of ~~IAS 39~~ FRS 26); and

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

29 Disclosures of fair value are not required:

- (a) 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 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~~ FRS 26 because its fair value cannot be measured reliably; or
- (c) for a contract containing a discretionary participation feature (as described in ~~IFRS 4~~ Appendix C to FRS 26) if the fair value of that feature cannot be measured reliably.

30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

- (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;

- (c) information about the market for the instruments;
- (d) information about whether and how the entity intends to dispose of the financial instruments; and
- (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Paragraph 39 is amended (~~new text is underlined and deleted text is struck through~~) to read as follows.
Paragraph 43A is added.

Liquidity risk

- 39 An entity shall disclose:
- (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 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.
 - (c) a description of how it manages the liquidity risk inherent in (a) and (b).

...

Effective date and transition

- 43A An entity shall apply amended paragraphs 27, 39 and B11 and paragraphs 27A–27C and B11A–B11E for annual periods beginning on or after 1 July 2009. Earlier

application is permitted. If an entity applies those paragraphs for an earlier period, it shall disclose that fact.

APPENDIX A

DEFINED TERMS

The following term is amended: ~~new text is underlined~~ to read as follows:

liquidity risk The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

...

APPENDIX B

APPLICATION GUIDANCE

A The heading directly above paragraph B11 and paragraph B11 are amended (~~new text is underlined and deleted text is struck through~~) to read as follows. Paragraphs B11A–B11E are added and paragraphs B12–B16 are deleted.

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

Maturity analyses (paragraph 39(a) and (b))

- B11 In preparing the maturity analyses required by paragraph 39(a) and (b) an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:
- (a) not later than one month;
 - (b) later than one month and not later than three months;
 - (c) later than three months and not later than one year; and
 - (d) later than one year and not later than five years.
- B11A In meeting the requirements of paragraph 39(a) and (b), an entity shall not separate an embedded derivative from a hybrid instrument. For such an instrument, an entity shall apply paragraph 39(b).
- B11B An entity shall explain how the estimates in the maturity analyses required by paragraph 39(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:

- (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.

B11C Paragraph 39(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:

- (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.

B11D Paragraph 39(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:

- (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.

B11E 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 39(a) and (b). If appropriate, the entity shall disclose a maturity 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.

GUIDANCE ON IMPLEMENTING FRS 29 (IFRS 7) 'FINANCIAL INSTRUMENTS: DISCLOSURES'

After paragraph IG13 a heading is amended (~~new text is underlined~~) to read as follows and paragraphs IG13A and IG13B are added. Paragraph IG14 is not proposed for amendment but is included here for ease of reference.

Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

Fair value (paragraphs 27–28)

IG13A IFRS 7 FRS 29 requires disclosures about the level in the fair value hierarchy in which fair value measurements are categorised for assets and liabilities measured in the ~~statement of financial position~~ balance sheet. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27B(a). (Disclosures by class of financial instruments would also be required, but are not included in the following example.)

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

IG13B ~~IFRS 7~~ FRS 29 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the ~~statement of financial position~~ balance sheet 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 27B(b).

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 balance sheet date		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	CU million	CU million	CU million
Beginning balance	14	11	25
Total gains or losses in profit or loss in other comprehensive income <u>the statement of total recognised gains and losses</u>	11	(3)	8
Purchases, issues and settlements (net)	(7)	2	(5)
Transfers into and/or out of Level 3	<u>(2)</u>	<u>-</u>	<u>(2)</u>
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 <u>balance sheet date</u>	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 <u>balance sheet date</u>		7	-

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG76 of ~~IAS 39~~ FRS 26. 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 in profit or loss in subsequent periods in accordance with ~~IAS 39~~ FRS 26 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 AG76A of ~~IAS 39~~ FRS 26). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

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.

continued...

... continued

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, 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~~ FRS 26, 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 in profit or loss are as follows:

	31 Dec 20X2	31 Dec 20X1
	CU million	CU million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognised in profit or loss during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	<u>(0.1)</u>	<u>(0.1)</u>
Balance at end of year	<u><u>4.5</u></u>	<u><u>5.3</u></u>

The two headings immediately above paragraph IG30 and paragraphs IG30 and IG31 are deleted.

**APPROVAL BY THE BOARD OF
IMPROVING DISCLOSURES ABOUT
FINANCIAL INSTRUMENTS (PROPOSED
AMENDMENTS TO IFRS 7) PUBLISHED
IN OCTOBER 2008***

Improving Disclosures about Financial Instruments (proposed amendments to IFRS 7 *Financial Instruments: Disclosures*) was approved for publication by the thirteen members of the International Accounting Standards Board.

Sir David Tweedie
Thomas E Jones
Mary E Barth
Stephen Cooper
Philippe Danjou
Jan Engström
Robert P Garnett
Gilbert Gélard
James J Leisenring
Warren J McGregor
John T Smith
Tatsumi Yamada
Wei-Guo Zhang

Chairman
Vice-Chairman

* ASB footnote: the IASB's statement of approval of the exposure draft has been included unamended; the reference to the 'Board' is to the IASB.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IFRS 7.

ASB Note: The Basis for Conclusions material that the IASB prepared to accompany its exposure draft is set out below in full. All references in this section to ‘the Board’ and ‘Board members’ are references to the IASB Board and IASB Board members.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board’s considerations in proposing amendments to IFRS 7 *Financial Instruments: Disclosures*. Individual Board members gave greater weight to some factors than to others.

Fair value measurement disclosures

BC2 Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board (FASB) requires disclosures that are based on a three-level fair value hierarchy for the inputs used in valuation techniques to measure fair value.

BC3 The Board was asked by some users of financial statements to include similar disclosure requirements in IFRS 7 to provide more information about the relative reliability of the inputs to fair value measurements.

BC4 The Board proposes requiring disclosures for financial instruments on the basis of a fair value hierarchy. The Board concluded that such a hierarchy would improve comparability between entities about the effects of fair value measurements as well as increasing the convergence of IFRSs and US generally accepted accounting principles (GAAP).

- BC5 The Board considered using the fair value hierarchy set out in SFAS 157. However, because its own fair value measurement project is not yet completed, the Board decided to propose a fair value hierarchy for disclosures that is similar to that in SFAS 157 but uses the terminology in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 until the fair value measurement project is completed.
- BC6 The Board also noted that the proposed fair value hierarchy does not affect any measurement or recognition requirements of other standards. In particular, the Board noted that the recognition of gains or losses at inception of a financial instrument (as required by paragraph AG76 of IAS 39) would not change as a result of the proposed fair value hierarchy.
- BC7 The Board proposes requiring additional disclosures for instruments with fair value measurements that are in Level 3 of the fair value hierarchy. These disclosures would inform users of financial statements about the effects of those fair value measurements that use the most subjective inputs.

Liquidity risk disclosures

- BC8 IFRS 7 was issued in 2005 with mandatory application for annual periods beginning on or after 1 January 2007. After the requirements were applied in 2007, the Board was informed that some of the disclosure requirements on the nature and extent of liquidity risk were unclear and difficult to apply and did not always result in useful information for users of financial statements. Therefore, the Board proposes to amend the requirements.
- BC9 The Board proposes to amend the definition of liquidity risk to clarify that paragraph 39 applies only to financial liabilities that will result in the outflow of cash or another financial asset. This clarifies that the disclosure requirements would not apply to financial liabilities that will be settled in the entity's own equity instruments and to liabilities in the scope of IFRS 7 that are settled with non-financial assets.

- BC10 The Board also proposes to require entities to provide quantitative disclosures based on how they manage liquidity risk for derivative financial liabilities. The Board was informed that most entities do not manage liquidity risk associated with derivative financial liabilities on the basis of remaining contractual maturities. Thus, the existing requirement to disclose derivative financial liabilities on the basis of remaining contractual maturities was difficult to apply and did not result in useful information for users on how many entities manage liquidity risk for such instruments.
- BC11 The Board also decided that such information for non-derivative financial liabilities is useful information for users of financial statements. Accordingly, the Board proposes to require an entity to disclose the remaining expected maturities of non-derivative financial liabilities (in addition to their remaining contractual maturities) if the entity manages liquidity risk on the basis of expected maturities.
- BC12 The Board decided to emphasise that an entity must explain the relationship between qualitative and quantitative disclosures about liquidity risk to ensure that users of financial statements are able to evaluate the nature and extent of the liquidity risk of the entity. Providing qualitative disclosures in the context of quantitative disclosures will enable users to evaluate better the overall liquidity risk to which the entity is exposed.

Effective date and transition

- BC13 The Board aims to set an effective date of annual periods beginning on or after 1 July 2009 for amendments resulting from these proposals. The Board noted that, although the effective date of IFRSs and amendments to IFRSs is usually 6–18 months after issue, the urgent need for enhanced disclosures about financial instruments demands earlier application.

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