

FINANCIAL REPORTING
EXPOSURE DRAFT

IMPROVEMENTS
TO FINANCIAL REPORTING
STANDARDS
2010



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 (in Word format) to

asbcommentletters@frc-asb.org.uk

Comments may also be sent in hard copy form to:

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ACCOUNTING STANDARDS BOARD
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Comments should be despatched so as to be received no later than 30 August 2010. 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 email 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.

**FINANCIAL REPORTING
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**IMPROVEMENTS TO
FINANCIAL REPORTING
STANDARDS
2010**



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PREFACE

Introduction

- 1 In May 2010, the International Accounting Standards Board (IASB) issued 'Improvements to IFRSs', which amended several International Financial Reporting Standards (IFRSs). The amendments were the result of the IASB annual improvements process and include the 2009 improvements cycle.
- 2 The Accounting Standards Board (ASB) also conducts an annual review of Financial Reporting Standards for the UK and Republic of Ireland (FRS). The review process is driven principally by the amendments made by the IASB to IFRS. However, consideration is also given by the ASB to other financial reporting matters raised by its constituents. This Financial Reporting Exposure Draft (FRED) is being issued to respond to those signals to improve FRS.
- 3 The ASB has attempted to limit the number of changes to FRS given its current deliberations on the future of UK Generally Accepted Accounting Practice.

Structure of the FRED

- 4 The FRED is presented in three sections. The first section presents proposed amendments arising from the IASB's annual 'Improvements to IFRSs'. The second section presents proposed amendments arising from the IASB's other changes to IFRS. The third section sets out proposed amendments to FRS arising from the ASB's review of its standards.
- 5 In addition, Appendix A of this FRED sets out the IASB amendments to IFRS 7 'Financial Instruments: Disclosures' to assist readers in understanding the proposed amendments to FRS 29.

Regulatory Impact

- 6 In the ASB's view, the proposals set out in this 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 and permits consistency between IFRS and FRS. The ASB, however, would 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 outweigh any costs involved.

Date from which effective

- 7 The proposed amendments to FRS identify the date from which it is proposed each amendment will become effective.

Invitation to Comment

- 8 The ASB is requesting comments on this FRED by 30 August 2010. Comments will be most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, a suggestion of alternative wording.

Question 1

The proposals set out in this FRED seek to implement the amendments made by the IASB from its annual improvements project, amendments arising from other changes made by the IASB to IFRSs, and amendments specific to FRS. Do you agree with the ASB proposals for the implementation of these changes to UK and Irish FRS? If not, please explain why.

Question 2

The ASB considers that the benefits of implementing the proposals in this FRED will outweigh the costs involved. Do you agree? If not, why not? It would be helpful if any significant costs that would arise on implementation of the proposals could be identified and quantified.

**DRAFT IMPROVEMENTS TO FINANCIAL
REPORTING STANDARDS ARISING
FROM ANNUAL IMPROVEMENTS TO
INTERNATIONAL FINANCIAL
REPORTING STANDARDS***

**Amendments to Financial Reporting
Standard 29 (IFRS 7) ‘Financial Instruments:
Disclosures’**

The IASB amended IFRS 7 to address practical concerns, improve clarity and enhance consistency within the standard.

The ASB is proposing the following amendments to FRS 29.

Paragraphs 32A and 44L are added. Paragraphs 34 and 36–38 are amended (IASB amended text is reproduced in Appendix A of this FRED) to read as follows:

**NATURE AND EXTENT OF RISKS ARISING FROM
FINANCIAL INSTRUMENTS**

32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity’s exposure to risks.

* Amendments to IFRS are set out in the IFRS ‘Improvements to IFRSs’, which the IASB issued in May 2010. Those annual improvements to IFRS that have given rise to draft improvements to Financial Reporting Standards are reproduced in Appendix A.

Quantitative disclosures

- 34 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) 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 Related Party Disclosures)~~, for example the entity's board of directors or chief executive officer. For the purposes of this standard key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any director (whether executive or otherwise) of that entity.*
 - (b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).
 - (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

Credit risk

- 36 An entity shall disclose by class of financial instrument:
- (a) 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 (eg netting agreements that do not qualify for offset in accordance with FRS 25 IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

* *Amendment made to ensure consistent definition of key management personnel; the equivalent definition in FRS 8 Related Parties differs slightly.*

- (b) a description of collateral held as security and of other credit enhancements, and their financial effect (eg a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).
- (c) information about the credit quality of financial assets that are neither *past due* nor impaired.
- (d) [deleted]

Financial assets that are either past due or impaired

- 37 An entity shall disclose by class of financial asset:
- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and
 - (b) 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.
 - (c) [deleted]

Collateral and other credit enhancements obtained

- 38 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 (eg guarantees), and such assets meet the recognition criteria in other ~~FRS~~ ~~IFRSs~~, an entity shall disclose for such assets held at the reporting date:
- (a) the nature and carrying amount of the assets; and

- (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

EFFECTIVE DATE AND TRANSITION

- 44L 'Improvements to Financial Reporting Standards 2010' ~~Improvements to IFRSs~~ issued in [month] ~~May~~ 2010 added paragraph 32A and amended paragraphs 34 and 36–38. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on Financial Reporting Standard 29 (IFRS 7) ‘Financial Instruments: Disclosures’

After paragraph BC42, a heading and paragraph BC42A are added. Paragraphs BC47A and BC49A are added. After paragraph BC54, a heading and paragraph BC54A are added. Paragraphs BC55A and BC56A are added.

Interaction between qualitative and quantitative disclosures (paragraph 32A)

- BC42A In *Improvements to IFRSs* issued in May 2010, the Board addressed a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments. The Board emphasised the interaction between qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments. This enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The Board concluded that an explicit emphasis on the interaction between qualitative and quantitative disclosures will contribute to disclosure of information in a way that better enables users to evaluate an entity’s exposure.
- BC47A In *Improvements to IFRSs* issued in May 2010, the Board removed the reference to materiality from paragraph 34(b) of IFRS 7. The Board noted that the reference could imply that disclosures in IFRS 7 are required even if those disclosures are not material, which was not the Board’s intention.
- BC49A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that the disclosure requirement in paragraph 36(a) applies only to

financial assets whose carrying amounts do not show the reporting entity's maximum exposure to credit risk. Such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.

Financial assets with renegotiated terms (paragraph 36(d))

BC54A In *Improvements to IFRSs* issued in May 2010, the Board addressed a practical concern relating to the disclosure requirements for renegotiated financial assets. The Board deleted the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the original requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered. Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired.

BC55A In *Improvements to IFRSs* issued in May 2010, the Board addressed a concern that the disclosure of the fair value of collateral was potentially misleading. Within a class of

assets some might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board removed from paragraph 37(c) the requirement to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board included in paragraph 36(b) a requirement to disclose a description of collateral held as security and of other credit enhancements and to disclose their financial effect.

- BC56A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that paragraph 38 requires entities to disclose the amount of foreclosed collateral held at the reporting date. This is consistent with the objective in IFRS 7 to disclose information that enables users 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.

**Amendment to guidance on implementing
Financial Reporting Standard 29 (IFRS 7)
'Financial Instruments: Disclosures'**

A heading ('Materiality') and paragraph IG3 are deleted.

INTRODUCTION

IG3 [deleted]

DRAFT IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS ARISING FROM OTHER CHANGES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendment to Financial Reporting Standard 8 ‘Related Party Disclosures’

In November 2009, the IASB amended IAS 24 ‘Related Party Disclosures’ to simplify the definition of a related party and remove inconsistencies. Since UK company law refers to the definition of a related party set out in ‘International Accounting Standards’ (IAS 24), the ASB is proposing to amend FRS 8 to ensure consistency between FRS 8 and company Law.*

The ASB is proposing the following amendments to FRS 8.

Paragraph 2.5 is amended (new text is underlined and deleted text is struck through). Paragraph 7C is added.

2.5 *Related party*:[†]

~~A party is related to an entity if:~~

- ~~(a) directly, or indirectly through one or more intermediaries, the party:~~
 - ~~(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);~~

* The proposal assumes that the European Commission will adopt the amended version of IAS 24 for use in the EU.

† In this Statement of Standard Accounting Practice references to ‘related parties’ are deemed to be synonymous with the definition of ‘related party’.

- ~~(ii) has an interest in the entity that gives it significant influence over the entity; or~~
- ~~(iii) has joint control over the entity;~~
- ~~(b) the party is an associate (as defined in FRS 9, 'Associates and joint ventures') of the entity;~~
- ~~(c) the party is a joint venture in which the entity is a venturer (as defined in FRS 9, 'Associates and joint ventures');~~
- ~~(d) the party is a member of the key management personnel of the entity or its parent;~~
- ~~(e) the party is a close member of the family of any individual referred to in subparagraph (a) or (d);~~
- ~~(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or (e); or~~
- ~~(g) the party is a retirement benefit scheme for the benefit of employees of the entity, or of any entity that is a related party of the entity.~~

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a retirement benefit scheme* for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a scheme, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

* IAS 24 refers to a 'post-employment benefit plan', but the term 'retirement benefit scheme' has been retained in FRS 8 so as to ensure consistency with other FRS.

DATE FROM WHICH EFFECTIVE

- 7C 'Improvements to Financial Reporting Standards 2010' issued in [month] 2010 amended paragraph 2.5. An entity shall apply this amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

DRAFT IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS – SPECIFIC UK AMENDMENTS

Amendment to Statement of Standard Accounting Practice 25 ‘Segmental Reporting’

As part of its annual review of FRS, the ASB is proposing to amend SSAP 25 to extend the existing exemption from making segmental disclosures to subsidiary undertakings whose parent undertaking provides segmental information in accordance with EU-adopted IFRS. The ASB has also updated the references to company law in the amended paragraph.

Paragraph 4 is amended (new text is underlined and deleted text is struck through). Paragraph 45A is added.

- 4 This accounting standard also contains provisions relating to the disclosure of inter-segment turnover, geographical segment result, segment net assets, origin of turnover, and segmental information about associated undertakings, which are not required by companies legislation. These provisions apply to any entity that:
- (a) is a public limited company or has a public limited company as a subsidiary; or
 - (b) is a banking or insurance company or group (as defined for the purposes of ~~Part VII~~ Section 1164 and 1165 of the Companies Act ~~1985~~ 2006); or
 - (c) exceeds the criteria, multiplied in each case by 10, for defining a medium-sized company under Section ~~248~~ 465 of the Companies Act ~~1985~~ 2006, as amended from time to time by statutory instrument.

However, a subsidiary that is not a public limited company or a banking or insurance company need not comply with these provisions if its parent provides segmental information in compliance with this accounting standard or International Accounting Standards as defined by Section 474(1) of the Companies Act 2006.

DATE FROM WHICH EFFECTIVE

45A 'Improvements to Financial Reporting Standards 2010' issued in [month] 2010 amended paragraph 4. An entity shall apply this amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Amendment to the development of the FRS for Financial Reporting Standard 8 ‘Related Party Disclosures’

As part of its annual review of FRS, the ASB is proposing to clarify paragraph 3(c) of FRS 8, as amended in December 2008.

Paragraph 38 is added.

- 38 The wording used in paragraph 3(c) of FRS 8, as amended in December 2008, was extracted from the Regulations. It was not the aim of the Amendment made in December 2008 to interpret the Regulations. The exemption set out in paragraph 3(c) should only be applied where all subsidiary undertakings which are a party to the transaction are wholly owned by a member of the group.

APPENDIX A – ANNUAL IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT HAVE GIVEN RISE TO IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS

This appendix of the FRED sets out the IASB amendments to IFRS 7 ‘Financial Instruments: Disclosures’ to assist readers in understanding the proposed amendments to FRS 29.

Amendments to IFRS 7 ‘Financial Instruments: Disclosures’

Paragraph 32A is added. Paragraphs 34 and 36–38 are amended (new text is underlined and deleted text is struck through). Paragraph 44L is added.

Nature and extent of risks arising from financial instruments

32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity’s exposure to risks.

Quantitative disclosures

- 34 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) 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 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer.

- (b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a), ~~unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality).~~
- (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

Credit risk

- 36 An entity shall disclose by class of financial instrument:
- (a) 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 (eg netting agreements that do not qualify for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk;
 - (b) ~~in respect of the amount disclosed in (a),~~ a description of collateral held as security and of other credit enhancements, and their financial effect (eg a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument);
 - (c) information about the credit quality of financial assets that are neither *past due* nor impaired, ~~and~~
 - (d) ~~[deleted] the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.~~

- 37 An entity shall disclose by class of financial asset:
- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and
 - (b) 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) ~~[deleted] 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

- 38 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 (eg guarantees), and such assets meet the recognition criteria in other IFRSs, an entity shall disclose for such assets held at the reporting date:
- (a) the nature and carrying amount of the assets ~~obtained~~; and
 - (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Effective date and transition

- 44L *Improvements to IFRSs* issued in May 2010 added paragraph 32A and amended paragraphs 34 and 36–38. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on IFRS 7 'Financial Instruments: Disclosures'

After paragraph BC42, a heading and paragraph BC42A are added. Paragraphs BC47A and BC49A are added. After paragraph BC54, a heading and paragraph BC54A are added. Paragraphs BC55A and BC56A are added.

Interaction between qualitative and quantitative disclosures (paragraph 32A)

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- BC49A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that the disclosure requirement in paragraph 36(a) applies only to financial assets whose carrying amounts do not show the

reporting entity's maximum exposure to credit risk. Such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.

Financial assets with renegotiated terms (paragraph 36(d))

- BC54A In *Improvements to IFRSs* issued in May 2010, the Board addressed a practical concern relating to the disclosure requirements for renegotiated financial assets. The Board deleted the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the original requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered. Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired.
- BC55A In *Improvements to IFRSs* issued in May 2010, the Board addressed a concern that the disclosure of the fair value of collateral was potentially misleading. Within a class of assets some might be over-collateralised while others

might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board removed from paragraph 37(c) the requirement to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board included in paragraph 36(b) a requirement to disclose a description of collateral held as security and of other credit enhancements and to disclose their financial effect.

BC56A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that paragraph 38 requires entities to disclose the amount of foreclosed collateral held at the reporting date. This is consistent with the objective in IFRS 7 to disclose information that enables users 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.

Amendment to guidance on implementing IFRS 7 'Financial instruments: Disclosures'

A heading and paragraphs IG3 and IG4 are deleted (new text is underlined and deleted text is struck through).

Introduction

Materiality

~~IG3-IG4~~ [Deleted] IAS 1 Presentation of Financial Statements notes that a specific disclosure requirement in an IFRS need not be satisfied if the information is not material. IAS 1 defines materiality as follows:

~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make 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 size or nature of the item, or a combination of both, could be the determining factor.~~

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

~~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 are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~

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