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Accounting alert

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International Accounting Standards Board releases IFRS 7 Financial Instruments: Disclosure

The International Accounting Standards Board (IASB) released IFRS 7 'Financial Instruments: Disclosure' on 18 August 2005. The objective of this standard is to combine and enhance the disclosure requirements in relation to the risk exposures arising from financial instruments that are currently set out in IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 30 'Financial Statements of Banks and similar Financial Institutions'.

This accounting standard is effective for all periods commencing on or after 1 January 2007 with early application encouraged. IAS 30 and the disclosure section in IAS 32 are replaced on the adoption of this standard.

The Australian Accounting Standards Board (AASB) noted in its July action alert that the Australian equivalent will be considered and is expected to be released as AASB 7 on 1 September 2005. IFRS 7 is likely to adopt by the AASB without significant modification and is expected to have the same effective date provisions.

This *accounting alert* provides an overview of the requirements of this standard.

IFRS 7

IFRS 7 applies to all entities that hold financial instruments. The extent of disclosure depends on the entity's usage of financial instruments and its exposure to risk.

IFRS 7 deals with the disclosure requirements in relation to all risks arising from financial instruments (with limited exemptions), and applies to any entity that hold financial instruments. The level of disclosure required depends on the extent of the entity's use of financial instruments and its exposure to financial risk.

This standard retains many of the disclosure requirements currently within IAS 32 and IAS 30. However, there have been some editorial changes to the existing requirements as well as some additional disclosure requirements added.

The overriding objective of the standard is that preparers should provide disclosures that enhance a users understanding of an entity's exposures to financial risks and how the entity manages those risks.

To this purpose, the standard requires than an entity disclose:

- information on the significance of financial instruments on the entity's financial position and performance by disclosing such features as each categories carrying amount
- the nature and extent of risk exposures arising from financial instruments (quantitative disclosures)
- the approach taken in managing those risks (qualitative disclosures).

Appendix B provides further guidance on what an entity should disclose in order to meet with principles of the standard.

Appendix B to the standard provides guidance to users on how to apply the requirements of this standard. This appendix expands on a number of the principles set out in the standard by providing lists of items that should be disclosed in order to comply with the requirements of the standard.

More significant changes arising from IFRS 7

Whilst there are a number of changes from disclosure requirements of IAS 32 and IAS 30 the more significant changes are set out in this alert.

Whilst there are a number of changes from disclosure requirements of IAS 32 and IAS 30 the more significant changes include:

1. the standard introduces new disclosure requirements in respect of loan and receivables designated as fair value through profit or loss (FVTPL).
2. in addition to the existing IAS 32 disclosure requirements in respect of financial liabilities designated as FVTPL, IFRS 7 now requires an entity to disclose the amount of the change in the financial liability's fair value that is not attributable to changes in market conditions that gives rise to market risks. IAS 32 required disclosure of changes from a benchmark interest rate. In addition, an entity should disclose the method used to determine the amount of the change discussed above.
3. where an entity records an impairment on a financial asset through an allowance account, for example a provision for doubtful debts as opposed to a direct reduction to the carrying amount of the debtor, it shall disclose, for each class of financial asset, a reconciliation of changes in carrying amounts in that account during the period.
4. separate disclosure of the amount of ineffectiveness recognised in profit or loss on cash flow hedges and hedges of net investments.
5. separate disclosure of the gains or losses in fair value hedges arising from remeasuring the hedging instrument and on the hedged item attributable to the hedged risk.
6. disclosure of the net gain or loss on 'held-to-maturity investments', 'loans and receivables' and 'financial liabilities measured at amortised cost'.

This is not a complete summary of all of the changes nor a summary of all the changes that an entity may consider significant. Deloitte International has prepared a summary of the requirements of this standard. This is currently available on-line at www.iasplus.com.

Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures

As part of its project to develop IFRS 7, the IASB has also amended IAS 1 in respect of disclosures about an entity's capital.

The amendments to IAS 1 require disclosure about the level of an entity's capital and how it manages capital.

IAS 1 adds requirements for all entities to disclose:

1. the entity's objectives, policies and processes for managing capital.
2. quantitative data about what the entity regards as capital.
3. whether the entity has complied with any externally imposed capital requirements and if it has not complied, the consequences of such non-compliance.

Feedback and assistance

We welcome your feedback on the matters covered in this accounting alert – please email your comments to accounting_alerts@deloitte.com.au.

For assistance in applying the requirements outlined in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on +61 (0) 3 9208 7490, or by e-mail to bruporter@deloitte.com.au.