FASAB

Federal Accounting Standards Advisory Board

December 7, 2016

Memorandum

To:	Members of the Board
	Robin M. Gilliam
From:	Robin M. Gilliam, Assistant Director
	Wendy M. Payne
Through:	Wendy M. Payne, Executive Director
Subject:	**Schedule and Preparation for Risk Assumed Gap Analysis[1] – Tab G**

MEMBER ACTION REQUESTED

Come to the meeting prepared to provide your thoughts on the schedule & gap analysis preparation items.

MEETING OBJECTIVES

- Review high level risk assumed plan.
- Review and determine risk exposure categories, scope, and questions necessary to perform the risk assumed gap analysis.

BRIEFING MATERIAL:

This memorandum provides recommendations for performing the gap analysis.

Attachment 1: Analysis of Federal Accounting Standards in Relation to the IMF Recommendations for Disclosing Fiscal Risks (Table 1 from October 2016 Board Memorandum)

Appendix A: International Financial Reporting Standard 7, *Financial Instruments: Disclosures*

Appendix B: Synopsis of Industry Studies of User Recommendations for Risk Disclosures

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of FASAB or its staff. Official positions of FASAB are determined only after extensive due process and deliberations.

BACKGROUND:

At the October 19, 2016, Board meeting, staff delivered SFFAS 51, *Insurance Programs,* to sponsors for the 90-day review, which ends on January 17, 2017. FASAB expects to issue the Statement on January 18, 2017. At that time the first phase of the risk assumed project will be completed.

The Board reviewed staff's high-level gap analysis presented in table 1: *Analysis of Federal Accounting Standards in Relation to the IMF (International Monetary Fund) Recommendations for Disclosing Fiscal Risks*[2] and table 2 from the Australian Statement 8: *Statement of Risks*.

The Board agreed that a gap analysis is necessary to determine what risk information is currently presented in financial reports. Once the gap analysis is complete, the Board will discuss how it wants agencies to present risk assumed information going forward, and the extent to which FASAB can align risk assumed standards with the enterprise risk management (ERM) effort.[3]

In relation to FASAB aligning its efforts with the ERM effort, the Board recognizes that agencies are in different phases of development and implementation of ERM. The Board understands that ERM is not a CFO finance-focused project and appreciates agencies' efforts and their willingness to share their progress to determine if FASAB's risk assumed project should align with ERM.

In conclusion, staff will develop a gap analysis to determine how to present risk assumed information going forward.

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2 See Attachment 1

3 Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

A. High Level Risk Assumed Plan

Staff presents the following high level risk assumed plan including a schedule for performing the gap analysis, which will be discussed in detail below in sections B – D.

1. **December 2016: Prepare Gap Analysis Structure**

    a. Review and approve risk exposure categories to determine what types of risks to consider in the gap analysis. (Section B)

    b. Review and approve the gap analysis scope regarding past and future events. (Section C)

    c. Review and approve questions to apply to each category to identify gaps between what is and the potential “to be” scope. (Section D)

2. **January – June 2017 – Perform Gap Analysis**

    Analyze risk exposure categories by mapping questions to each to determine if current standards support the ”to be” scope and what items are fully accomplished, missing, or need modifying.

3. **July 2017 – Mid 2018: Develop Standards**

    a. Call forth a task force
    b. Develop needed definitions
    c. Develop standards or modify existing ones in relation to what information needs to be added or modified for each risk category.

4. **Mid 2018 – Early 2019: Due Process for Risk Assumed Standards**

Question 1: Does the Board agree with the high level risk assumed plan?

Staff Analysis and Recommendations:

During the October 2016 meeting, members agreed to staff executing a gap analysis to determine what information is reported and might be reported about the fiscal impact of risk assumed. In the following sections, B – D, staff provides an analysis and recommendation for three items: risk exposure categories, risk assumed scope regarding past and future events, and questions to be addressed in the gap analysis.

B. Risk Exposure Categories

The first gap analysis item for the Board's consideration is the risk exposure categories. The categories will serve to structure the gap analysis and to tailor the scope to the Board's expectations for risk assumed reporting in the context of federal financial reports. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting,* discusses risk within the stewardship reporting sub-objective 3B (par. 139) – "whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due."

The concepts acknowledge the need for financial reports to include information about financial risks that are "likely or reasonably possible from sources such as government-sponsored enterprises, deposit insurance, and disaster relief programs." (SFFAC 1, par. 141) However, the next paragraph (par. 142) refers to use of "reporting mechanisms other than traditional financial statements" and notes that special reports may be needed in some cases. Deciding upon the categories of risk exposure to be included in the gap analysis will ensure staff does not devote time to areas of risk that members believe are more appropriately addressed through reports other than general purpose federal financial reports.

At the October 2016 meeting staff presented a high level analysis comparing the International Monetary Fund (IMF) fiscal risks "shocks" to current FASAB standards.[4] IMF presented these risk shocks in the *IMF Policy Paper: Update on the Fiscal Transparency Initiative (August 7, 2014).*[5] Staff used the categories in Attachment 1 to develop the first ten risk exposure categories in Table 1- *Recommended Risk Exposure Categories* on page 6. Staff added two more risk exposures, which are related to operation and maintenance, for a total of 12 recommended risk exposure categories.

[4] See Attachment 1, Analysis of Federal Accounting Standards in Relation to the IMF Recommendations for Disclosing Fiscal Risks (Table 1 from October 2016 Board Memorandum)
[5] http://www.imf.org/external/np/pp/eng/2014/061614.pdf

Why Include Two Operation/Maintenance Risk Exposure Categories?

Staff is recommending *cybersecurity* as a risk exposure category due to the potential material fiscal impact resulting from a cyberattack or failure, such as the Office of Personnel Management data breach. Staff would like the opportunity to include a *cybersecurity* category in the gap analysis to determine if the fiscal impact from this type of risk assumed is being reported in the financial reports and if so, to learn what and how it was reported.

Staff also recommends a *failed project* risk exposure category. Reporting entities undertake very extensive and costly projects. Most of these projects are successful and provide the procured results. But some fail for not providing required results with obligated fund in the millions, if not billions of dollars. Staff would like the opportunity to include a *failed project* category in the gap analysis to determine if the fiscal impact from this type of risk assumed is being reported in the financial reports and if so, to learn what and how it was reported.

Are Categories General or Specific?

Each category was given a description and assigned as a "general" or "specific" type.

A **general** risk exposure category has a broader interrelated impact, such as the 2008 global financial crisis. The two general risk categories - macroeconomic shocks and financial sector regulation – were identified by the IMF as having the greatest probability of occurrence and average fiscal cost as a percent of gross domestic product.[6]

A **specific** risk exposure category relates to a specific event (such as a Katrina type of storm), transaction (P3s), asset (direct loans), or liability (loan guarantees)). Note that even specific risk categories may require information from multiple government agencies to adequately disclose risk. For example, natural disasters lead to responses from many federal agencies.

The **meeting objective** is for members to consider whether each category identified in Table 1 is relevant to the gap analysis as well as whether any additional categories are needed.

[6] See risk assumed October board memorandum, pages 23-24) http://www.fasab.gov/October-2016-briefing-materials/

Table I – Recommended Risk Exposure Categories

	Risk Exposure Category	Description	Type
1	Macroeconomic Shocks	The risk that a sharp decline in gross domestic product (GDP) will lead to a large increase in borrowing.	General
2	Financial Sector Exposure – Regulations	The risk of a crisis that calls forth many interrelated government guarantees to stabilize society and the economy.	General
3	Loan Guarantees and Direct Loans	The risk of a large number of loans not able to be collected totaling a significant amount of default that the government must pay to fulfil its legal guarantee.	Specific
4	Public-Private Partnerships (P3)	The risk of failure by the private side of a significant P3 that shifts full financial risk to the government	Specific
5	Environmental Risks	The risk of a major environmental disaster from the harvesting or transport of natural resources, such as a major oil spill, those demand governmental resources for clean-up.	Specific
6	Natural Disasters	The risk of a natural disaster that causes severe damage, where loans, grants, and other sources of goods and services are required to be provided by the government to a declared disaster location.	Specific
7	Intergovernmental & Programmatic Dependencies	Two types of risks exist here. 1) The risk of intergovernmental partners to efficiently and effectively provide benefits through federal government funding. [Programs administered by states and local jurisdictions to include means-tested entitlement programs and grants for programs such as education, highway, or housing.] 2) The risk that federal activities operating in state and local jurisdictions will be removed or relocated causing a significant impact on economic health.	Specific
8	Government Sponsored Enterprises (GSE)	The risk that a GSE will suffer significant lack of funding to continue its mission and federal funds will be needed to maintain active status.	Specific
9	Commitments, including contractual, treaties, other international agreements	The risk that a significant commitment will be activated and federal funding beyond budgeted considerations are needed for implementation	Specific
10	Litigation	The risk that a significant law suit is settled for a material amount required to be paid by federal funds	Specific

	Risk Exposure Category	Description	Type
11	Cybersecurity	The risk that a significant data breach will endanger government operations and/or citizen safety and the current and future cost of correcting that breach to protect citizen's safety is material.	Specific
12	Failed Projects	The risk that a significant project, such as development of internal software, fails by not delivering promised results, wasting a material amount of federal funds.	Specific

Question 2: Does the Board agree with the risk exposure categories to be addressed in the gap analysis?

C. Gap Analysis: Scope of Information about Past and Future Events

The second gap analysis item for the Board's consideration is the scope of information to be considered regarding past and future events. The scope preferred by members would likely depend on their preliminary notions regarding the "to be" state for risk assumed reporting in the context of federal financial reports. That is, should risk assumed reporting comprehensively address both past and future events. Alternatively, some may prefer to focus attention on one or the other.

Staff identified information that might be important regarding two types of events:

I. Events that occurred in the past
II. Events that might occur in the future

The **meeting objective** is for members to provide input regarding the outline below so that staff can focus the gap analysis on areas members believe are most relevant to risk assumed objectives.

Please consider whether any of the information staff has identified below is beyond the scope of the gap analysis. Also, please consider whether there is information you would like to consider for risk assumed reporting that is not identified in the list below.

I. Events That Occurred in the Past:

The risk for events that occurred in the past clearly relates to currently recognized assets and liabilities (such as direct loans and unpaid claims). However, it also relates to amounts that may be recognized in the future such as liabilities for future claims and/or obligations as the effects of the event become clearer.

Disclosures for what has happened in the past could

a. aggregate financial information across the federal government for a risk category event such as a natural disaster that has occurred by
   i. identifying costs incurred during the reporting period that relate to the event;
   ii. grouping associated liabilities and assets;
   iii. estimating reasonably possible future cash-flow needs with best/worst case sensitivity analysis; and/or

b. discuss
   i. budgetary mechanisms utilized, such as emergency appropriations or intra-governmental borrowing;
   ii. asset or liability balances impacted by the risk exposure including factors that influence uncertainty of the estimates and results of the sensitivity analysis;
   iii. ERM strategies used for proactive efficient/effective management; and/or
   iv. interrelated agency expenses.
   v.

II. Events That Might Occur in the Future:

The risk for events that might occur in the future relates to both recognized financial statement amounts and potential amounts. The amount required to settle an existing liability such as a loan guarantee may be recognized based on assumptions about the future. Information about the sensitivity of such an amount to future events may inform readers about the risk inherent in existing assets and liabilities. Further, information about unrecognized events may be needed to assess risk exposures.

Disclosures about what might happen in the future could:

a. report risk exposure events by category that are reasonably possible to occur in the next fiscal year based on past trends;
b. identify assets or liabilities that may be affected by risks and discuss the uncertainty inherent in recognized amounts (this may include identification of key assumptions and results of a sensitivity analysis);
c. report the maximum risk exposure due to agreements such as treaties; and/or

d. provide projected cash flows including sensitivity analysis (best and worst case scenarios) to further inform component reporting entity fiscal sustainability or government-wide fiscal sustainability reporting.

Question 3: Which – if any – of the information items listed do you want to exclude from the scope of the gap analysis? Are there any information items you want to add?

D. Recommended Questions for Gap Analysis

The third gap analysis item for the Board's consideration is the questions for the gap analysis.

The **meeting objective** is for members to determine what questions they want to apply to the risk exposure categories to help determine what improvements or additions need to be made to existing standards.

Staff reviewed the following industry standards and studies in order to recommend questions to apply to the risk exposure categories for the gap analysis. Many of these studies were undertaken and published after the financial crisis of 2008 to understand if the current risk disclosures provided valuable and user-friendly information for investors.

- International Financial Reporting Standard (IFRS) 7-*Financial Instruments: Disclosures (June 2012)*[7]
- CFA Institute: *User Perspective on Financial Instrument Risk Disclosures Under International Financial Reporting Standards Derivatives and Hedging Activities Disclosures* (Volume 2) January 2013[8]
- CFA Institute: *User Perspective on Financial Instrument Risk Disclosures Under International Financial Reporting Standards (IFRS)* (Volume 1) October 2011[9]
- Committee of European Banking Supervisors: *Principles of Disclosures in Times of Stress (April 2010)*[10]
- Society of Actuaries: *Financial Statement Disclosure: The Needs and Practices Related to Financial Risk* (2005)[11]

[7] See Attachment 1
[8] https://www.cfainstitute.org/learning/products/publications/contributed/Pages/user_perspective_on_financial_instruments_risk_disclosures_under_ifrs___derivatives_and_hedging_activities_disclosures.aspx
[9] https://www.cfainstitute.org/ethics/Documents/financial_instruments_risk_disclosure_report_volume_1.pdf
[10] http://www.eba.europa.eu/documents/10180/16094/Disclosure-principles.pdf
[11] https://www.soa.org/research/research-projects/life-insurance/research-financial-statement-disclosure-report-the-needs-and-practices-related-to-financial-risk.aspx

Understanding the needs of users of industry financial reports may aid the Board in considering the scope of our risk assumed gap analysis; particularly the desired qualities of information provided.

Staff summarized the industry issues and recommendations as follows:[12]

INDUSTRY ISSUES:

- Disclosures are not proactive in relation to risks that may occur in the future, but instead discuss events that have already occurred.
- Users find it difficult to read and process risk disclosures because they
    - do not always provide relevant, complete, understandable, and comparable Information,
    - are often fragmented in presentation, and
    - are too voluminous.
- Presentation and analysis are too aggregated making it very difficult to identify key information.
- Users find qualitative disclosures uninformative because they are inconsistent and often do not align to quantitative disclosures.
- Users do not find boilerplate information that repeats standards to be valuable information.
- There is minimal use of robust and uniform sensitivity tests around risk exposures.
- There is minimal use of probability-based measures to communicate risk exposures.
- Broad and vague definitions do not constitute an informative principle-based disclosures approach.

INDUSTRY RECOMMENDATIONS:

- Adopt a principles-based disclosure approach.
- Provide disclosures that discuss
    - relevant changes in accounting policies;
    - management judgement if applied;
    - capital level and solvency; i.e., the impact on the institution's liquidity position;

[12] See Appendix B: Industry Studies of User Recommendations for Risk Disclosures for a comprehensive list of risk disclosure attributes and components.

    - precise nature of the risks involved; and
    - detailed information on losses.
- Provide an executive summary outlining detail of entity-wide risk exposure and effectiveness of risk management mechanisms across different risk types to help alleviate the difficulties that investors face with processing risk related information.
- Provide summary of probability-based measures used.
- Provide qualitative disclosures that better explain quantitative measurements to improve comparability.

RECOMMENDED QUESTIONS FOR THE RISK ASSUMED GAP ANALYSIS:

After analyzing the industry issues and recommendations, staff recommends the following gap analysis questions.

The **meeting objective** is for members to determine what questions they want to apply to the risk exposure categories identified in Table1 to help determine what improvements or additions need to be made to existing standards.

NOTE: Depending on the previous decisions some of these questions may not be relevant, while other questions may need to be added or modified.

1. Are there disclosures that report uncertainty about significant future events?
2. Are the disclosures relevant, complete, understandable, and comparable?
3. Is all information in one disclosure?
4. Are disclosures easy to read and process?
5. Do disclosures provide information on specific risk exposures in a clear, transparent fashion without information overload?
6. Do disclosures provide information on intra-governmental resources used?
7. Are there qualitative disclosures?
    - If yes, do these qualitative disclosures align with the quantitative disclosures?
8. Are accounting standards presented as boilerplate in disclosures?

9. Are robust and uniform sensitivity test results disclosed?

    - If yes

        i. were the trends, methods, and assumptions used adequately described;

        ii. was a best and worst case scenario provided; and

        iii. was the use of management judgement, if used in selecting methods and assumptions, adequately discussed?

10. Do definitions exist and if so are they specific enough to support a principle based approach?

11. Do disclosures include information on budget mechanisms used such as emergency appropriations or borrowing.

12. Do disclosures discuss the probable and reasonably possible impacts on asset or liability balances?

Question 4: Does the Board agree with the recommended gap analysis questions?

QUESTIONS FOR THE BOARD:

Question 1: Does the Board agree with the high level risk assumed plan?

Question 2: Does the Board agree with the risk exposure categories to be addressed in the gap analysis?

Question 3: Which – if any – of the information items listed do you want to exclude from the scope of the gap analysis? Are there any information items you want to add?

Question 4: Does the Board agree with the recommended gap analysis questions?

NEXT STEPS:

Begin work on the gap analysis.

MEMBER FEEDBACK

Please provide editorial input and responses to the above questions to Ms. Gilliam by Friday, August 19, 2016, at gilliamr@fasab.gov with a cc to Ms. Payne at paynew@fasab.gov

If you have any questions, please contact Ms. Gilliam at 202-512-7356 or gilliamr@fasab.gov

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TAB G

RISK ASSUMED II

ATTACHMENT 1

Analysis of Federal Accounting Standards in Relation to the IMF Recommendations for Disclosing Fiscal Risks

(October 2016 Memorandum – Table 1)

December 2016

IMF		FASAB	
#	**Fiscal Risks (Sources of risk “shocks”)**	**Standards or Active Projects**	**Discussion**
Fiscal Disclosure and Analysis:			
3.1.1	Macroeconomic Risks	SFFAS 36 - *Comprehensive Long-Term Projections for the U.S. Government*	RSI identifies the major factors expected to have a significant impact and how the factors are expected to change over time. RSI provides the results of alternative scenarios based on variations in one or more significant assumptions.
3.1.2	Specific Fiscal Risks	No current requirements	Elements related to risk are reported but not summarized.
3.1.3	Long-Term Fiscal Sustainability Analysis	SFFAS 36 - *Comprehensive Long-Term Projections for the U.S. Government* SFFAS 17- *Accounting for Social Insurance*	Requires projections in basic information along with extensive disclosures and RSI.
Risk Management:			
3.2.1	Budgetary Contingencies	NA	
3.2.2	Asset & Liability Management	Various standards including SFFAS 1, 2, 3, 5, 6, 7, 10, 38, 44 (all as amended)	Assets and liabilities are presented on an accrual basis (with some exceptions such as stewardship land and natural resources) with disclosures that may address: • sensitivity analysis

IMF		FASAB	
#	**Fiscal Risks (Sources of risk “shocks”)**	**Standards or Active Projects**	**Discussion**
			• range of reasonably possible losses for contingent liabilities A review for consistency regarding such disclosures may be warranted.
3.2.3	Guarantees	SFFAS 2, *Accounting for Direct Loans and Loan Guarantees* SFFAS 51, *Insurance Programs*	SFFAS 2 as amended provides for disclosures but does not require discussion of risks. SFFAS 51 in final stages of ballot, sponsorship review and publication around mid-January 2017. SFFAS 51 will require discussion of risk exposure.
3.2.4	Public Private Partnerships	SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*	Disclosure requirements completed with a focus on risk – recognition/measurement possible future project
3.2.5	Financial Sector Exposure		**Financial Regulations (Banking Sector Risk)** – see discussion below
3.2.6	Natural Resources	SFFAS 38 (Oil and Gas) and Technical Bulletin 20011-1 (Other than Oil and Gas)	RSI provides the value and changes in value of such assets. No senstivity analysis or other risk discussion required.

IMF		FASAB	
#	**Fiscal Risks (Sources of risk "shocks")**	**Standards or Active Projects**	**Discussion**
3.2.7	Environmental Risks		**Disaster Relief** – see discussion below
Fiscal Coordiantion:			
3.3.1	Sub-National Governments		**Inter-governmental & Programmatic Dependency** – see discussion below
3.3.2	Public Corporations (for example, state owned enterprises)	SFFAS 47, *Reporting Entity*	Addressed reporting on risk associated with disclosure entities.
		SFFAS 47, *Reporting Entity*	Defined related parties and noted that **Government Sponsored Enterprises (GSE)** would generally be related parties. Requires disclosures of the nature of the relationship and an understanding of financial risk exposure. – see discussion below.
			Commitments, including contractual, treaties, other international agreements – see discussion below

TAB G

RISK ASSUMED II

APPENDIX A

International Financial Reporting Standard 7: *Financial Instruments: Disclosures*

December 2016

International Financial Reporting Standard 7

Financial Instruments: Disclosures

International Financial Reporting Standard 7 Financial Instruments: Disclosures

Objective

1 The objective of this IFRS 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 reporting date, and how the entity manages those risks.

2 The principles in this IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this IFRS. Entities shall also apply this IFRS 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.

(b) employers' rights and obligations arising from employee benefit plans, to which IAS 19 *Employee Benefits* applies.

(c) contracts for contingent consideration in a business combination (see IFRS 3 *Business Combinations*). This exemption applies only to the acquirer.

(d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately.

(e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, except that this IFRS applies to contracts within the scope of paragraphs 5–7 of IAS 39.

4 This IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of IAS 39. Unrecognised financial instruments include some financial instruments that, although outside the scope of IAS 39, are within the scope of this IFRS (such as some loan commitments).

5 This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IAS 39 (see paragraphs 5–7 of IAS 39).

Classes of financial instruments and level of disclosure

6 When this IFRS 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 balance sheet.

Significance of financial instruments for financial position and performance

7 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.

Balance sheet

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as defined in IAS 39, shall be disclosed either on the face of the balance sheet or in the notes:

(a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39;

(b) held-to-maturity investments;

(c) loans and receivables;

(d) available-for-sale financial assets;

(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39; and

(f) financial liabilities measured at amortised cost.

Financial assets or financial liabilities at fair value through profit or loss

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

(a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) at the reporting date.

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

(c) 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 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 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 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.

10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39, it shall disclose:

(a) 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 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 B4); or

(ii) 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 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.

11 The entity shall disclose:

(a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a).

(b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(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

12 If the entity has reclassified a financial asset as one measured:

(a) at cost or amortised cost, rather than at fair value; or

(b) at fair value, rather than at cost or amortised 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).

Derecognition

13 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 15–37 of IAS 39). The entity shall disclose for each class of such financial assets:

(a) the nature of the assets;

(b) the nature of the risks and rewards of ownership to which the entity remains exposed;

(c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and

(d) when the entity continues to recognise 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, and the carrying amount of the associated liabilities.

Collateral

14 An entity shall disclose:

(a) 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 37(a) of IAS 39; and

(b) the terms and conditions relating to its pledge.

15 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:

(a) the fair value of the collateral held;

(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

16 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg 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.

Compound financial instruments with multiple embedded derivatives

17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of 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.

Defaults and breaches

18 For *loans payable* recognised at the reporting date, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the reporting date; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 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 reporting date).

Income statement and equity

Items of income, expense, gains or losses

20 An entity shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes:

(a) net gains or net losses on:

(i) financial assets or financial liabilities at fair value through profit or loss, 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 IAS 39;

(ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised directly in equity during the period and the amount removed from equity and recognised in profit or loss for the period;

(iii) held-to-maturity investments;

(iv) loans and receivables; and

(v) financial liabilities measured at amortised cost;

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets or financial liabilities that are not at fair value through profit or loss; and

(ii) 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 income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and

(e) the amount of any impairment loss for each class of financial asset.

Other disclosures

Accounting policies

21 In accordance with paragraph 108 of IAS 1 *Presentation of Financial Statements*, 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.

Hedge accounting

22 An entity shall disclose the following separately for each type of hedge described in IAS 39 (ie fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):

(a) a description of each type of hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and

(c) the nature of the risks being hedged.

23 For cash flow hedges, an entity shall disclose:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

(c) the amount that was recognised in equity during the period;

(d) the amount that was removed from equity and included in profit or loss for the period, showing the amount included in each line item in the income statement; and

(e) the amount that was removed from 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.

24 An entity shall disclose separately:

(a) in fair value hedges, gains or losses:

(i) on the hedging instrument; and

(ii) on the hedged item attributable to the hedged risk.

(b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and

(c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

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 balance sheet.

27 An entity shall disclose:

(a) 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.

(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 equity, 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.

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). 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 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); 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 because its fair value cannot be measured reliably; or

(c) for a contract containing a discretionary participation feature (as described in IFRS 4) 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.

Nature and extent of risks arising from financial instruments

31 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 reporting date.

32 The disclosures required by paragraphs 33–42 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.

Qualitative disclosures

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

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

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 reporting date. 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 (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 (a) and (b).

35 If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

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 reporting date 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);

(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;

(c) information about the credit quality of financial assets that are neither *past due* nor impaired; and

(d) 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

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 reporting date but not impaired;

(b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and

(c) 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 Standards, an entity shall disclose:

(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.

Liquidity risk

39 An entity shall disclose:

(a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and

(b) a description of how it manages the liquidity risk inherent in (a).

Market risk

Sensitivity analysis

40 Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg 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:

(a) 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 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

42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 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.

Effective date and transition

43 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2007. Earlier application is encouraged. If an entity applies this IFRS for an earlier period, it shall disclose that fact.

44 If an entity applies this IFRS for annual periods beginning before 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.

Withdrawal of IAS 30

45 This IFRS supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.

Appendix A
Defined terms

This appendix is an integral part of the IFRS.

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 11 of IAS 32 or paragraph 9 of IAS 39 and are used in the IFRS with the meaning specified in IAS 32 and IAS 39.

- amortised 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 or loss
- 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.

Classes of financial instruments and level of disclosure (paragraph 6)

B1 Paragraph 6 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 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IAS 39 (which determine how financial instruments are measured and where changes in fair value are recognised).

B2 In determining classes of financial instrument, an entity shall, at a minimum:

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

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

B3 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this IFRS, 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.

Significance of financial instruments for financial position and performance

Financial liabilities at fair value through profit or loss (paragraphs 10 and 11)

B4 If an entity designates a financial liability as at fair value through profit or loss, paragraph 10(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 10(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:

(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 10(a).

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 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:

(a) for financial assets or financial liabilities designated as at fair value through profit or loss:

(i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;

(ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and

(iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of IAS 39 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 or loss in IAS 39, 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 or loss in IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

(b) the criteria for designating financial assets as available for sale.

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of IAS 39).

(d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:

(i) 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 criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 16).

(e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.

(f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 20(e)).

(g) 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 36(d)).

Paragraph 113 of IAS 1 also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgements, 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 in the financial statements.

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

B6 The disclosures required by paragraphs 31–42 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.

Quantitative disclosures (paragraph 34)

B7 Paragraph 34(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 *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and reliability.

B8 Paragraph 34(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 taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

(a) a description of how management determines concentrations;

(b) a description of the shared characteristic that identifies each concentration (eg counterparty, geographical area, currency or market); and

(c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

Maximum credit risk exposure (paragraph 36(a))

B9 Paragraph 36(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:

(a) any amounts offset in accordance with IAS 32; and

(b) any impairment losses recognised in accordance with IAS 39.

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

(a) 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 into derivative contracts, eg 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 reporting date will equal the carrying amount.

(c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability.

(d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

Contractual maturity analysis (paragraph 39(a))

B11 In preparing the contractual maturity analysis for financial liabilities required by paragraph 39(a), 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.

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 demand deposits) are included in the earliest time band.

B13 When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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

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

(b) prices specified in forward agreements to purchase financial assets for cash;

(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) contractual amounts to be exchanged in a derivative financial instrument (eg a currency swap) for which gross cash flows are exchanged; and

(e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount 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 reporting date. 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 reporting date.

Market risk – sensitivity analysis (paragraphs 40 and 41)

B17 Paragraph 40(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph B3, 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:

(a) 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 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.

B18 Paragraph 40(a) requires the sensitivity analysis to show the effect on profit or loss and 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:

(a) entities are not required to determine what the profit or loss for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant risk variable had occurred at the balance sheet date and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on profit or loss (ie interest expense) for the current year if interest rates had varied by reasonably possible amounts.

(b) entities are not required to disclose the effect on profit or loss and equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.

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

(a) 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 or loss and 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 that the rate of change in interest rates is stable). The entity would disclose the effect on profit or loss and equity if interest rates were to change to 5 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 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.

B20 Paragraph 41 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 41(a) by disclosing the type of value-at-risk model used (eg whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (eg 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.

B21 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

B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the balance sheet (eg loans and receivables and debt instruments issued) and on some financial instruments not recognised in the balance sheet (eg some loan commitments).

Currency risk

B23 *Currency risk* (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this IFRS, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

B24 A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Other price risk

B25 *Other price risk* arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 40, 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.

B26 Two examples of financial instruments that give rise to equity price risk are a holding of equities in another entity, and an investment in a trust, which 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.

B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments classified as at fair value through profit or loss and impairments of available-for-sale financial assets) is disclosed separately from the sensitivity of equity (that arises, for example, from instruments classified as available for sale).

B28 Financial instruments that an entity classifies as equity instruments are not remeasured. Neither profit or loss nor equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

Appendix C
Amendments to other IFRSs

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2007. If an entity applies the IFRS for an earlier period, these amendments shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

C1 In International Financial Reporting Standards, including International Accounting Standards and Interpretations, references to IAS 32 *Financial Instruments: Disclosure and Presentation* are replaced by references to IAS 32 *Financial Instruments: Presentation*, unless otherwise stated below.

C2 IAS 32 *Financial Instruments: Disclosure and Presentation* (as revised in 2003) is amended as described below.

The title is amended to 'IAS 32 *Financial Instruments: Presentation'*.

Paragraph 1 is deleted and paragraphs 2–4(a) are amended as follows:

2 The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement*, and for disclosing information about them in IFRS 7 *Financial Instruments: Disclosures*.

Scope

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) **those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.**

Paragraphs 5 and 7 are deleted.

The second sentence of paragraph 40 is amended as follows:

40 … In addition to the requirements of this Standard, disclosure of interest and dividends is subject to the requirements of IAS 1 and IFRS 7.

The last sentence of paragraph 47 is amended as follows:

47 … When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 36 of IFRS 7.

The last sentence of paragraph 50 is amended as follows:

50 … When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 36 of IFRS 7.

Paragraphs 51–95 are deleted.

Paragraph 98 is footnoted as follows:

In August 2005 the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures*.

In the Appendix (Application Guidance), paragraphs AG24 and AG40 and the last sentence of paragraph AG39 are deleted.

C3 IAS 1 *Presentation of Financial Statements* is amended as described below.

Paragraph 4 is deleted.

In paragraph 56, 'IAS 32' is replaced by 'IFRS 7 *Financial Instruments: Disclosures*', and in paragraphs 105(d)(ii) and 124, 'IAS 32' is replaced by 'IFRS 7'.

The last sentence of paragraph 71(b) is amended as follows:

71(b) …For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

The fourth sentence of paragraph 84 is amended as follows:

84 … For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution.

C4 IAS 14 *Segment Reporting* is amended as described below.

In paragraphs 27(a) and (b), 31, 32, 46 and 74, the phrase 'the board of directors and [to] [the] chief executive officer' is replaced by 'key management personnel'.

In paragraphs 27(b), 30 and 32 the phrase 'the directors and management' is replaced by 'key management personnel'.

The first sentence of paragraph 27 is amended as follows:

27 An entity's internal organisational and management structure and its system of internal financial reporting to key management personnel (for example, the board of directors and the chief executive officer) shall normally be the basis for identifying the predominant source and nature of risks and differing rates of return facing the entity and, therefore, for determining which reporting format is primary and which is secondary, except as provided in subparagraphs (a) and (b) below: …

The third sentence of paragraph 28 is amended as follows:

28 … Therefore, except in rare circumstances, an entity will report segment information in its financial statements on the same basis as it reports internally to key management personnel. …

The first sentence of paragraph 33 is amended as follows:

33 Under this Standard, most entities will identify their business and geographical segments as the organisational units for which information is reported to key management personnel or the senior operating decision maker, which in some cases may be a group of people, for the purpose of evaluating each unit's past performance and for making decisions about future allocations of resources. …

C5 In paragraph 31 of IAS 17 *Leases*, 'IAS 32 *Financial Instruments: Disclosure and Presentation*' is replaced by 'IFRS 7 *Financial Instruments: Disclosures*', and in paragraphs 35, 47 and 56, 'IAS 32' is replaced by 'IFRS 7'.

C6 In paragraph 72 of IAS 33 *Earnings per Share*, 'IAS 32' is replaced by 'IFRS 7 *Financial Instruments: Disclosures*'.

C7 IAS 39 *Financial Instruments: Recognition and Measurement* (as amended in April 2005) is amended as described below.

Paragraph 1 is amended as follows:

1 The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in IAS 32 *Financial Instruments: Presentation*. Requirements for disclosing information about financial instruments are in IFRS 7 *Financial Instruments: Disclosures*.

In paragraph 45, 'IAS 32' is replaced by 'IFRS 7'.

Paragraph 48 is amended as follows:

48 In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IAS 32 or IFRS 7, an entity shall apply paragraphs AG69–AG82 of Appendix A.

C8 IAS 39 *Financial Instruments: Recognition and Measurement* (as amended in June 2005) is amended as described below.

In paragraph 9, the definition of a financial asset or financial liability at fair value through profit or loss is amended as follows:

> **… In IFRS 7, paragraphs 9–11 and B4 require the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, …**

C9 In IFRS 1 *First-time Adoption of International Financial Reporting Standards*, paragraph 36A is amended, and a heading and paragraph 36C are added as follows:

36A In its first IFRS financial statements, an entity that adopts IFRSs before 1 January 2006 shall present at least one year of comparative information, but this comparative information need not comply with IAS 32, IAS 39 or IFRS 4. An entity that chooses to present comparative information that does not comply with IAS 32, IAS 39 or IFRS 4 in its first year of transition shall:

(a) apply the recognition and measurement requirements of its previous GAAP in the comparative information for financial instruments within the scope of IAS 32 and IAS 39 and for insurance contracts within the scope of IFRS 4;

…

In the case of an entity that chooses to present comparative information that does not comply with IAS 32, IAS 39 and IFRS 4, references to the 'date of transition to IFRSs' shall mean, in the case of those Standards only, the beginning of the first IFRS reporting period. Such entities are required to comply with paragraph 15(c) of IAS 1 to provide additional disclosures when compliance with the specific requirements in IFRSs 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.

Exemption from the requirement to provide comparative disclosures for IFRS 7

36C An entity that adopts IFRSs before 1 January 2006 and chooses to adopt IFRS 7 *Financial Instruments: Disclosures* in its first IFRS financial statements need not present the comparative disclosures required by IFRS 7 in those financial statements.

C10 IFRS 4 *Insurance Contracts* is amended as described below.

Paragraph 2(b) is amended as follows:

(b) financial instruments that it issues with a *discretionary participation feature* (see paragraph 35). IFRS 7 *Financial Instruments: Disclosures* requires disclosure about financial instruments, including financial instruments that contain such features.

Paragraph 35(d) is added as follows:

(d) although these contracts are financial instruments, an issuer applying paragraph 19(b) of IFRS 7 to contracts with a discretionary participation feature shall disclose the total interest expense recognised in profit or loss, but need not calculate such interest expense using the effective interest method.

After paragraph 37, the heading and paragraphs 38 and 39 are amended and paragraph 39A is added as follows:

Nature and extent of risks arising from insurance contracts

38 An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

39 To comply with paragraph 38, an insurer shall disclose:

(a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

(b) [deleted]

(c) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:

(i) sensitivity to insurance risk (see paragraph 39A).

(ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area, or currency).

(iii) actual claims compared with previous estimates (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

(d) information about credit risk, liquidity risk and market risk that paragraphs 31–42 of IFRS 7 would require if the insurance contracts were within the scope of IFRS 7. However:

(i) an insurer need not provide the maturity analysis required by paragraph 39(a) of IFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the balance sheet.

(ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of IFRS 7. Such an insurer shall also provide the disclosures required by paragraph 41 of IFRS 7.

(e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

39A To comply with paragraph 39(b)(i), an insurer shall disclose either (a) or (b) as follows:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the balance sheet date occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of IFRS 7.

(b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Appendix D
Amendments to IFRS 7 if the Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied

In June 2005 the Board issued Amendments to IAS 39: Financial Instruments: Recognition and Measurement—The Fair Value Option*, to be applied for annual periods beginning on or after 1 January 2006. If an entity applies IFRS 7 for annual periods beginning before 1 January 2006 and it does not apply these amendments to IAS 39, it shall amend IFRS 7 for that period, as follows. In the amended paragraphs, new text is underlined and deleted text is struck through.*

D1 The heading above paragraph 9 and paragraph 11 are amended as follows, and paragraph 9 is deleted.

Financial liabilities at fair value through profit or loss

11 The entity shall disclose:

(a) the methods used to comply with the requirements in paragraph 10(a).

(b) if the entity believes that the disclosure it has given to comply with the requirement in paragraph 10(a) does not faithfully represent the change in the fair value of the financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes to be relevant.

Paragraph B5(a) is amended as follows:

(a) the criteria for designating, on initial recognition, financial assets or financial liabilities as at fair value through profit or loss.

TAB G

RISK ASSUMED II

APPENDIX B

Synopsis of Industry Studies of User Recommendations for Risk Disclosures

December 2016

TABLE 1: Financial Statement Disclosure: The Needs and Practices Related to Financial Risk[1] By Society of Actuaries 2005		
#	**Risk Disclosure Attribute/Component**	**Page**
1	Disclosure of significant concentrations of credit risk, including information leading to the concertation, maximum amount of potential loss, collateral support, netting agreements that would mitigate risk. (FAS 107,15A)	53
2	Risks are subject to disclosure if the company was aware that the item had a material impact on the company's financial statements.	54
3	Disclosures including the amount of balances subject to the guarantees and exposure (SOP) 03-01, 38)	54
4	Disclosure of any potential material gain contingencies, accrued loss contingencies (that are probable and estimable)	54
5	Disclosure of recently adopted accounting pronouncements and their impact on the financial statements	55
6	Nature and extent of Measurement uncertainty including major factors, sources, margin for adverse deviation, reasons for differing from experience	56
7	Required to disclose ability to generate cash flows, capital deficiencies, capital trends, capital commitments in MD&A	57
8	The impact on profit or loss and equity of reasonably possible changes in relevant risk variable (prices of equity in instruments)	58
9	Methods and assumptions used in performing sensitivities	58
10	Alternatively, a sensitivity test that reflects the interdependencies between risks may be used	58
11	Disclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all financial assets sharing that characteristic	58
12	Information about credit quality of assets that are neither past due nor impaired. This might include a breakdown of assets by ratings class (internally developed or with reference to an external rating agency) along with a description/analysis of the criteria used to assign the ratings classes.	58
13	Need to disclose concentrations of insurance risk such as: • when an insurance contract covers low-frequency, high severity risks • single incidents that expose an insurer to risk under several types of insurance contract • exposure to unexpected changes in trends, for example, unexpected changes in mortality or in policyholder behavior • exposure to possible major changes in financial market conditions that could cause options held by policyholders to come into the money • significant litigation or legislative risks that could cause a large single loss • correlations and interdependencies between different risks • significant non-linearities, such as stop-loss or excess of loss features	58

[1] https://www.soa.org/research/research-projects/life-insurance/research-financial-statement-disclosure-report-the-needs-and-practices-related-to-financial-risk.aspx

TABLE 1: Financial Statement Disclosure: The Needs and Practices Related to Financial Risk[1] By Society of Actuaries 2005		
#	Risk Disclosure Attribute/Component	Page
	• geographical and sartorial concentrations	
14	Sensitivity Analysis	58
15	An insurer might disclose asset and liabilities management techniques	59
16	Disclosure of sufficient sensitivity analysis to allow an informed analyst to make valid comparisons on different assumptions sets. Scenarios should include disclosure of the changes in cash flows directly affected by the changing assumptions.	61
17	Disclosure of the definition of new business and any changes in the definition and the impact of such changes on the value of new business	61

TABLE 2: *Users Perspectives on Financial Instrument Risk Disclosures Under International Financial Reporting Standards (IFRS) (Volume 1)*[2] By CFA Institute 2011		
#	Risk Disclosure Attribute/Component	Page
1	Provide Executive Summary of Risk Disclosures: To help alleviate the difficulties that investors face with processing risk related information, an investor oriented executive summary that distils key information on entity-wide risk exposures and effectiveness of risk management practices is necessary across different risk types. The executive summary should be provided for risk types considered to be significant for specific business models. This executive summary will help to minimise the processing effort incurred by investors and facilitate assimilation of key risk information made through the financial reports.	18
2	Differentiate the components of market risk…definition as a category may be too broad…broken down into at least three new risk categories	18
3	Qualitative disclosures should explain quantitative measurements – standardized, quantitative disclosures should be integrated into principles-based disclosure requirements	19
4	**Integrated, Centralized and Tabular Risk Disclosures Should Be Provided** **…** Greater emphasis should be placed on providing integrated disclosures. For example, risk disclosures should illustrate how market risk influences liquidity risk or credit risk. Risk disclosures can be improved through a better portrayal of the linkage between: • *Market Risk Factors and Credit Risk* – The impact of significant changes in interest rates and foreign currency exchange rates on the reported credit risk exposures would be useful to investors.	

[2] https://www.cfainstitute.org/ethics/Documents/financial_instruments_risk_disclosure_report_volume_1.pdf

TABLE 2: *Users Perspectives on Financial Instrument Risk Disclosures Under International Financial Reporting Standards (IFRS) (Volume 1)*[2] By CFA Institute 2011		
#	Risk Disclosure Attribute/Component	Page
	• *Market Risk Factors, Credit Risk and Liquidity Risk* – The impact of significant interest rate changes or a downgrade in the credit rating of a company, on the expected liability maturity profile, would be useful in better assessing liquidity risk. • *Market Risk Factors and Hedging Strategies* – An integrated discussion of market risk exposure measures with risk management policy should be provided. For example, the disclosure of value at risk (VAR) measures in relation to both the pre-hedging and post-hedging exposures can be complementary to hedge accounting disclosures in informing users on economic hedge effectiveness. • *Liquidity Risk and Business Risk* – The impact of changes in the economic environment on the liquidity risk profile.	
5	**Liquidity Risk** o *Comprehensive Liquidity Risk Qualitative Disclosures* – Qualitative and quantitative disclosures that sufficiently inform on effective asset/liability management, maturity mismatch risk and linkage with other risk categories	21
6	*Sensitivity Analysis* – Liquidity risk sensitivity analysis and stress tests.	21
7	Qualitative disclosures should be entity-specific and not boilerplate descriptions. There should be a linkage with disclosed quantitative numbers. Market risk disclosures should be integrated with other risk category disclosures.	22
8	*Improved Sensitivity Analysis and Stress Testing* – This should reflect the impact on the profit and loss statement, of assumptions of reasonably probable variation of key risk factors, as well as the corresponding impact of stress or extreme event scenario assumptions. It should also reflect the correlation and diversification effect on gains or losses due to the interaction of key risk factors.	22
9	There are common key areas for improvement across the credit, liquidity and market risk categories. These include the need to provide: a) informative entity-specific qualitative disclosures; b) improved and more meaningful sensitivity analysis; c) sufficient disaggregation to inform on respective risk exposures; d) full disclosure of risks associated with counterparties; and e) risk information related to off-balance sheet exposures.	22
10	Adequately describe the method of measuring entity-specific credit risk exposure.	30
11	Describe methods of managing credit risk and aggregate effectiveness of these methods.	30

TABLE 2: *Users Perspectives on Financial Instrument Risk Disclosures Under International Financial Reporting Standards (IFRS) (Volume 1)*[2] By CFA Institute 2011		
#	Risk Disclosure Attribute/Component	Page
12	Companies should significantly improve their disclosure on impairment approaches applied, including collective and individual impairment. Further, companies should clearly define the criteria for classifying assets as non-performing so as to enable comparability.	31
13	Companies should fully comply with the prescribed IFRS 7 impairment disclosures including past due, renegotiated assets and assets that are neither past due nor impaired.	31
14	Greater disaggregation of maximum credit exposure, i.e. *What percentage of accounts receivable is from the top five customers*	32
15	Details of all significant covenants including credit ratings downgrades that impact on overall exposure be disclosed. This is particularly important for counterparties of derivatives contracts. This aspect of disclosure should also integrate into its description the recently required counterparty valuation adjustment information (That is, for example, when derivatives contracts are netted).	33
16	**Integrated Disclosure of Collateral Information** Disclosures outlining collateral valuation methodologies; Disclosures regarding the extent to which there is no collateral held in support of certain assets; and Integrated collateral disclosures that provide a bottom-line judgment of whether the financial assets are over or under-collateralised.	34
17	**Liquidity Risk Disclosures** Stress analysis including testing whether the liquidity buffers would be sufficient to face the occurrence of a stress scenario.	36
NOTE: Volume 2 reiterated recommended disclosures from Volume 1 but took a deeper dive into Derivatives and Hedging Activities Disclosures. Staff did not find any additional value in analyzing Volume 2		

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
1	**Financial institutions should provide timely and up to date information.** This principle encourages financial institutions to disclose relevant information in a timely manner.	2
2	**Financial institutions should provide disclosures on areas of uncertainty.** The objective of this principle is to ensure that financial institutions shed sufficient light on areas of uncertainty and their possible development and evolution. Disclosures must faithfully represent the underlying transactions and events; therefore, it is important that institutions provide clear information on key estimates or management judgements that are used in areas of uncertainty (e.g. valuation of financial instruments in the absence of quoted market prices). CEBS encourages institutions to make use of sensitivity analyses and to discuss the related assumptions and probabilities of occurrence to enable users to form an opinion on the potential impact of changes in expectations.	2
3	**Financial institutions should provide comprehensive and meaningful information that fully describes their financial situation.** To enable market participants to make a meaningful assessment of an institution's financial situation, information should be comprehensive. When assessing the information that is necessary to achieve this objective, management should aim to provide decision-useful information, bearing in mind that omissions of information can be misleading. Given the heterogeneity of users of institutions' financial reporting, some concise background information on the wider economic environment that an institution operates in may be necessary to understand the context for specific disclosures. Financial institutions should also actively consider whether current or past disclosures should be 'rolled forward' without change or should be adapted as a situation evolves.	2-3
4	**Disclosures should allow comparisons over time and between institutions** This principle aims at enhancing comparability of disclosures, both	

[3] http://www.eba.europa.eu/documents/10180/16094/Disclosure-principles.pdf

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
	over time and between institutions. Comparability over time is essential to allow users to monitor the evolution of an entity and is especially important in prolonged periods of turbulence. This was clearly illustrated by the disclosure recommendations developed by the Financial Stability Forum and the Senior Supervisors Group.[2] In addition, financial institutions should present their disclosures in a way that facilitates comparability across institutions. Discussions in industry fora, analysis of peer disclosures and, for specific information items (in particular for quantitative disclosures) standardised formats are considered very useful in this regard. Past (and ongoing) industry initiatives, e.g. on securitisation disclosures are positive examples of such efforts.	
5	**Financial institutions should seek to early adopt new disclosure regulations.** This principle aims to encourage financial institutions to early adopt new disclosure standards and best practice recommendations – whether issued by standard-setters, supervisors or regulators - as soon as possible, especially if these have been issued to deal with activities that are under stress. In that respect, financial institutions should disclose whether new disclosure regulations have been adopted and the reasons behind their decision.	3
6	**Financial institutions should specify whether and to what extent information has been reviewed or verified by external auditors** Financial institutions should specify clearly what information is audited and what is not and, where relevant, whether it has been subject to a different level of assurance. Similarly, financial institutions should ensure that the information has been through adequate internal verification processes for public disclosure.	4
7	**Financial institutions should provide sufficient information on the business model underlying the activities under stress and their significance.** Disclosures should cover: • background information on the business model underlying the activities under stress (to put the disclosures into context) with a description of the degree of involvement of an institution in such activities; • an explanation of how activities contribute to an institution's	4

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
	value creation process; • a discussion of the impact a stressed situation has had on the institution's strategy and objectives, including changes in business orientation or policies. To understand an institution's overall risk profile, it is important to know why and to what extent the institution is engaged in activities that may have material adverse effects on its financial situation. The precise nature of the activities where difficulties have been encountered (or where they are likely to arise in the short-term) should be stated clearly. The information should be concise and focused. In particular, it is important that institutions explain the significance of activities for their business. Where the institution intends to adapt its business model or discontinue certain activities, this should be clearly explained so users can understand the extent and rationale of the change.	
8	**Financial institutions should provide clear and accurate information regarding the impacts the activities under stress have on results and on risk exposures** Disclosures should cover: • the level of exposures related to the activities under stress and the precise nature of the risks involved ; • detailed information on losses; • the nature of the protection implemented or acquired to cover the risk and the quantitative impact of risk mitigation; • some narrative comments on possible developments in the situation. To allow readers to form a fair opinion of the risks incurred and the level of exposure, institutions are encouraged to present the information at an appropriate level of granularity (providing breakdowns by, for example, type of activities or instruments, geographical areas, business segments or credit quality, where relevant). In the current crisis, it has appeared most useful for institutions to describe their exposures both before and after hedging, as well as for major instruments to provide notional and carrying amounts. This has provided a useful means of evaluating the impact of possible developments in the situation. A distinction between realised and	4-5

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
	unrealised losses is also encouraged, as it provides extremely valuable information to users, especially in a fair value environment. Indeed, while realised losses relate to transactions that have been completed, unrealised losses relate to on-going activities and may, therefore, be reversed. A clear and detailed description of the impact of the activities under stress on the income statement is desirable to support a user's overall understanding of the institution's results. Banks are also encouraged to provide – with the necessary care - information on their expectations regarding possible developments in the situation.	
9	**Financial institutions should provide information regarding impacts on the institution's financial position** Disclosures should cover: • the impact of the activities in question on the level of capital and on the resulting solvency ratio; and • the impact on the institution's liquidity position. The protection offered by the level and quality of the institution's capital contributes significantly to market confidence. The solvency ratio provides a kind of synthesis of an institution's financial situation since it reflects the changes in own funds and also any possible reassessment of risks in a deteriorating situation. Detailed disclosures are, therefore, needed to explain changes in the level of the solvency ratio due to the stressed situation and, in the extreme circumstances observed during the financial crisis, any recapitalisation measures taken to face it. Also, institutions are expected to provide some detail of the impact on the institution's liquidity position. If quantitative data on liquidity is considered sensitive or detrimental to an institution's situation, there should be, at least, sufficient qualitative disclosures to give users an understanding of its position.	5
10	**Financial institutions should provide information on the management of the risks involved in activities under stress** Disclosures should cover: • a description of relevant risk management practices, including	5-6

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
	associated governance arrangements where necessary; and • a description of any measures taken to enhance risk management processes. Institutions are urged to avoid generic information on their processes for identifying, measuring, controlling and monitoring risks. Institutions should include specific information on the risk management of the activities or instruments concerned, such as specific valuation and reporting processes, effective operational limits and corrective measures underway to enhance those processes where necessary (including those decided after the reporting date).	
11	**Financial institutions should provide detailed information with regard to critical accounting issues** Disclosures should cover: • an adequate description of the accounting policies that are of particular relevance for the activities in question; • details of relevant changes, if any; and • detailed information where significant judgement has been applied. Financial institutions are encouraged to highlight accounting policies that are of particular relevance for the areas or activities under stress. Such descriptions are most valuable when they focus on the specificities of the situation faced by the institution, rather than recycling generic descriptions. Clear information on management's judgements affecting accounting figures is of the utmost importance as it can significantly affect the amounts recognised in the financial statements. Particular focus should be given to areas where management judgement is applied to areas or activities under stress.	6

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
12	**Financial institutions should ensure that disclosures regarding activities under stress can be easily located** CEBS has experienced that disclosures on specific events or situations under stress are particular helpful when provided together in one section of a report / document or in a specific communiqué. Irrespective of the presentation, it is essential that, where appropriate, the disclosures are accompanied by appropriate cross-references to allow users to navigate between all relevant information.	6
13	**Financial institutions should provide information at an appropriate level of granularity** The appropriate level of granularity for disclosure purposes is based on management's assessment. In considering the appropriate level of granularity, financial institutions should strive to disaggregate information on items that do not share similar characteristics. The information should be presented in a clear and transparent fashion, without resulting in information overload.	
14	**Financial institutions should strike an appropriate balance between quantitative information and narrative information** Generic (or "boilerplate") disclosures which simply add to the quantity rather than quality of disclosure and fail to convey meaningful information should be avoided. The use of tabular formats for quantitative information may be useful in providing clarity and increasing comparability across institutions. Associated narrative information should add value to quantitative disclosures by way of analysis and interpretation. The use of illustrative tables and overviews is encouraged as it is deemed particularly helpful in guiding the readers through the report.	7
15	**Financial institutions should continue to develop an educational approach** Financial institutions should further develop an educational approach which aims to 'tell a story' about their activities in a consistent and logical way – i.e. how the institution has performed and what its primary future risks are. Financial institutions should as far as possible use plain language, provide explanations of terminology (which can resolve possible ambiguity for the reader), ensure use of consistent terminology and consider the inclusion of summaries or synopses.	7

TABLE 3: Principles for Disclosures in Times of Stress[3] By Committee of European Banking Supervisors (CEBS) 2010		
#	Risk Disclosure Attribute/Component	Page
16	**Financial institutions should clearly specify when not exposed to particular activities under stress where this information is likely to be decision-useful for users** Financial institutions should inform markets when they do not have significant exposure to activities under stress, if, this is likely to constitute decision-useful information for users. An explicit mention of a low or non-existent level of involvement may be important information for users if this may not already be clear and is, therefore, deemed relevant.	7