

---

**STATUTORY BOARD  
FINANCIAL  
REPORTING STANDARD**

---

**SB-FRS 107**

Guidance on Implementing  
**Financial Instruments: Disclosures**

# CONTENTS

|   | <i>Paragraphs</i> |
|---|-------------------|
| <b>INTRODUCTION</b>   | <b>IG1</b>        |
| <b>CLASSES OF FINANCIAL INSTRUMENTS AND LEVEL OF DISCLOSURE</b>                     | <b>IG5</b>        |
| <b>SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE</b> | <b>IG7</b>        |
| Financial liabilities at fair value through profit or loss                          | <b>IG7</b>        |
| Defaults and breaches   | <b>IG12</b>       |
| Total interest expense  | <b>IG13</b>       |
| Fair value  | <b>IG14</b>       |
| <b>NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS</b>                | <b>IG15</b>       |
| Qualitative disclosures   | <b>IG15</b>       |
| Quantitative disclosures  | <b>IG18</b>       |
| Credit risk   | <b>IG21</b>       |
| <i>Collateral and other credit enhancements pledged</i>                             | <b>IG22</b>       |
| <i>Credit quality</i>   | <b>IG23</b>       |
| <i>Financial assets that are either past due or impaired</i>                        | <b>IG26</b>       |
| Market risk   | <b>IG32</b>       |
| <i>Other market risk disclosures</i>  | <b>IG37</b>       |
| <b>DERECOGNITION</b>  | <b>IG40A</b>      |
| <b>DISCLOSURES</b>  | <b>IG40D</b>      |
| <b>TRANSITION</b>   | <b>IG41</b>       |

## Guidance on implementing SB-FRS 107 *Financial Instruments: Disclosures*

*This guidance accompanies, but is not part of, SB-FRS 107.*

### Introduction

---

- IG1 This guidance suggests possible ways to apply some of the disclosure requirements in SB-FRS 107. The guidance does not create additional requirements.
- IG2 For convenience, each disclosure requirement in the SB-FRS is discussed separately. In practice, disclosures would normally be presented as an integrated package and individual disclosures might satisfy more than one requirement. For example, information about concentrations of risk might also convey information about exposure to credit or other risk.
- IG3 [Deleted]  
-IG4

### Classes of financial instruments and level of disclosure (paragraphs 6 and B1–B3)

---

- IG5 Paragraph B3 states that ‘an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this SB-FRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics.’ To satisfy the requirements, an entity may not need to disclose all the information suggested in this guidance.
- IG6 Paragraph 17(c) of SB-FRS 1 requires an entity to ‘provide additional disclosures when compliance with the specific requirements in SB-FRSs 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.’

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

---

#### Financial liabilities at fair value through profit or loss (paragraphs 10(a)(i) and B4)

- IG7 The following example illustrates the calculation that an entity might perform in accordance with paragraph B4 of Appendix B of the SB-FRS.
- IG8 On 1 January 20X1, an entity issues a 10-year bond with a par value of CU150,000<sup>1</sup> and an annual fixed coupon rate of 8 per cent, which is consistent with market rates for bonds with similar characteristics.
- IG9 The entity uses LIBOR as its observable (benchmark) interest rate. At the date of inception of the bond, LIBOR is 5 per cent. At the end of the first year:
- (a) LIBOR has decreased to 4.75 per cent.

---

<sup>1</sup> In this guidance, monetary amounts are denominated in ‘currency units (CU)’.

(b) the fair value for the bond is CU153,811, consistent with an interest rate of 7.6 per cent.<sup>2</sup>

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

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

|   |   |
|---|---|
| <p>[paragraph B4(a)]</p> <p>First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.</p>  | <p>At the start of the period of a 10-year bond with a coupon of 8 per cent, the bond's internal rate of return is 8 per cent.</p> <p>Because the observed (benchmark) interest rate (LIBOR) is 5 per cent, the instrument-specific component of the internal rate of return is 3 per cent.</p>   |
| <p>[paragraph B4(b)]</p> <p>Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument specific component of the internal rate of return as determined in accordance with paragraph B4(a).</p> | <p>The contractual cash flows of the instrument at the end of the period are:</p> <ul style="list-style-type: none"> <li>• interest: CU12,000<sup>3</sup> per year for each of years 2–10.</li> <li>• principal: CU150,000 in year 10.</li> </ul> <p>The discount rate to be used to calculate the present value of the bond is thus 7.75 per cent, which is 4.75 per cent end of period LIBOR rate, plus the 3 per cent instrument-specific component.</p> <p>This gives a present value of CU152,367.<sup>4</sup></p> |
| <p>[paragraph B4(c)]</p> <p>The difference between the observed market price of the liability at the end of the period and the amount determined in accordance with paragraph B4(b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.</p>  | <p>The market price of the liability at the end of the period is CU153,811.<sup>5</sup></p> <p>Thus, the entity discloses CU1,444, which is CU153,811–CU152,367, as the increase in fair value of the bond that is not attributable to changes in market conditions that give rise to market risk.</p>  |

## Defaults and breaches (paragraphs 18 and 19)

<sup>2</sup> This reflects a shift in LIBOR from 5 per cent to 4.75 per cent and a movement of 0.15 per cent which, in the absence of other relevant changes in market conditions, is assumed to reflect changes in credit risk of the instrument.

<sup>3</sup> CU150,000×8% = CU12,000

<sup>4</sup> PV = [CU12,000×(1–(1+0.0775)<sup>-9</sup>)/0.0775]+CU150,000×(1+0.0775)<sup>-9</sup>

<sup>5</sup> market price = [CU12,000×(1–(1+0.076)<sup>-9</sup>)/0.076]+CU150,000×(1+0.076)<sup>-9</sup>

IG12 Paragraphs 18 and 19 require disclosures when there are any defaults or breaches of loans payable. Any defaults or breaches may affect the classification of the liability as current or non-current in accordance with SB-FRS 1.

## Total interest expense (paragraph 20(b))<sup>6</sup>

- IG13 Total interest expense disclosed in accordance with paragraph 20(b) is a component of finance costs, which paragraph 82(b) of SB-FRS 1 requires to be presented separately in the statement of comprehensive income. The line item for finance costs may also include amounts associated with non-financial liabilities.

## Fair value (paragraphs 28)

IG13A [deleted]  
-IG13B

- IG14 The fair value of financial instruments that are not traded in active markets is measured in accordance with SB-FRS 113 *Fair Value Measurement* and paragraph AG76 of SB-FRS 39. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with SB-FRS 39 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph AG76(b) of SB-FRS 39). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

| <b>Background</b>   |
|---|
| <p>On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.</p> <p>The transaction price of CU15 million is the fair value at initial recognition.</p> <p>After initial recognition, the entity will apply a valuation technique to measure the financial assets' fair value. This valuation technique uses inputs other than data from observable markets.</p> <p>At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.</p> <p>The entity has existing differences of CU5 million at 1 January 20X1.</p> <p><b>Application of requirements</b></p> <p>The entity's 20X2 disclosure would include the following:</p> <p><i>Accounting policies</i></p> <p>The entity uses the following valuation technique to measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with SB-FRS 113 and SB-FRS 39, is normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].</p> <p style="text-align: right;"><b><i>continued...</i></b></p> |

<sup>6</sup> In *Improvements to SB-FRSs* issued in October 2008, paragraph IG13 was amended and 'total interest income' as a component of finance costs was removed. This amendment removed an inconsistency with paragraph 32 of SB-FRS 1 *Presentation of Financial Statements*, which precludes the offsetting of income and expenses (except when required or permitted by a SB-FRS).

*...continued*

*In the notes to the financial statements*

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with SB-FRS 113 and SB-FRS 39, the fair value of an instrument at inception is normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy].

The differences yet to be recognised in profit or loss are as follows:

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

## **Nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)**

### **Qualitative disclosures (paragraph 33)**

IG15 The type of qualitative information an entity might disclose to meet the requirements in paragraph 33 includes, but is not limited to, a narrative description of:

- (a) the entity's exposures to risk and how they arose. Information about risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions.
- (b) the entity's policies and processes for accepting, measuring, monitoring and controlling risk, which might include:
  - (i) the structure and organisation of the entity's risk management function(s), including a discussion of independence and accountability;
  - (ii) the scope and nature of the entity's risk reporting or measurement systems;
  - (iii) the entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and
  - (iv) the entity's processes for monitoring the continuing effectiveness of such hedges or mitigating devices.
- (c) the entity's policies and procedures for avoiding excessive concentrations of risk.

IG16 Information about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing

or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.

- IG17 In accordance with paragraph 33(c), entities disclose any change in the qualitative information from the previous period and explain the reasons for the change. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed.

### **Quantitative disclosures (paragraphs 34–42 and B7–B28)**

- IG18 Paragraph 34 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

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

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

- IG19 In accordance with paragraph B8, disclosure of concentrations of risk includes a description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries.

- IG20 When quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 35 requires further disclosure. To meet this requirement, an entity might disclose the highest, lowest and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures.

### **Credit risk (paragraphs 36–38, B9 and B10)**

- IG21 Paragraph 36 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured consumer loans, and commercial loans each have different economic characteristics.



*Collateral and other credit enhancements pledged (paragraph 36(b))*

- IG22 Paragraph 36(b) requires an entity to describe collateral available as security for assets it holds and other credit enhancements obtained. An entity might meet this requirement by disclosing:
- (a) the policies and processes for valuing and managing collateral and other credit enhancements obtained;
  - (b) a description of the main types of collateral and other credit enhancements (examples of the latter being guarantees, credit derivatives, and netting agreements that do not qualify for offset in accordance with SB-FRS 32);
  - (c) the main types of counterparties to collateral and other credit enhancements and their creditworthiness; and
  - (d) information about risk concentrations within the collateral or other credit enhancements.

*Credit quality (paragraph 36(c))*

- IG23 Paragraph 36(c) requires an entity to disclose information about the credit quality of financial assets with credit risk that are neither past due nor impaired. In doing so, an entity might disclose the following information:
- (a) an analysis of credit exposures using an external or internal credit grading system;
  - (b) the nature of the counterparty;
  - (c) historical information about counterparty default rates; and
  - (d) any other information used to assess credit quality.
- IG24 When the entity considers external ratings when managing and monitoring credit quality, the entity might disclose information about:
- (a) the amounts of credit exposures for each external credit grade;
  - (b) the rating agencies used;
  - (c) the amount of an entity's rated and unrated credit exposures; and
  - (d) the relationship between internal and external ratings.
- IG25 When the entity considers internal credit ratings when managing and monitoring credit quality, the entity might disclose information about:
- (a) the internal credit ratings process;
  - (b) the amounts of credit exposures for each internal credit grade; and
  - (c) the relationship between internal and external ratings.

*Financial assets that are either past due or impaired (paragraph 37)*

- IG26 A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, an entity enters into a lending agreement that requires interest to be paid every month. On the first day of the next month, if interest has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

- IG27 When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.
- IG28 Paragraph 37(a) requires an analysis by class of the age of financial assets that are past due but not impaired. 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 more than three months;
  - (b) more than three months and not more than six months;
  - (c) more than six months and not more than one year; and
  - (d) more than one year.
- IG29 Paragraph 37(b) requires an analysis of impaired financial assets by class. This analysis might include:
- (a) the carrying amount, before deducting any impairment loss;
  - (b) the amount of any related impairment loss; and
  - (c) the nature and fair value of collateral available and other credit enhancements obtained.
- IG30– [Deleted]  
IG31

**Market risk (paragraphs 40–42 and B17–B28)**

- IG32 Paragraph 40(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. There are three types of market risk: interest rate risk, currency risk and other price risk. Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (ie the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk (eg a lessor of motor cars that writes residual value guarantees is exposed to residual value risk). Risk variables that are relevant to disclosing market risk include, but are not limited to:
- (a) the yield curve of market interest rates. It may be necessary to consider both parallel and non-parallel shifts in the yield curve.
  - (b) foreign exchange rates.
  - (c) prices of equity instruments.
  - (d) market prices of commodities.
- IG33 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. For example, relevant risk variables might include:
- (a) prevailing market interest rates, for interest-sensitive financial instruments such as a variable-rate loan; or
  - (b) currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.
- IG34 For interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:

- (a) interest income and expense;
- (b) other line items of profit or loss (such as trading gains and losses); and
- (c) when applicable, equity.

An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk.

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

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

#### **Interest rate risk**

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings, and other comprehensive income would have been CU2.8 million (20X1—CU3.2 million) higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings, and other comprehensive income would have been CU3.0 million (20X1—CU3.4 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as a available for sale. Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X).<sup>7</sup>

#### **Foreign currency exchange rate risk**

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

#### *Other market risk disclosures (paragraph 42)*

IG37 Paragraph 42 requires the disclosure of additional information when the sensitivity analysis disclosed is unrepresentative of a risk inherent in a financial instrument. For example, this can occur when:

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

<sup>7</sup> Paragraph 39(a) requires disclosure of a maturity analysis of liabilities.

- (b) financial assets are illiquid, eg when there is a low volume of transactions in similar assets and an entity finds it difficult to find a counterparty; or
- (c) an entity has a large holding of a financial asset that, if sold in its entirety, would be sold at a discount or premium to the quoted market price for a smaller holding.

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

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

For example, an entity may acquire a zero-cost interest rate collar that includes an out-of-the-money leveraged written option (eg the entity pays ten times the amount of the difference between a specified interest rate floor and the current market interest rate). The entity may regard the collar as an inexpensive economic hedge against a reasonably possible increase in interest rates. However, an unexpectedly large decrease in interest rates might trigger payments under the written option that, because of the leverage, might be significantly larger than the benefit of lower interest rates. Neither the fair value of the collar nor a sensitivity analysis based on reasonably possible changes in market variables would indicate this exposure. In this case, the entity might provide the additional information described above.

IG39 In the situation described in paragraph IG37(b), additional disclosure might include the reasons for the lack of liquidity and how the entity hedges the risk.

IG40 In the situation described in paragraph IG37(c), additional disclosure might include:

- (a) the nature of the security (eg entity name);
- (b) the extent of holding (eg 15 per cent of the issued shares);
- (c) the effect on profit or loss; and
- (d) how the entity hedges the risk.

## **Derecognition (paragraphs 42D and 42E)**

IG40A [Not used]

IG40B [Not used]

IG40C The following examples illustrate how an entity might meet the quantitative disclosure requirements in paragraphs 42D and 42E.

## Transferred financial assets that are not derecognised in their entirety

### Illustrating the application of paragraph 42D(d) and (e)

|   | Financial assets at fair value through profit or loss |             | Loans and receivables |                | Available-for-sale financial assets |
|---|---|-------------|-----------------------|----------------|-------------------------------------|
|   | CU million  |             | CU million            |                | CU million                          |
|   | Trading securities                                    | Derivatives | Mortgages             | Consumer loans | Equity investments                  |
| Carrying amount of assets   | X   | X           | X                     | X              | X                                   |
| Carrying amount of associated liabilities                                       | (X)   | (X)         | (X)                   | (X)            | (X)                                 |
| <b>For those liabilities that have recourse only to the transferred assets:</b> |   |             |                       |                |                                     |
| Fair value of assets  | X   | X           | X                     | X              | X                                   |
| Fair value of associated liabilities  | (X)   | (X)         | (X)                   | (X)            | (X)                                 |
| Net position  | X   | X           | X                     | X              | X                                   |

## Transferred financial assets that are derecognised in their entirety

### Illustrating the application of paragraph 42E(a)–(d)

| Type of continuing involvement | Cash outflows to repurchase transferred (derecognised) assets | Carrying amount of continuing involvement in statement of financial position |                                     |  | Fair value of continuing involvement | Maximum exposure to loss |
|--------------------------------|---|--|-------------------------------------|--|--------------------------------------|--------------------------|
|                                | CU million  | CU million   |                                     |  | CU million                           | CU million               |
|                                |   | Held for trading   | Available-for-sale financial assets | Financial liabilities at fair value through profit or loss | Assets                               | Liabilities              |
| Written put options            | (X)   |  |                                     | (X)  |                                      | (X)                      |
| Purchased call options         | (X)   | X  |                                     |  | X                                    |                          |
| Securities lending             | (X)   |  | X                                   | (X)  | X                                    | (X)                      |
| <b>Total</b>                   |   | X  | X                                   | (X)  | X                                    | (X)                      |

**Illustrating the application of paragraph 42E(e)**

| <b>Undiscounted cash flows to repurchase transferred assets</b> |   |                   |            |            |                  |           |           |                   |
|---|---|-------------------|------------|------------|------------------|-----------|-----------|-------------------|
|   | Maturity of continuing involvement CU million |                   |            |            |                  |           |           |                   |
| Type of continuing involvement                                  | Total   | less than 1 month | 1–3 months | 3–6 months | 6 months –1 year | 1–3 years | 3–5 years | more than 5 years |
| Written put options   | X   |                   | X          | X          | X                | X         |           |                   |
| Purchased call options  | X   |                   |            | X          | X                | X         |           | X                 |
| Securities lending  | X   | X                 | X          |            |                  |           |           |                   |

## **Disclosures (paragraphs 13A–13F and B40–B53)**

IG40D The following examples illustrate ways in which an entity might provide the quantitative disclosures required by paragraph 13C. However, these illustrations do not address all possible ways of applying the disclosure requirements as set out in paragraphs 13B–13E.

### **Background**

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties. The entity has the following recognised financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 13A.

### **Counterparty A:**

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty A that meet the offsetting criteria in paragraph 42 of SB-FRS 32. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of CU20 million in the entity's statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (CU10 million). The cash collateral of CU10 million does not meet the offsetting criteria in paragraph 42 of SB-FRS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

### **Counterparty B:**

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty B that do not meet the offsetting criteria in paragraph 42 of SB-FRS 32, but which the entity has the right to set off in the case of default and insolvency or bankruptcy. Consequently, the gross amount of the derivative asset (CU100 million) and the gross amount of the derivative liability (CU80 million) are presented separately in the entity's statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (CU20 million). The cash collateral of CU20 million does not meet the offsetting criteria in paragraph 42 of SB-FRS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

### **Counterparty C:**

The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralised borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is CU79 million and their fair value is CU85 million. The carrying amount of the collateralised borrowing (repo payable) is CU80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralised lending. The fair value of the financial assets (bonds) received as collateral (and not recognised in the entity's statement of financial position) is CU105 million. The carrying amount of the collateralised lending (reverse repo receivable) is CU90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in paragraph 42 of SB-FRS 32. Consequently, the related repo payable and repo receivable are presented separately in the entity's statement of financial position.

## Illustrating the application of paragraph 13C(a)–(e) by type of financial instrument

*Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements*

CU million

| As at<br>31 December<br>20XX   | (a)  | (b)  | (c)=(a)-(b)   | (d)  | (e)=(c)-(d)                               |               |
|--|--|--|---|--|---|---------------|
|  | Gross<br>amounts of<br>recognised<br>financial<br>assets | Gross<br>amounts of<br>recognised<br>financial<br>liabilities<br>set off in the<br>statement<br>of financial<br>position | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>statement<br>of financial<br>position | Related amounts not set off<br>in the statement of financial<br>position |   | Net<br>amount |
| Description  |  |  |   | (d)(i), (d)(ii)<br>Financial<br>instruments                              | (d)(ii)<br>Cash<br>collateral<br>received |               |
| Derivatives  | 200  | (80)   | 120   | (80)   | (30)                                      | 10            |
| Reverse<br>repurchase,<br>securities<br>borrowing and<br>similar<br>agreements | 90   | -  | 90  | (90)   | -   | -             |
| Other<br>financial<br>instruments  | -  | -  | -   | -  | -   | -             |
| <b>Total</b>   | <b>290</b>   | <b>(80)</b>  | <b>210</b>  | <b>(170)</b>   | <b>(30)</b>                               | <b>10</b>     |



*Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements*

CU million

| As at<br>31 December<br>20XX                                      | (a)   | (b)   | (c)=(a)-(b)   | (d)  | (e)=(c)-(d)                              |            |
|---|---|---|---|--|--|------------|
|   |   |   |   | Related amounts not set<br>off in the statement of<br>financial position |  |            |
| Description   | Gross<br>amounts of<br>recognised<br>financial<br>liabilities | Gross<br>amounts of<br>recognised<br>financial<br>assets set<br>off in the<br>statement of<br>financial<br>position | Net amounts<br>of financial<br>liabilities<br>presented in<br>the statement<br>of financial<br>position | (d)(i), (d)(ii)<br>Financial<br>instruments                              | (d)(ii)<br>Cash<br>collateral<br>pledged | Net amount |
| Derivatives   | 160   | (80)  | 80  | (80)   | -  | -          |
| Repurchase,<br>securities<br>lending and<br>similar<br>agreements | 80  | -   | 80  | (80)   | -  | -          |
| Other<br>financial<br>instruments                                 | -   | -   | -   | -  | -  | -          |
| Total   | 240   | (80)  | 160   | (160)  | -  | -          |

## Illustrating the application of paragraph 13C(a)–(c) by type of financial instrument and paragraph 13C(c)–(e) by counterparty

*Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements*

CU million

| As at 31 December 20XX  | (a)  | (b)  | (c)=(a)-(b)  |
|---|--|--|--|
| Description   | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position |
| Derivatives   | 200  | (80)   | 120  |
| Reverse repurchase, securities borrowing and similar agreements | 90   | -  | 90   |
| Other financial instruments                                     | -  | -  | -  |
| Total   | 290  | (80)   | 210  |

*Net financial assets subject to enforceable master netting arrangements and similar agreements by counterparty*

CU million

| As at 31 December 20XX | (c)  | (d)  |                                  | (e)=(c)-(d) |
|------------------------|--|--|----------------------------------|-------------|
| Description            | Net amounts of financial assets presented in the statement of financial position | Related amounts not set off in the statement of financial position |                                  | Net amount  |
|                        |  | (d)(i), Financial instruments                                      | (d)(ii) Cash collateral received |             |
| Counterparty A         | 20   | -  | (10)                             | 10          |
| Counterparty B         | 100  | (80)   | (20)                             | -           |
| Counterparty C         | 90   | (90)   | -                                | -           |
| Other                  | -  | -  | -                                | -           |
| Total                  | 210  | (170)  | (30)                             | 10          |

*Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements*

CU million

| As at 31 December 20XX                                | (a)   | (b)   | (c)=(a)-(b)   |
|---|---|---|---|
|   | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position |
| <b>Description</b>                                    |   |   |   |
| Derivatives   | 160   | (80)  | 80  |
| Repurchase, securities lending and similar agreements | 80  | -   | 80  |
| Other financial instruments                           | -   | -   | -   |
| <b>Total</b>  | <b>240</b>  | <b>(80)</b>   | <b>160</b>  |

*Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty*

CU million

| As at 31 December 20XX | (c)   | (d)  |                                 | (e)=(c)-(d) |
|------------------------|---|--|---------------------------------|-------------|
|                        | Net amounts of financial liabilities presented in the statement of financial position | Related amounts not set off in the statement of financial position |                                 | Net amount  |
|                        |   | (d)(i), Financial instruments                                      | (d)(ii) Cash collateral pledged |             |
| Counterparty A         | -   | -  | -                               | -           |
| Counterparty B         | 80  | (80)   | -                               | -           |
| Counterparty C         | 80  | (80)   | -                               | -           |
| Other                  | -   | -  | -                               | -           |
| <b>Total</b>           | <b>160</b>  | <b>(160)</b>   | <b>-</b>                        | <b>-</b>    |

## Transition (paragraph 44)

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

- (a) a **first-time adopter** is an entity preparing its first SB-FRS financial statements (see SB-FRS 101 *First-time Adoption of Financial Reporting Standards*).
- (b) an **existing SB-FRS user** is an entity preparing its second or subsequent SB-FRS financial statements.

|  | Accounting disclosures<br>(paragraphs 7–30)                                   | Risk disclosures<br>(paragraphs 31–42)  |
|--|---|---|
| <b>Accounting periods beginning before 1 January 2006</b>  |   |   |
| First-time adopter not applying SB-FRS 107 early   | Applies SB-FRS 32 but exempt from providing SB-FRS 32 comparative information | Applies SB-FRS 32 but exempt from providing SB-FRS 32 comparative information |
| First-time adopter applying SB-FRS 107 early   | <b>Exempt from presenting SB-FRS 107 comparative information</b>              | <b>Exempt from presenting SB-FRS 107 comparative information</b>              |
| Existing SB-FRS user not applying SB-FRS 107 early   | Applies SB-FRS 32. Provides full SB-FRS 32 comparative information            | Applies SB-FRS 32. Provides full SB-FRS 32 comparative information            |
| Existing SB-FRS user applying SB-FRS 107 early   | Provides full SB-FRS 107 comparative information                              | <b>Exempt from presenting SB-FRS 107 comparative information<sup>8</sup></b>  |
| <b>Accounting periods beginning on or after 1 January 2006 and before 1 January 2007</b>             |   |   |
| First-time adopter not applying SB-FRS 107 early   | Applies SB-FRS 32. Provides full SB-FRS 32 comparative information            | Applies SB-FRS 32. Provides full SB-FRS 32 comparative information            |
| First-time adopter applying SB-FRS 107 early   | Provides full SB-FRS 107 comparative information                              | Provides full SB-FRS 107 comparative information                              |
| Existing SB-FRS user not applying SB-FRS 107 early   | Applies SB-FRS 32. Provides full SB-FRS 32 comparative information            | Applies SB-FRS 32. Provides full SB-FRS 32 comparative information            |
| Existing SB-FRS user applying SB-FRS 107 early   | Provides full SB-FRS 107 comparative information                              | Provides full SB-FRS 107 comparative information                              |
| <b>Accounting periods beginning on or after 1 January 2007 (mandatory application of SB-FRS 107)</b> |   |   |
| First-time adopter   | Provides full SB-FRS 107 comparative information                              | Provides full SB-FRS 107 comparative information                              |
| Existing SB-FRS user   | Provides full SB-FRS 107 comparative information                              | Provides full SB-FRS 107 comparative information                              |

<sup>8</sup> See paragraph 44 of SB-FRS 107