STATUTORY BOARD FINANCIAL REPORTING STANDARD

SB-FRS 107
Amendments

Improving Disclosures about Financial Instruments

Amendments to SB-FRS 107 Financial Instruments: Disclosures

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STATUTORY BOARD FINANCIAL REPORTING STANDARD

SB-FRS 107

Amendments to Statutory Board Financial Reporting Standard 107 *Financial Instruments: Disclosures*

In the Introduction, paragraph IN5A is added.

Introduction

Main features of the SB-FRS

IN5A Amendments to the SB-FRS, issued in May 2009, require enhanced disclosures about fair value measurements and liquidity risk. These have been made to address application issues and provide useful information to users.

Paragraph 27 is amended (new text is underlined and deleted text is struck through). Paragraphs 27A and 27B are added.

Significance of financial instruments for financial position and performance

Other disclosures

Fair value

27 An entity shall disclose for each class of financial instruments~~:~~

~~(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. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

~~(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 SB-FRS 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 other comprehensive income, 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.~~

27A To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

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

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.

(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);

(ii) total gains or losses recognised in other comprehensive income;

(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).

(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. 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 other comprehensive income, total equity.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

Paragraph 39 is amended (new text is underlined and deleted text is struck through). Paragraph 44G is added.

Liquidity risk

39 An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.~~; and~~

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).

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

Effective date and transition

44G *Improving Disclosures about Financial Instruments* (Amendments to SB-FRS 107), issued in May 2009, amended paragraphs 27, 39 and B11 and added paragraphs 27A, 27B, B10A and B11A–B11F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Appendix A
Defined terms

The following term is amended: new text is underlined.

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

Appendix B
Application guidance

A heading and paragraph B11 are amended (new text is underlined and deleted text is struck through). Paragraphs B10A and B11A–B11F are added and paragraphs B12–B16 are deleted. Paragraphs B12 and B13 are replaced by paragraph B11C(a) and (b). Paragraphs B14 and B16 are replaced by paragraph B11D.

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

~~Contractual maturity analysis~~ <u>Quantitative liquidity risk disclosures</u> (paragraph<u>s 34(a) and</u> 39(a) <u>and (b)</u>)

B10A In accordance with paragraph 34(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

(a) occur significantly earlier than indicated in the data, or

(b) be for significantly different amounts from those indicated in the data (eg for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 39(a) or (b).

B11 In preparing the ~~contractual~~ maturity <u>analyses</u> ~~analysis for financial liabilities~~ required by paragraph 39(a) <u>and (b)</u> an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) not later than one month;

(b) later than one month and not later than three months;

(c) later than three months and not later than one year; and

(d) later than one year and not later than five years.

B11A In complying with paragraph 39(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) financial instrument. For such an instrument, an entity shall apply paragraph 39(a).

B11B Paragraph 39(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

(a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

(b) all loan commitments.

B11C Paragraph 39(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

(a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in 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. [includes text from deleted paragraph B12]

(b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. [text from deleted paragraph B13]

(c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

B11D The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) 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 statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. 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 end of the period. [includes text from deleted paragraphs B14 and B16]

B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

(a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;

(b) holds deposits at central banks to meet liquidity needs;

(c) has very diverse funding sources;

(d) has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) has internal control processes and contingency plans for managing liquidity risk;

(f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);

(g) has instruments that could require the posting of collateral (eg margin calls for derivatives);

(h) has instruments that allows the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or

(i) has instruments that are subject to master netting agreements. [includes text from deleted paragraph IG31]

B12–B16 [Deleted] ~~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 statement of financial position because the amount in the statement of financial position 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 end of the reporting period. 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 end of the reporting period.~~

Amendment to Financial Reporting Standard 104 *Insurance Contracts*

Paragraph 39(d) is amended (new text is underlined and deleted text is struck through).

Disclosure

Nature and extent of risks arising from insurance contracts

39 (d) information about credit risk, liquidity risk and market risk that paragraphs 31–42 of SB-FRS 107 would require if the insurance contracts were within the scope of SB-FRS 107. However:

(i) an insurer need not provide the maturity ~~analysis~~ analyses required by paragraph 39(a) and (b) of SB-FRS 107 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 statement of financial position.

(ii) ...

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

After paragraph IG13 a heading is amended (new text is underlined) and paragraphs IG13A and IG13B are added.

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

Fair value (paragraphs 27–28)

IG13A SB-FRS 107 requires disclosures about the level in the fair value hierarchy in which fair value measurements are categorised for assets and liabilities measured in the statement of financial position. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27B(a). (Disclosure of comparative information is also required, but is not included in the following example.)

Assets measured at fair value

		Fair value measurement at end of the reporting period using:		
Description	**31 Dec 20X2**	**Level 1 CU million**	**Level 2 CU million**	**Level 3 CU million**
Financial assets at fair value through profit or loss				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2
Available-for-sale financial assets				
Equity investments	75	30	40	5
Total	**214**	**87**	**115**	**12**

(Note: For liabilities, a similar table might be presented.)

IG13B SB-FRS 107 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a valuation technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27B(c). (Disclosure of comparative information is also required, but is not included in the following example.)

Assets measured at fair value based on Level 3

	Fair value measurement at the end of the reporting period			
	Financial assets at fair value through profit or loss		**Available-for-sale financial assets**	**Total**
	Trading securities CU million	Trading derivatives CU million	Equity investments CU million	CU million
Opening balance	6	5	4	15
Total gains or losses				
in profit or loss	(2)	(2)	-	(4)
in other comprehensive income	-	-	(1)	(1)
Purchases	1	2	2	5
Issues	-	-	-	-
Settlements	-	(1)	-	(1)
Transfers out of Level 3	-	(2)	-	(2)
Closing balance	**5**	**2**	**5**	**12**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(1)	(1)	-	(2)

Gains or losses included in profit or loss for the period (above) are presented in trading income and in other income as follows:

	Trading income
Total gains or losses included in profit or loss for the period	(4)
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(2)

(Note: For liabilities, a similar table might be presented.)

Two headings and paragraphs IG30 and IG31 are deleted. Some text is moved to paragraph B11F in Appendix B, Application guidance. New text is underlined and deleted text is struck through.

~~Liquidity risk (paragraphs 39 and B11)~~

~~Liquidity management (paragraph 39(b))~~

IG30– IG31 [Deleted] ~~If an entity manages liquidity risk on the basis of expected maturity dates, it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. If an entity discloses such an expected maturity analysis, it might clarify that expected dates are based on estimates made by management, and explain how the estimates are determined and the principal reasons for differences from the contractual maturity analysis that is required by paragraph 39(a).~~

~~IG31~~ ~~Paragraph 39(b) requires the entity to describe how it manages the liquidity risk inherent in~~

~~the maturity analysis of financial liabilities required in paragraph 39(a). The factors that the entity might consider in providing this disclosure include, but are not limited to, whether the entity:~~

~~(a)~~ ~~expects some of its liabilities to be paid later than the earliest date on which the entity can be required to pay (as may be the case for customer deposits placed with a bank);~~

~~(b)~~ ~~expects some of its undrawn loan commitments not to be drawn;~~

~~(c)~~ ~~holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs;~~

~~(d)~~ ~~has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand by credit facilities) that it can access to meet liquidity needs;~~

~~(e)~~ ~~holds financial assets for which there is not a liquid market, but which are expected to generate cash inflows (principal or interest) that will be available to meet cash outflows on liabilities;~~

~~(f)~~ ~~holds deposits at central banks to meet liquidity needs;~~

~~(g)~~ ~~has very diverse funding sources; or~~

~~(h)~~ ~~has significant concentrations of liquidity risk in either its assets or its funding sources.~~

Amendment to guidance on implementing Statutory Board Financial Reporting Standard 104 *Insurance Contracts*

Paragraph IG65B is amended (new text is underlined and deleted text is struck through).

IG65B Paragraph 39(a) and (b) of SB-FRS 107 requires disclosure of a maturity analysis for financial liabilities that shows the remaining contractual maturities. For insurance contracts, the contractual maturity refers to the estimated date when contractually required cash flows will occur. This depends on factors such as when the insured event occurs and the possibility of lapse. However, SB-FRS 104 permits various existing accounting practices for insurance contracts to continue. As a result, an insurer may not need to make detailed estimates of cash flows to determine the amounts it recognises in the statement of financial position. To avoid requiring detailed cash flow estimates that are not required for measurement purposes, paragraph 39(d)(i) of SB-FRS 104 states that an insurer need not provide the maturity ~~analysis~~ analyses required by paragraph 39(a) and (b) of SB-FRS 107 (ie that shows the remaining contractual maturities of insurance contracts) if it discloses an analysis, by estimated timing, of the amounts recognised in the statement of financial position.