UNIT 7: DISCLOSURES

7.1 INTRODUCTION

Ind AS 107 provides disclosures for financial instruments to be made in the 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 end of the reporting period; and how the entity manages those risks.

7.2 SIGNIFICANCE OF FINANCIAL INSTRUMENTS

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.

Significance of FI

- Balance Sheet
- Statement of Profit and Loss
- Other disclosures

7.3 BALANCE SHEET

- **Categories of financial assets and financial liabilities**

  The carrying amounts of each of the following categories, as defined in Ind AS 109, shall be disclosed either in the balance sheet or in the notes:

  (a) Financial assets measured at fair value through profit or loss, showing separately

(i) those designated as such upon initial recognition or subsequently in accordance with Ind AS 109 (ie, financial asset whose credit risk exposure is managed through credit derivative that is measured at fair value through profit or loss and hence, such financial asset is also managed at fair value through profit or loss);

(ii) ***those measured as such in accordance with the election in paragraph 3.3.5 of Ind AS 109 (i.e. an entity may elect not to derecognise its financial liability that is included in investment fund or is an underlying item when, and only when, the entity repurchases its financial liability. The entity may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if the instrument were a financial asset, and measure it at fair value through profit or loss in accordance with Ind AS 109);*** and

(iii) those mandatorily measured at fair value through profit or loss in accordance with Ind AS 109.

(b) financial liabilities at fair value through profit or loss, showing separately –

(i) those designated as such upon initial recognition or subsequently in accordance with Ind AS 109 (ie, financial liability whose credit risk exposure is managed through credit derivative that is measured at fair value through profit or loss and hence, such financial liability is also managed at fair value through profit or loss; and

(ii) those that meet the definition of held for trading in Ind AS 109.

(c) financial assets measured at amortised cost.

(d) financial liabilities measured at amortised cost.

(e) financial assets measured at fair value through other comprehensive income, showing separately –

(i) financial assets that are measured at fair value through other comprehensive income in accordance with Ind AS 109;

(ii) investments in equity instruments designated as such upon initial recognition in accordance with Ind AS 109.

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

  - If the entity has designated as measured at fair value through profit or loss a financial asset (or group of financial assets) that would otherwise be measured at fair value through other comprehensive income or amortised cost, it shall disclose:

    (a) the maximum exposure to credit risk of the financial asset (or group of financial assets) at the end of the reporting period.

    (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 financial asset (or group of financial assets) 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 financial asset was designated.

  - If the entity has designated a financial liability as at fair value through profit or loss in accordance with Ind AS 109 and is required to present the effects of changes in that liability's credit risk in other comprehensive income, it shall disclose:

    (a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability

    (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.

(c) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

(d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

- If an entity has designated a financial liability as at fair value through profit or loss in accordance with Ind AS 109 and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss, it shall disclose:

  (a) 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; and

  (b) 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.

- **Investments in equity instruments designated at fair value through other comprehensive income**

  - If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income in accordance with Ind AS 109, it shall disclose:

    (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

    (b) the reasons for using this presentation alternative.

    (c) the fair value of each such investment at the end of the reporting period.

    (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

    (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

  - If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

    (a) the reasons for disposing of the investments

(b) the fair value of the investments at the date of derecognition

(c) the cumulative gain or loss on disposal.

- **Reclassifications**

  - An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with Ind AS 109. For each such event, an entity shall disclose –

    (a) the date of reclassification.

    (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.

    (c) the amount reclassified into and out of each category.

  - For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through profit or loss category so that they are measured at amortised cost or fair value through other comprehensive income in accordance with Ind AS 109:

    (a) the effective interest rate determined on the date of reclassification; and

    (b) the interest revenue recognised.

  - If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through other comprehensive income category so that they are measured at amortised cost; or out of the fair value through profit or loss category so that they are measured at amortised cost or fair value through other comprehensive income it shall disclose:

    (a) the fair value of the financial assets at the end of the reporting period; and

    (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets had not been reclassified.

- **Off-setting financial assets and financial liabilities**

  - An entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that have been off-set in accordance with Ind AS 32:

(a) the gross amounts of those recognised financial assets and recognised financial liabilities;

(b) the amounts that are set off in accordance with the criteria in Ind AS 32 when determining the net amounts presented in the balance sheet;

(c) the net amounts presented in the balance sheet;

(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in the information disclosed for amounts set off in paragraph (b) above, including:

 (i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of Ind AS 32; and

 (ii) amounts related to financial collateral (including cash collateral); and

(e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

♦ Collateral

➢ 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 Ind AS 109; and

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

➢ 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 for credit losses**

The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with Ind AS 109 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the balance sheet as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.

- **Compound financial instruments with multiple embedded derivatives**

  If an entity has issued an instrument that contains both a liability and an equity component 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**

  - For loans payable recognised at the end of the reporting period, 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 end of the reporting period; and

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

  - If, during the period, there were breaches of loan agreement terms other than those that are existing at the year end and covered by year-end disclosure above, an entity shall disclose the same information as required by paragraph above, 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 end of the reporting period).

7.4 STATEMENT OF PROFIT AND LOSS

An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with Ind AS 109, and those on financial assets or financial liabilities that are mandatorily measured at fair value through profit or loss in accordance with Ind AS 109 (eg financial liabilities that meet the definition of held for trading in Ind AS 109).

For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

(ii) financial liabilities measured at amortised cost

(iii) financial assets measured at amortised cost

(iv) investments in equity instruments designated at fair value through other comprehensive income in accordance with Ind AS 109

(v) financial assets measured at fair value through other comprehensive income in accordance with Ind AS 109, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

(b) total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income (showing these amounts separately); or financial liabilities that are not measured 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 and 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.

7.5 OTHER DISCLOSURES

- **Accounting policies**

  An entity discloses its significant accounting policies comprising 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**

  An entity shall apply these disclosure requirements for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

  (a) an entity's risk management strategy and how it is applied to manage risk;

  (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

  (c) the effect that hedge accounting has had on the entity's balance sheet, statement of comprehensive income and statement of changes in equity.

- **Fair value**

  ➢ 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. 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.

  ➢ In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets. In such cases, the entity shall disclose by class of financial asset or financial liability:

    (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability

(b) 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.

(c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

- 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; or

  (b) for lease liabilities.

- In case of contracts with discretionary participation feature, where fair value cannot be determined reliably, 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 contracts 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**

- 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 end of the reporting period.

- The disclosures described below 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**

  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 –**

  For each type of risk arising from financial instruments, including – credit risk, liquidity risk and market risk, an entity shall disclose:

  (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity, for example the entity's board of directors or chief executive officer

  (b) certain detailed disclosures required for each type of risk mentioned above, to the extent not provided in accordance with (a).

  (c) concentration of risk if not apparent from the disclosures made in accordance with (a) and (b).

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

- **Credit risk:**

  An entity shall apply the disclosure requirements in paragraphs 35F–35N of Ind AS 107 (as described below) to financial instruments to which the impairment requirements in Ind AS 109 are applied. However:

  (a) For trade receivables, contract assets and lease receivables, ***paragraph 35J(a)*** applies to those trade receivables, contract assets or lease receivables on which lifetime expected credit losses are recognised in accordance with Ind AS 109, if those financial assets are modified while more than 30 days past due; and

  (b) paragraph 35K(b) does not apply to lease receivables.

- The credit risk disclosures described below shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

  (a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses

  (b) quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and

  (c) information about an entity's credit risk exposure (ie the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

- **The credit risk management practices**

  An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate:

  (a) how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:

    (i) financial instruments are considered to have low credit risk in accordance with Ind AS 109, including the classes of financial instruments to which it applies; and

    (ii) the presumption of Ind AS 109, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;

  (b) an entity's definitions of default, including the reasons for selecting those definitions;

  (c) how the instruments were grouped if expected credit losses were measured on a collective basis;

(d) how an entity determined that financial assets are credit-impaired financial assets;

(e) an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and

(f) how the requirements in Ind AS 109 for the modification of contractual cash flows of financial assets have been applied, including how an entity:

(i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with Ind AS 109; and

(ii) monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with Ind AS 109.

➢ An entity shall explain the inputs, assumptions and estimation techniques used to apply the impairment requirements in Ind AS 109. For this purpose, an entity shall disclose:

(a) the basis of inputs and assumptions and the estimation techniques used to:

(i) measure the 12-month and lifetime expected credit losses;

(ii) determine whether the credit risk of financial instruments has increased significantly since initial recognition; and

(iii) determine whether a financial asset is a credit-impaired financial asset.

(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and

(c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

➢ Quantitative and qualitative information about amounts arising from expected credit losses

To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) the loss allowance measured at an amount equal to 12-month expected credit losses;

(b) the loss allowance measured at an amount equal to lifetime expected credit losses for:

   (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

   (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

   (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with Ind AS 109

(c) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period.

- **Credit risk exposure**

To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

   (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

   (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured at life-time expected credit losses as an option provided in Ind AS 109.

➢ For all financial instruments to which the impairment requirements in Ind AS 109 are not applied, an entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not quality for offset in accordance with Ind AS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

(b) a description of collateral held as security and other credit enhancements, and their financial effect (eg quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

♦ **Liquidity risk**

An entity shall disclose:

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

(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.

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

♦ **Market risk**

➢ An entity shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, 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.

- 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.

Note: Students are advised to read the application guidance to Ind AS 107 for better understanding of the disclosure requirements related to financial instruments.