Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Amendments to HKFRS 7 *Financial Instruments: Disclosures* – Improving Disclosures about Financial Instruments

HKICPA Standard Setting Department Staff Summary (May 2009)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Amendments to HKFRS 7 *Financial Instruments: Disclosures*–Improving Disclosures about Financial Instruments form part of the focused response to the financial crisis and addresses the G20 conclusions aimed at improved transparency and enhanced accounting guidance. The improvements also reflect discussions on measuring and disclosing fair values of financial instruments when markets are no longer active.

2. Entities shall apply these amendments for annual periods beginning on or after 1 January 2009. However, an entity will not be required to provide comparative disclosures in the first year of application.

Reasons for issuing Amendments to HKFRS 7

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing Amendments to HKFRS 7 is to maintain international convergence arising from the issuance of Amendments to IFRS 7 by the International Accounting Standards Board (IASB).

4. The amendments introduce a three-level hierarchy for fair value measurement disclosures as follows:
   - Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
   - Level 2 – 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); and
   - Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

   The level in the fair value hierarchy within which the fair value measurement is categorised must be based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety. 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.

5. The amendments also require entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This is aimed at ensuring that the information disclosed enables users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity manages that risk.

Main features of the Amendments

Fair Value Disclosures

6. For fair value measurements recognised in the statement of financial position, the amendments require an entity to disclose, for each class of financial instruments, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. An entity shall provide the information required in a tabular format unless another format is more appropriate.

7. The amendments also require any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level.

Specific Level 3 Fair Value Measurement Disclosures

8. 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 (for example, 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.

9. The amendments also require disclosure of the amount of total gains or losses for the period in 8(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 such amounts have been presented in the statement of comprehensive income (or separate income statement).

10. For fair value measurement 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 the 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.

Liquidity Risk Disclosures

11. The amendments amend the definition of liquidity risk and thus require liquidity risk disclosures only for financial liabilities that are settled by delivering cash or another financial asset.

12. The requirements in paragraph 39(a) and (b) of HKFRS 7 relate to minimum benchmark disclosures as set out in paragraphs 34(b) and are expected to be relatively easy to apply. However, the IASB noted that the requirement to provide disclosures based on the remaining contractual maturities was difficult to apply for some derivative financial liabilities and did not always result in information that reflects how many entities manage liquidity risk for such instruments.

13. In this respect, the Standard has been amended so as to specify different liquidity risk disclosure requirements for derivative and non-derivative financial liabilities:

    i) For non-derivative financial liabilities, the quantitative maturity analysis disclosure based on remaining contractual maturities is not changed by the amendments. However, for issued guarantee contracts, the amendments require that the maximum amount of the guarantee be disclosed in the earliest period in which such a guarantee could be called; and
    ii) For derivative financial liabilities, the maturity analysis is required to include the remaining contractual maturities where these are essential for an understanding of the timing of cash flows. An embedded derivative shall not be separated from a hybrid (combined) financial instrument. For such an instrument, the disclosure requirements for non-derivative financial liabilities apply.

14. The amendments also require additional disclosure over how the data disclosed are determined. If the estimated cash flows included in the maturity analyses could either occur significantly earlier than indicated in the maturity analyses, or at significantly different amounts, the entity shall disclose this fact and provides further quantitative information to enable users to evaluate the extent of this risk.

Other references on Amendments to IFRS 7

1. Deloitte IAS Plus Update issued on IFRS 7 amended to improve disclosures about financial instruments
   http://www.iasplus.com/iasplus/0903ifrs7amendments.pdf

2. Ernst & Young "Supplement to IFRS outlook" Amendments to IFRS 7
   http://www.ey.com/Global/assets.nsf/International/IFRS_Supplement_to_IFRS_Outlook_Issue_31/$file/Supplement_31_unsecured.pdf

3. KPMG IFRS Briefing Sheet on *Improving Disclosures about Financial Instruments – Amendments to IFRS 7 Financial Instruments: Disclosures*
   http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS09126.pdf

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