

## **PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 30 FINANCIAL INSTRUMENTS: DISCLOSURES (PBE IPSAS 30)**

**Issued September 2014 and incorporates amendments to 31 January 2017 other than consequential amendments resulting from early adoption of PBE IPSASs 34 to 38 which deal with interests in other entities and PBE IFRS 9 *Financial Instruments***

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective dates, which are set out in paragraphs 53.1 to 53.3.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 30 *Financial Instruments: Disclosures* issued in May 2013.

## **PBE IPSAS 30 FINANCIAL INSTRUMENTS: DISCLOSURES**

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History of Amendments

**The following is available on the XRB website as additional material:**

IPSASB Basis for Conclusions

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Public Benefit Entity International Public Sector Accounting Standard 30 *Financial Instruments: Disclosures* is set out in paragraphs 1–55 and the Application Guidance. All the paragraphs have equal authority. PBE IPSAS 30 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 30, the IPSASB’s Basis for Conclusions on IPSAS 30, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

1. The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:
  - (a) The significance of financial instruments for the entity's financial position and performance; and
  - (b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
2. The principles in this Standard complement the principles for recognising, measuring, and presenting financial assets and financial liabilities in PBE IPSAS 28 *Financial Instruments: Presentation* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

## Scope

3. **This Standard shall be applied by all entities to all types of financial instruments, except:**
  - (a) **Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with PBE IPSAS 6 *Consolidated and Separate Financial Statements*, PBE IPSAS 7 *Investments in Associates*, or PBE IPSAS 8 *Interests in Joint Ventures*. However, in some cases, PBE IPSAS 6, PBE IPSAS 7, or PBE IPSAS 8 permits an entity to account for an interest in a controlled entity, associate, or joint venture using PBE IPSAS 29; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures unless the derivative meets the definition of an equity instrument in PBE IPSAS 28.**
  - (b) **Employers' rights and obligations arising from employee benefit plans, to which PBE IPSAS 25 *Employee Benefits* applies.**
  - (c) **Rights and obligations arising under insurance contracts. However, this Standard applies to:**
    - (i) **Derivatives that are embedded in insurance contracts if PBE IPSAS 29 requires the entity to account for them separately; and**
    - (ii) **An issuer of financial guarantee contracts if the issuer applies PBE IPSAS 29 in recognising and measuring the contracts, but shall apply PBE IFRS 4 *Insurance Contracts* if the issuer elects to apply that standard in recognising and measuring them.**

**In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.**
  - (d) **Financial instruments, contracts, and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payment applies, except for contracts within the scope of paragraphs 4–6 of PBE IPSAS 29, to which that Standard applies.**
  - (e) **Instruments that are required to be classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of PBE IPSAS 28.**
4. This Standard applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of PBE IPSAS 29. Unrecognised financial instruments include some financial instruments that, although outside the scope of PBE IPSAS 29, are within the scope of this Standard (such as some loan commitments).
5. This Standard applies to contracts to buy or sell a non-financial item that are within the scope of PBE IPSAS 29 (see paragraphs 4–6 of PBE IPSAS 29).
6. [Not used]
- 6.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
- 6.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (\*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**
7. [Not used]

## Definitions

8. The following terms are used in this Standard with the meanings specified:

**Credit risk** is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Currency risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Interest rate risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Liquidity risk** is 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.

**Loans payable** are financial liabilities, other than short-term trade payables on normal credit terms.

**Market risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

**Other price risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is **past due** when a counterparty has failed to make a payment when contractually due.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

## Classes of Financial Instruments and Level of Disclosure

- \*9. When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

## Significance of Financial Instruments for Financial Position and Financial Performance

10. 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.

### Statement of Financial Position

#### *Categories of Financial Assets and Financial Liabilities*

11. The carrying amounts of each of the following categories, as defined in PBE IPSAS 29, shall be disclosed either in the statement of financial position or in the notes:
- (a) Financial assets at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading in accordance with PBE IPSAS 29;
  - (b) Held-to-maturity investments;
  - (c) Loans and receivables;
  - (d) Available-for-sale financial assets;
  - (e) Financial liabilities at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading in accordance with PBE IPSAS 29; and
  - (f) Financial liabilities measured at amortised cost.

RDR 11.1 A Tier 2 entity is not required to make the separate disclosure required by paragraph 11(a).

RDR 11.2 A Tier 2 entity is not required to make the separate disclosure required by paragraph 11(e).

*Financial Assets or Financial Liabilities at Fair Value through Surplus or Deficit*

- \*12. If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through surplus or deficit, it shall disclose:
- (a) The maximum exposure to credit risk (see paragraph 43(a)) of the loan or receivable (or group of loans or receivables) 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 loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:
    - (i) As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
    - (ii) Using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate, or index of prices or rates.
  - (d) The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.
- \*13. If the entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 10 of PBE IPSAS 29, it shall disclose:
- (a) The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:
    - (i) As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix A, paragraph AG4); or
    - (ii) Using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate, or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.
  - (b) The difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.
- \*14. The entity shall disclose:
- (a) The methods used to comply with the requirements in paragraphs 12(c) and 13(a).
  - (b) If the entity believes that the disclosure it has given to comply with the requirements in paragraph 12(c) or 13(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

*Reclassification*

15. If the entity has reclassified a financial asset (in accordance with paragraphs 60–63 of PBE IPSAS 29) as one measured:
- (a) At cost or amortised cost, rather than at fair value; or
  - (b) At fair value, rather than at cost or amortised cost;
- it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

16. If the entity has reclassified a financial asset out of the fair value through surplus or deficit category in accordance with paragraph 55 or 57 of PBE IPSAS 29 or out of the available-for-sale category in accordance with paragraph 58 of PBE IPSAS 29, it shall disclose:
- (a) The amount reclassified into and out of each category;
  - \*(b) For each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;
  - (c) If a financial asset was reclassified in accordance with paragraph 55 of PBE IPSAS 29, the rare situation, and the facts and circumstances indicating that the situation was rare;
  - (d) For the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in surplus or deficit or in other comprehensive revenue and expense in that reporting period and in the previous reporting period;
  - \*(e) For each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in surplus or deficit or in other comprehensive revenue and expense if the financial asset had not been reclassified, and the gain, loss, revenue, and expense recognised in surplus or deficit; and
  - (f) The effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

#### *Derecognition*

17. An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 17–39 of PBE IPSAS 29). The entity shall disclose for each class of such financial assets:
- (a) The nature of the assets;
  - (b) The nature of the risks and rewards of ownership to which the entity remains exposed;
  - (c) When the entity continues to recognise all of the assets, the carrying amounts of the assets, and of the associated liabilities; and
  - (d) When the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

#### *Collateral*

18. An entity shall disclose:
- (a) The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 39(a) of PBE IPSAS 29; and
  - (b) The terms and conditions relating to its pledge.
- \*19. When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:
- (a) The fair value of the collateral held;
  - (b) The fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
  - (c) The terms and conditions associated with its use of the collateral.

#### *Allowance Account for Credit Losses*

20. When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g., an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.



*Compound Financial Instruments with Multiple Embedded Derivatives*

21. If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 33 of PBE IPSAS 28) 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*

- \*22. 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.
- RDR 22.1 For loans payable recognised at the end of the reporting period for which there is a breach of terms or default of principal, interest, sinking fund, or redemption of terms that has not been remedied by the end of the reporting period, a Tier 2 entity shall disclose the following:
- (a) Details of that breach or default;
  - (b) The carrying amount of the related loans payable at the end of the reporting period; and
  - (c) Whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.
- \*23. If, during the period, there were breaches of loan agreement terms other than those described in paragraph 22, an entity shall disclose the same information as required by paragraph 22 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).

**Statement of Comprehensive Revenue and Expense***Items of Revenue, Expense, Gains, or Losses*

24. An entity shall disclose the following items of revenue, expense, gains, or losses either in the statement of comprehensive revenue and expense or in the notes:
- (a) Net gains or net losses on:
    - (i) Financial assets or financial liabilities at fair value through surplus or deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with PBE IPSAS 29;
    - (ii) Available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive revenue and expense during the period and the amount reclassified from net assets/equity to surplus or deficit for the period;
    - (iii) Held-to-maturity investments;
    - (iv) Loans and receivables; and
    - (v) Financial liabilities measured at amortised cost;
  - (b) Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through surplus or deficit;
  - \*(c) Fee revenue and expense (other than amounts included in determining the effective interest rate) arising from:
    - (i) Financial assets or financial liabilities that are not at fair value through surplus or deficit; and
    - (ii) Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

- \* (d) Interest revenue on impaired financial assets accrued in accordance with paragraph AG126 of PBE IPSAS 29; and
- (e) The amount of any impairment loss for each class of financial asset.

RDR 24.1 A Tier 2 entity is not required to make the separate disclosure required by paragraph 24(a)(i).

### **Other Disclosures**

#### *Accounting Policies*

25. In accordance with paragraph 132 of PBE IPSAS 1, 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*

26. An entity shall disclose the following separately for each type of hedge described in PBE IPSAS 29 (i.e., fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):
- (a) A description of each type of hedge;
  - (b) A description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
  - (c) The nature of the risks being hedged.
27. For cash flow hedges, an entity shall disclose:
- (a) The periods when the cash flows are expected to occur and when they are expected to affect surplus or deficit;
  - (b) A description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
  - (c) The amount that was recognised in other comprehensive revenue and expense during the period;
  - (d) The amount that was reclassified from net assets/equity to surplus or deficit for the period, showing the amount included in each line item in the statement of comprehensive revenue and expense; and
  - (e) The amount that was removed from net assets/equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

RDR 27.1 A Tier 2 entity is required to show only the total amount of cash flow hedges reclassified from net assets/equity and included in surplus or deficit for the period in accordance with paragraph 27(d).

28. An entity shall disclose separately:
- (a) In fair value hedges, gains or losses:
    - (i) On the hedging instrument; and
    - (ii) On the hedged item attributable to the hedged risk.
  - (b) The ineffectiveness recognised in surplus or deficit that arises from cash flow hedges; and
  - (c) The ineffectiveness recognised in surplus or deficit that arises from hedges of net investments in foreign operations.

#### *Fair Value*

- \*29. Except as set out in paragraph 35 for each class of financial assets and financial liabilities (see paragraph 9), 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.
- \*30. 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 statement of financial position.
- \*31. An entity shall disclose for each class of financial instruments 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.

RDR 31.1 A Tier 2 entity shall disclose, for all financial assets and financial liabilities that are measured at fair value, the basis for determining fair value, for example, quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for 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.

\*32. To make the disclosures required by paragraph 33 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 (i.e., as price) or indirectly (i.e., 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.

\*33. 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 32.
- (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 surplus or deficit, and total assets or total liabilities.
- (c) For fair value measurements in Level 3, 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 surplus or deficit, and a description of where they are presented in the statement(s) of comprehensive revenue and expense;
  - (ii) Total gains or losses recognised in other comprehensive revenue and expense;
  - (iii) Purchases, sales, issues, and settlements (each type of movement disclosed separately); and
  - (iv) Transfers into or out of Level 3 (e.g., 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 surplus or deficit 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(s) of comprehensive revenue and expense.
- (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 surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive revenue and expense, total net assets/equity.

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

34. If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG106–AG112 of PBE IPSAS 29). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless conditions described in paragraph AG108 of PBE IPSAS 29 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:
- \* (a) Its accounting policy for recognising that difference in surplus or deficit to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG109 of PBE IPSAS 29); and
  - \* (b) The aggregate difference yet to be recognised in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference.
35. Disclosures of fair value are not required:
- (a) When the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
  - (b) For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with PBE IPSAS 29 because its fair value cannot be measured reliably;<sup>1</sup> and
  - (c) For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably.
36. In the cases described in paragraph 35(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:
- (a) The fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
  - \* (b) A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
  - \* (c) Information about the market for the instruments;
  - \* (d) Information about whether and how the entity intends to dispose of the financial instruments; and
  - \* (e) If financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

#### *Concessionary Loans*

37. Concessionary loans are granted by entities on below market terms. Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted an entity shall disclose:
- (a) A reconciliation between the opening and closing carrying amounts of the loans, including:
    - (i) Nominal value of new loans granted during the period;
    - (ii) The fair value adjustment on initial recognition;

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<sup>1</sup> Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

- (iii) Loans repaid during the period;
  - (iv) Impairment losses recognised;
  - (v) Any increase during the period in the discounted amount arising from the passage of time; and
  - (vi) Other changes.
- (b) Nominal value of the loans at the end of the period;
  - (c) The purpose and terms of the various types of loans; and
  - (d) Valuation assumptions.

### **Nature and Extent of Risks Arising from Financial Instruments**

- \*38. **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.**
- \*39. The disclosures required by paragraphs 40–49 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**

- \*40. 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**

- \*41. For each type of risk arising from financial instruments, an entity shall disclose:
- (a) Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in PBE IPSAS 20 *Related Party Disclosures*), for example, the entity's governing body or chief executive officer.
  - (b) The disclosures required by paragraphs 43–49, to the extent not provided in (a), unless the risk is not material (see paragraphs 45–47 of PBE IPSAS 1 for a discussion of materiality).
  - (c) Concentrations of risk if not apparent from (a) and (b).
- \*42. 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*

- \*43. 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 (e.g., netting agreements that do not qualify for offset in accordance with PBE IPSAS 28);
  - (b) In respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
  - (c) Information about the credit quality of financial assets that are neither past due nor impaired; and
  - (d) The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

**Financial Assets that are Either Past Due or Impaired**

- \*44. An entity shall disclose by class of financial asset:
- (a) An analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
  - (b) An analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
  - (c) For the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

**Collateral and Other Credit Enhancements Obtained**

- \*45. When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g., guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:
- (a) The nature and carrying amount of the assets obtained; and
  - (b) When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

*Liquidity Risk*

- \*46. 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 (see paragraph AG14).
  - (c) A description of how it manages the liquidity risk inherent in (a) and (b).

*Market Risk***Sensitivity Analysis**

- \*47. Unless an entity complies with paragraph 48, it 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 surplus or deficit and net assets/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.
- \*48. If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g., 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 47. The entity shall also disclose:
- (a) An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
  - (b) An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

**Other Market Risk Disclosures**

- \*49. When the sensitivity analyses disclosed in accordance with paragraph 47 or 48 are unrepresentative of a risk inherent in a financial instrument (e.g., because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

## Effective Date and Transition

50–53. [Not used]

53.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

53.2 ***Disclosure Initiative* (Amendments to PBE IPSAS 1), issued in July 2015, amended paragraphs 25 and AG5. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2016. Earlier application of those amendments is permitted, subject to paragraph 53.1.**

53.3 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, amended paragraphs AG7 and added a footnote to paragraph 35. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2017.**

54. [Not used]

## Withdrawal and Replacement of PBE IPSAS 30 (May 2013)

55. This Standard, when applied, supersedes PBE IPSAS 30 *Financial Instruments: Disclosures* issued in May 2013.

## Application Guidance

*This Appendix is an integral part of PBE IPSAS 30.*

### Classes of Financial Instruments and Level of Disclosure (paragraph 9)

- \*AG1. Paragraph 9 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 9 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in PBE IPSAS 29 (which determine how financial instruments are measured and where changes in fair value are recognised).
- \*AG2. In determining classes of financial instrument, an entity shall, at a minimum:
  - (a) Distinguish instruments measured at amortised cost from those measured at fair value.
  - (b) Treat as a separate class or classes those financial instruments outside the scope of this Standard.
- \*AG3. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

### Significance of Financial Instruments for Financial Position and Financial Performance

*Financial Liabilities at Fair Value through Surplus or Deficit (paragraphs 13 and 14)*

- \*AG4. If an entity designates a financial liability as at fair value through surplus or deficit, paragraph 13(a) requires it to disclose the amount of change in the fair value of the financial liability that is attributable to changes in the liability's credit risk. Paragraph 13(a)(i) permits an entity to determine this amount as the amount of change in the liability's fair value that is not attributable to changes in market conditions that give rise to market risk. If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:
  - (a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.
  - (b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period, and (ii) the instrument-specific component of the internal rate of return as determined in (a).
  - (c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

This example assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in interest rates are not significant. If the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed in accordance with paragraph 13(a).



*Other Disclosure—Accounting Policies (paragraph 25)*

AG5. Paragraph 25 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) For financial assets or financial liabilities designated as at fair value through surplus or deficit:
  - (i) The nature of the financial assets or financial liabilities the entity has designated as at fair value through surplus or deficit;
  - (ii) The criteria for so designating such financial assets or financial liabilities on initial recognition; and
  - (iii) How the entity has satisfied the conditions in paragraphs 10, 13, or 14 of PBE IPSAS 29 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through surplus or deficit in PBE IPSAS 29, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through surplus or deficit in PBE IPSAS 29, that disclosure includes a narrative description of how designation at fair value through surplus or deficit is consistent with the entity's documented risk management or investment strategy.
- (b) The criteria for designating financial assets as available for sale.
- (c) Whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 40 of PBE IPSAS 29).
- (d) When an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:
  - (i) The criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
  - (ii) The criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 20).
- (e) How net gains or net losses on each category of financial instrument are determined (see paragraph 24(a)), for example, whether the net gains or net losses on items at fair value through surplus or deficit include interest or revenue from dividends or similar distributions.
- (f) The criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 24(e)).
- (g) When the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 43(d)).
- (h) For financial guarantee contracts issued through a non-exchange transaction, where no fair value can be determined and a provision is recognised in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, disclosure of the circumstances that result in a provision being recognised.

Paragraph 137 of PBE IPSAS 1 also requires entities to disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49)**

AG6. The disclosures required by paragraphs 38–49 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same

terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

*Quantitative Disclosures (paragraph 41)*

- \*AG7. Paragraph 41(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and faithfully representative information. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and faithful representation.
- \*AG8. Paragraph 41(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:
- (a) A description of how management determines concentrations;
  - (b) A description of the shared characteristic that identifies each concentration (e.g., counterparty, geographical area, currency, or market); and
  - (c) The amount of the risk exposure associated with all financial instruments sharing that characteristic.

*Maximum Credit Risk Exposure (paragraph 43(a))*

- \*AG9. Paragraph 43(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:
- (a) Any amounts offset in accordance with PBE IPSAS 28; and
  - (b) Any impairment losses recognised in accordance with PBE IPSAS 29.
- \*AG10. Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:
- (a) Granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.
  - (b) Entering into derivative contracts (e.g., foreign exchange contracts, interest rate swaps, and credit derivatives). When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount.
  - (c) Granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability.
  - (d) Making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

*Quantitative Liquidity Risk Disclosures (paragraphs 41(a), and 46(a) and (b))*

- \*AG11. In accordance with paragraph 41(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 (e.g., 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 46(a) or (b).

- \*AG12. In preparing the maturity analyses required by paragraph 46(a) and (b), 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.
- \*AG13. In complying with paragraph 46(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) instrument. For such an instrument, an entity shall apply paragraph 46(a).
- \*AG14. Paragraph 46(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.
- \*AG15. Paragraph 46(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 (e.g., demand deposits) are included in the earliest time band.
  - (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.
  - (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.
- \*AG16. The contractual amounts disclosed in the maturity analyses as required by paragraph 46(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 (e.g., 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.

- \*AG17. Paragraph 46(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 46(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g., 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.

- \*AG18. Other factors that an entity might consider in providing the disclosure required in paragraph 46(c) include, but are not limited to, whether the entity:
- (a) Has committed borrowing facilities (e.g., commercial paper facilities) or other lines of credit (e.g., 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 (e.g., on the downgrade of the entity's credit rating);
  - (g) Has instruments that could require the posting of collateral (e.g., 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.

*Market Risk—Sensitivity Analysis (paragraphs 47 and 48)*

- \*AG19. Paragraph 47(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph AG3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:
- (a) An entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading.
  - (b) An entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.

If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.

- \*AG20. Paragraph 47(a) requires the sensitivity analysis to show the effect on surplus or deficit and net assets/equity of reasonably possible changes in the relevant risk variable (e.g., prevailing market interest rates, currency rates, equity prices, or commodity prices). For this purpose:
- (a) Entities are not required to determine what the surplus or deficit for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on surplus or deficit and net assets/equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on surplus or deficit (i.e., interest expense) for the current year if interest rates had varied by reasonably possible amounts.
  - (b) Entities are not required to disclose the effect on surplus or deficit and net assets/equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.
- \*AG21. In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:
- (a) The economic environments in which it operates. A reasonably possible change should not include remote or “worst case” scenarios or “stress tests”. Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5 percent and an entity determines that a fluctuation in interest rates of  $\pm 50$  basis points is reasonably possible. It would disclose the effect on surplus or deficit and net assets/equity if interest rates were to change to 4.5 percent or

5.5 percent. In the next period, interest rates have increased to 5.5 percent. The entity continues to believe that interest rates may fluctuate by  $\pm 50$  basis points (i.e., that the rate of change in interest rates is stable). The entity would disclose the effect on surplus or deficit and net assets/equity if interest rates were to change to 5 percent or 6 percent. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by  $\pm 50$  basis points, unless there is evidence that interest rates have become significantly more volatile.

- (b) The time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.
- \*AG22. Paragraph 48 permits an entity to use a sensitivity analysis that reflects interdependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 48(a) by disclosing the type of value-at-risk model used (e.g., whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (e.g., the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.
- \*AG23. An entity shall provide sensitivity analyses for the whole of its operations, but may provide different types of sensitivity analysis for different classes of financial instruments.

#### **Interest Rate Risk**

- \*AG24. Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position (e.g., loans and receivables and debt instruments issued) and on some financial instruments not recognised in the statement of financial position (e.g., some loan commitments).

#### **Currency Risk**

- \*AG25. Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency (i.e. in a currency other than the functional currency in which they are measured). For the purpose of this Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.
- \*AG26. A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

#### **Other Price Risk**

- \*AG27. Other price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 47, an entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.
- \*AG28. Two examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity, and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.
- \*AG29. In accordance with paragraph 47(a), the sensitivity of surplus or deficit (that arises, for example, from instruments classified as at fair value through surplus or deficit and impairments of available-for-sale financial assets) is disclosed separately from the sensitivity of net assets/equity (that arises, for example, from instruments classified as available for sale).
- \*AG30. Financial instruments that an entity classifies as equity instruments are not remeasured. Neither surplus or deficit nor net assets/equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 30.*

- BC1. The New Zealand Accounting Standards Board (NZASB) has not modified the recognition and measurement requirements in IPSAS 30 *Financial Instruments: Disclosures* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 30 are appropriate for application by public benefit entities.
- BC2. The NZASB considered that the IPSASB's Basis for Conclusions on IPSAS 30 should be included in PBE IPSAS 30 as it included information that would be useful for entities applying PBE IPSAS 30. For example, the Basis for Conclusions on IPSAS 30 sets out the IPSASB's reasons for requiring disclosure of concessionary loans.

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## Implementation Guidance

*This guidance accompanies, but is not part of, PBE IPSAS 30.*

### Introduction

- IG1. This guidance suggests possible ways to apply some of the disclosure requirements in PBE IPSAS 30. The guidance does not create additional requirements.
- IG2. For convenience, each disclosure requirement in this Standard 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.

### Materiality

- IG3. PBE IPSAS 1 notes that a specific disclosure requirement in a PBE Standard need not be satisfied if the information is not material. PBE IPSAS 1 defines materiality as follows:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

- IG4. PBE IPSAS 1 also explains that definition as follows:

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public benefit sector and economic activities and accounting, and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

### Classes of Financial Instruments and Level of Disclosure (paragraphs 9 and AG1–AG3)

- IG5. Paragraph AG3 states that “an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this Standard, 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 29(c) of PBE IPSAS 1 requires an entity to “provide additional disclosures when compliance with the specific requirements in PBE Standards 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 Financial Performance (paragraphs 10–36, AG4 and AG5)

*Financial Liabilities at Fair Value through Surplus or Deficit (paragraphs 13(a)(i) and AG4)*

- IG7. The following example illustrates the calculation that an entity might perform in accordance with paragraph AG4 of Appendix A of the Standard.
- IG8. On January 1, 20X1, an entity issues a 10-year bond with a par value of CU150,000<sup>2</sup> and an annual fixed coupon rate of 8 percent, which is consistent with market rates for bonds with similar characteristics.

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<sup>2</sup> In this guidance monetary amounts are denominated in “currency units (CU).”



IG9. The entity uses the London Interbank Offered Rate (LIBOR) as its observable (benchmark) interest rate. At the date of inception of the bond, LIBOR is 5 percent. At the end of the first year:

- (a) LIBOR has decreased to 4.75 percent.
- (b) The fair value for the bond is CU153,811, consistent with an interest rate of 7.6 percent<sup>3</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 AG4(a)]<br/>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.<br/>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 percent, the bond's internal rate of return is 8 percent.<br/>Because the observed (benchmark) interest rate (LIBOR) is 5 percent, the instrument-specific component of the internal rate of return is 3 percent.</p>  |
| <p>[paragraph AG4(b)]<br/>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 AG4(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>(a)</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 percent, which is 4.75 percent end of period LIBOR rate, plus the 3 percent instrument-specific component.<br/>This gives a present value of CU152,367.<sup>(b)</sup></p> |
| <p>[paragraph AG4(c)]<br/>The difference between the observed market price of the liability at the end of the period and the amount determined in accordance with paragraph AG4(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>(c)</sup><br/>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>   |
| <p>(a) <math>CU150,000 \times 8\% = CU12,000</math><br/>(b) <math>PV = [CU12,000 \times (1 - (1 + 0.0775)^{-9})/0.0775] + CU150,000 \times (1 + 0.0775)^{-9}</math><br/>(c) <math>market\ price = [CU12,000 \times (1 - (1 + 0.076)^{-9})/0.076] + CU150,000 \times (1 + 0.076)^{-9}</math></p>  |   |

*Defaults and Breaches (paragraphs 22 and 23)*

IG12. Paragraphs 22 and 23 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 PBE IPSAS 1.

*Total Interest Expense (paragraph 24(b))*

IG13. Total interest expense disclosed in accordance with paragraph 24(b) is a component of the finance costs, which paragraph 102(b) of PBE IPSAS 1 requires to be presented separately in the statement of financial performance. The line item for finance costs may also include amounts associated with non-financial liabilities.

*Fair Value (paragraphs 31–34)*

IG14. PBE IPSAS 30 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 33(a). (Disclosure of comparative information is also required, but is not included in the following example.)

<sup>3</sup> This reflects the shift in LIBOR from 5 percent to 4.75 percent and a movement of 0.15 percent which, in the absence of other relevant changes in market conditions, is assumed to reflect changes in credit risk of the instrument.

| <b>Assets Measured at Fair Value</b>                      |                     | <b>Fair value measurement at end of the reporting period using:</b> |                   |                   |
|---|---------------------|---|-------------------|-------------------|
|   |                     | <b>Level 1</b>  | <b>Level 2</b>    | <b>Level 3</b>    |
| <b>Description</b>  | <b>Dec 31, 20X2</b> | <b>CU million</b>   | <b>CU million</b> | <b>CU million</b> |
| Financial assets at fair value through surplus or deficit |                     |   |                   |                   |
| Trading securities  | 100                 | 40  | 55                | 5                 |
| Trading derivatives                                       | 39                  | 17  | 20                | 2                 |
| Available-for-sale financial assets                       |                     |   |                   |                   |
| Equity investments  | 75                  | 30  | 40                | 5                 |
| <b>Total</b>  | <b>214</b>          | <b>87</b>   | <b>115</b>        | <b>12</b>         |

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

IG15. PBE IPSAS 30 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 33(b). (Disclosure of comparative information is also required, but is not included in the following example).

| <b>Assets Measured at Fair Value Based on Level 3</b>  |                           | <b>Fair value measurement at the end of the reporting period</b> |                           |  |
|--|---------------------------|--|---------------------------|--|
|  |                           | <b>Financial assets at fair value through surplus or deficit</b> |                           | <b>Available-for-sale financial assets</b> |
|  | <b>Trading securities</b> | <b>Trading derivatives</b>                                       | <b>Equity investments</b> |  |
|  | <b>CU million</b>         | <b>CU million</b>  | <b>CU million</b>         | <b>CU million</b>                          |
| Opening balance  | 6                         | 5  | 4                         | 15   |
| Total gains or losses  |                           |  |                           |  |
| in surplus or deficit  | (2)                       | (2)  | -                         | (4)  |
| in other comprehensive revenue and expense   | -                         | -  | (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 surplus or deficit for assets held at the end of the reporting period | (1)                       | (1)  | -                         | (2)  |

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

| Gains or losses included in surplus or deficit for the period (above) are presented in revenue as follows:             |  | <b>Revenue</b> |
|--|--|----------------|
| Total gains or losses included in surplus or deficit for the period  |  | (4)            |
| Total gains or losses for the period included in surplus or deficit for assets held at the end of the reporting period |  | (2)            |

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

IG16. The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG108 of PBE IPSAS 29. 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 surplus or deficit in subsequent periods in accordance with PBE IPSAS 29 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG108 of PBE IPSAS 29). Paragraph 33 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 34:

|   |                   |                   |
|---|-------------------|-------------------|
| <b>Background</b>   |                   |                   |
| On January 1, 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.   |                   |                   |
| The transaction price of CU15 million is the fair value at initial recognition.   |                   |                   |
| After initial recognition, the entity will apply a valuation technique to establish the financial assets' fair value. This valuation technique includes variables other than data from observable markets.  |                   |                   |
| At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.  |                   |                   |
| The entity has existing differences of CU5 million at January 1, 20X1.  |                   |                   |
| <b>Application of Requirements</b>  |                   |                   |
| The entity's 20X2 disclosure would include the following:   |                   |                   |
| <i>Accounting Policies</i>  |                   |                   |
| The entity uses the following valuation technique to determine 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 PBE IPSAS 29, is generally 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]. |                   |                   |
| <i>In the Notes to the Financial Statements</i>   |                   |                   |
| 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 PBE IPSAS 29, the fair value of an instrument at inception is generally 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 surplus or deficit are as follows:  |                   |                   |
|   | <b>Dec 31, X2</b> | <b>Dec 31, X1</b> |
|   | CU                | CU                |
|   | million           | million           |
| Balance at beginning of year  | 5.3               | 5.0               |
| New transactions  | –                 | 1.0               |
| Amounts recognised in surplus or deficit 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 38–49 and AG6–AG30)

#### Qualitative Disclosures (paragraph 40)

IG17. The type of qualitative information an entity might disclose to meet the requirements in paragraph 40 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.

IG18. 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.

IG19. In accordance with paragraph 40(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 41–49 and AG7–AG30)*

IG20. Paragraph 41 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.

IG21. In accordance with paragraph AG8, 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.

IG22. When quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 42 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 43–45, AG9 and AG10)**

IG23. Paragraph 43 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 43(b))*

IG24. Paragraph 43(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 PBE IPSAS 28);
- (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 43(c))*

IG25. Paragraph 43(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.

IG26. 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.

IG27. 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 44)*

IG28. 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.

IG29. 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.

IG30. Paragraph 44(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.

IG31. Paragraph 44(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.

**Market Risk (paragraphs 47–49 and AG19–AG30)**

IG32. Paragraph 47(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 (i.e., 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 (e.g., 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 47(a) requires the sensitivity analysis to show the effect on surplus or deficit and net assets/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 revenue and expense;
- (b) Other line items of surplus or deficit (such as trading gains and losses); and
- (c) When applicable, net assets/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 47(a):

**Interest Rate Risk**

At December 31, 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, surplus 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 revenue and expense 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, surplus would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings, other comprehensive revenue and expense 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 available for sale. Surplus 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>(a)</sup>

**Foreign Currency Exchange Rate Risk**

At December 31, 20X2, if the CU had weakened 10 percent against the US dollar with all other variables held constant, surplus for the year would have been CU2.8 million (20X1—CU6.4 million) lower, other comprehensive revenue and expense would have been CU1.2 million (20X1—CU1.1 million) higher. Conversely, if the CU had strengthened 10 percent against the US dollar with all other variables held constant, surplus would have been CU2.8 million (20X1—CU6.4 million) higher, other comprehensive revenue and expense would have been CU1.2 million (20X1—CU1.1 million) lower. The lower foreign currency exchange rate sensitivity in surplus in 20X2 compared with 20X1 is attributable to a reduction in foreign currency denominated debt. Revenue 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.

(a) Paragraph 46 requires disclosure of a maturity analysis of liabilities.

**Other Market Risk Disclosures (paragraph 49)**

IG37. Paragraph 49 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 (e.g., options that remain out of (or in) the money for the chosen change in the risk variable);
- (b) Financial assets are illiquid (e.g., 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 (e.g., the options);
- (b) The effect on surplus or deficit if the term or condition were met (i.e., 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 (e.g., 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 IG38(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 IG38(c), additional disclosure might include:

- (a) The nature of the security (e.g., entity name);
- (b) The extent of holding (e.g., 15 percent of the issued shares);

- (c) The effect on surplus or deficit; and
- (d) How the entity hedges the risk.



## Comparison with IPSAS 30

PBE IPSAS 30 *Financial Instruments: Disclosures* is drawn from IPSAS 30 *Financial Instruments: Disclosures*. PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 30 and IPSAS 30.

## History of Amendments

PBE IPSAS 30 *Financial Instruments: Disclosures* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 30. The table is based on amendments issued as at 31 January 2017 other than consequential amendments resulting from early adoption of PBE IPSASs 34 to 38 which deal with interests in other entities and PBE IFRS 9 *Financial Instruments*.

| Pronouncements   | Date issued | Early operative date  | Effective date (annual financial statements ... on or after ...) |
|--|-------------|---|--|
| PBE IPSAS 30 <i>Financial Instruments: Disclosures</i>   | Sept 2014   | Early application is permitted for not-for-profit public benefit entities | 1 April 2015   |
| <i>Disclosure Initiative</i> (Amendments to PBE IPSAS 1) | July 2015   | Early application is permitted  | 1 Jan 2016   |
| <i>2016 Omnibus Amendments to PBE Standards</i>          | Jan 2017    | –   | 1 Jan 2017   |

| Table of Amended Paragraphs in PBE IPSAS 30 |              |  |
|---|--------------|--|
| Paragraph affected                          | How affected | By ... [date]  |
| Paragraph 25                                | Amended      | <i>Disclosure Initiative</i> [July 2015]                   |
| Paragraph 35                                | Amended      | <i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017] |
| Paragraph 53.2                              | Added        | <i>Disclosure Initiative</i> [July 2015]                   |
| Paragraph 53.3                              | Added        | <i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017] |
| Paragraph AG5                               | Amended      | <i>Disclosure Initiative</i> [July 2015]                   |
| Paragraph AG7                               | Amended      | <i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017] |