NZ IFRS 7: FINANCIAL INSTRUMENTS - DISCLOSURES

Version 1: 2020

Effective Periods Beginning
1 January 2007

DISCLOSURE REQUIREMENTS: SIGNIFICANCE OF FINANCIAL INSTRUMENTS IN TERMS OF THE FINANCIAL POSITION AND PERFORMANCE

STATEMENT OF FINANCIAL POSITION

- Total carrying value of each category of financial assets and liabilities on face of Statements of Financial Position or in notes.
- Information on financial assets or financial liabilities at fair value through profit or loss. *
- Investments in equity instruments designated at fair value through other comprehensive income. *
- Financial assets reclassified.
- Offsetting financial assets and financial liabilities. *
- Details of financial assets pledged as collateral & collateral held.
- Allowance account for credit losses.
- Compound financial instruments with embedded derivatives.
- Details of defaults and breaches of loans payable.

STATEMENT OF COMPREHENSIVE INCOME

- Net gains and losses by category of financial instrument.
- Total interest income and total interest expense (calculated on the effective interest method), for financial assets at amortised cost or financial assets that are measured at fair value through other comprehensive income or financial liabilities that are not measured at fair value.
- Fee income and expense. *

FAIR VALUE (FV) HIERARCHY

All financial instruments measured at fair value must be classified into the levels below (that reflect how fair value has been determined): *

- **Level 1:** Quoted prices, in active markets.
- **Level 2:** Level 1 quoted prices are not available but fair value is based on observable market data.
- **Level 3:** Inputs that are not based on observable market data..

A financial instrument will be categorised based on the lowest level of any one of the inputs used for its valuation. The following disclosures are also required:

- Significant transfers of financial instruments between each category - and reasons why. *
- For level 3, a reconciliation between opening and closing balances, incorporating; gains/losses, purchases/sales/settlements, transfers. *
- Amount of gains/losses and where they are included in profit and loss. *
- For level 3, if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact. *

OTHER

Accounting policies:

- All relevant accounting policies. Include measurement basis.

Hedge accounting:

- Description of hedge, description and fair value of hedged instrument and type of risk hedged.
- Details of cash flow hedges, fair value hedges and hedge of net investment in foreign operations.
- Description of the impact of choosing the exception under IFRS 9 for interest rate benchmark reform

Fair value:

- Fair value for each class of financial asset and liability. *
- Disclose method and relevant assumptions to calculate fair value. *
- Disclose if fair value cannot be determined.

DISCLOSURE REQUIREMENTS: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE RISKS ARE MANAGED.

Qualitative disclosure *

- Exposure to risk and how it arises. *
- Objectives, policies and processes for managing risk and method used to measure risk. *

Quantitative disclosure *

- Summary of quantitative data about exposure to risk based on information given to key management. *
- Concentrations of risks. *

SPECIFIC QUANTITATIVE DISCLOSURE REQUIREMENTS

LIQUIDITY RISK *

Definition:

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

- Maturity analysis for financial liabilities that shows the remaining contractual maturities - Appendix B10A - B11F *
- Time bands and increment are based on entity's judgement *
- How is liquidity risk managed. *

CREDIT RISK *

Definition:

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

- Scope and objectives.*
- Credit Risk management practices. *
- Quantitative and qualitative information arising from expected credit losses.*
- Credit risk exposure. *
- Collateral and other credit enhancements obtained.*

MARKET RISK *

Definition:

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

- A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity.* **OR:**
- If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis.*

FINANCIAL INSTITUTIONS

Financial institutions are required to also comply with NZ IFRS 7 Appendix E.

TRANSFERS OF FINANCIAL ASSETS

Information for transferred assets that are and that are not derecognised in their entirety:

- Information to understand the relationship between financial assets and associated liabilities that are not derecognised in their entirety.
- Information to evaluate the nature and risk associated with the entities continuing involvement in derecognised assets (NZ IFRS 7.42A-G). *

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters are granted certain disclosure exemptions under NZ IFRS 7. These are marked with an *

SCOPE

NZ IFRS 7 applies to all recognised and unrecognised financial instruments (including contracts to buy or sell non-financial assets) except:

- Interests in subsidiaries, associates or joint ventures, where NZ IAS 27/28 or NZ IFRS 10/11 permit accounting in accordance with NZ IFRS 9.
- Assets and liabilities resulting from NZ IAS 19.
- Insurance contracts in accordance with NZ IFRS 4 (excluding embedded derivatives in these contracts if NZ IFRS 9 require separate accounting).
- Financial instruments, contracts and obligations under NZ IFRS 2 *Share-based Payment*, except contracts within the scope of NZ IFRS 9.
- Puttable instruments (NZ IAS 32.16A-D).