

# **Pensions IFRS Accounting workshop**

**Financial instrument disclosures**

# Summary

- Background
- What are financial instruments?
- Disclosures about significance
- Nature and extent of risks

# Background

Code requires extensive disclosures:

- Significance of financial instruments to
  - Financial position
  - Financial performance
- Nature and extent of risks arising from financial instruments to which the fund is exposed
- How the fund is managing those risks

# Financial instruments – what are they?

Any **contract** giving rise to a **financial asset** in one entity and a **financial liability** or **equity instrument** of another entity



# Financial instruments – what are they?

## Financial assets are:

- Cash
- Equity instrument of another entity e.g. shares
- Contractual right to:
  - receive cash or another financial asset from another entity e.g. trade debtor
  - exchange financial assets or financial liabilities under potentially favourable conditions e.g. derivatives

# Financial instruments – what are they?

**Financial liabilities** are contractual obligations to:

- Deliver cash or another financial asset
- Exchange financial assets or financial liabilities under potentially unfavourable conditions - e.g. derivatives

**Equity** is:

- A residual interest in the net assets and also where there is no contractual obligation to make payments -e.g. non-puttable ordinary shares, preference shares (some)

# Financial instruments - examples

Financial Assets	Not Financial Assets
Cash Equity/debt instruments Forward transactions Property fund	Property Subsidiaries, associates & JVs Leases

Financial Liabilities	Not Financial Liabilities
Overdrafts Trade creditors Guarantees	Tax owed Promised future retirement benefits

# Significance of financial instruments

## Net assets statement

IFRS 7

Carrying value of assets by category

- Loans and receivables
- Available for sale
- Unquoted investments @ cost
- Fair value through P&L
- Financial liabilities @ amortised cost
- Financial liabilities @ FVPL

Applies  
to PFs?



X

?





# Significance of financial instruments

## Net assets statement

IFRS 7

- Reclassification between categories
  - Code defines and restricts classification
  - Disclose when change valuation: cost ↔ fair value
- Derecognition
  - Transfer of assets
- Collateral
- Defaults and breaches

# Significance of financial instruments Fund account

IFRS 7

## Income, expense, gains or losses

- Net gains & losses by instrument category
- For instruments NOT at FVPL:
  - Total interest income/expense
  - Fee income/expense
- Interest on impaired financial assets
- Impairment losses by class of financial asset

# Significance of financial instruments

## Hedge accounting

IFRS 7

IAS 39

- Hedges are derivatives used to offset changes in fair value of designated hedged item
- Option to **designate** instruments as hedging instruments
- Disclosures:
  - Description of each hedge
  - Description of each hedged instrument
  - Risks being hedged
  - Cashflows
  - Ineffectiveness

# Significance of financial instruments

## Fund account

IFRS 7

### Fair value

- Balances analysed by class versus carrying value
- Grouping ONLY where offset permitted
- Valuation techniques & underlying assumptions
- Fair values analysed by hierarchy of valuation approach
  - Level 1 – quoted prices
  - Level 2 – other than quoted prices eg observable/derived data
  - Level 3 – unobservable inputs eg valuation models
- Disclosure not required where
  - Carrying value approximates to fair value
  - Fair value cannot be measured reliably

# Nature and extent of risks Disclosures - overall

IFRS 7

For each type of risk (credit, liquidity, market):

Qualitative	Quantitative
Extent of risk exposure and how they arise How the risk is managed Objectives Policies Processes Any changes from previous period	Summary quantitative data about exposure to risk Based on information provide to key management Any concentrations of risk

# Nature and extent of risks

## Disclosures - specific

IFRS 7

Credit risk	Maximum exposure Collateral held Credit quality of past due/impaired assets
Past due/impaired assets	Age analysis of past due assets Analysis of impaired assets
Collateral	Nature and carrying amount of assets If not convertible, policy for disposal
Liquidity risk	Maturity analysis Arrangements for managing liquidity risk
Market risk	Sensitivity analysis for each market risk Methods and assumptions used Any changes and reasons

# Conclusion

- Principles
  - Significance
  - Nature and extent of risks
  - How are the risks being managed
- Increased risk of internal inconsistency
- Not everything is a financial instrument
- Sources of information
- Link to investment strategy
- Plan and undertake quality review