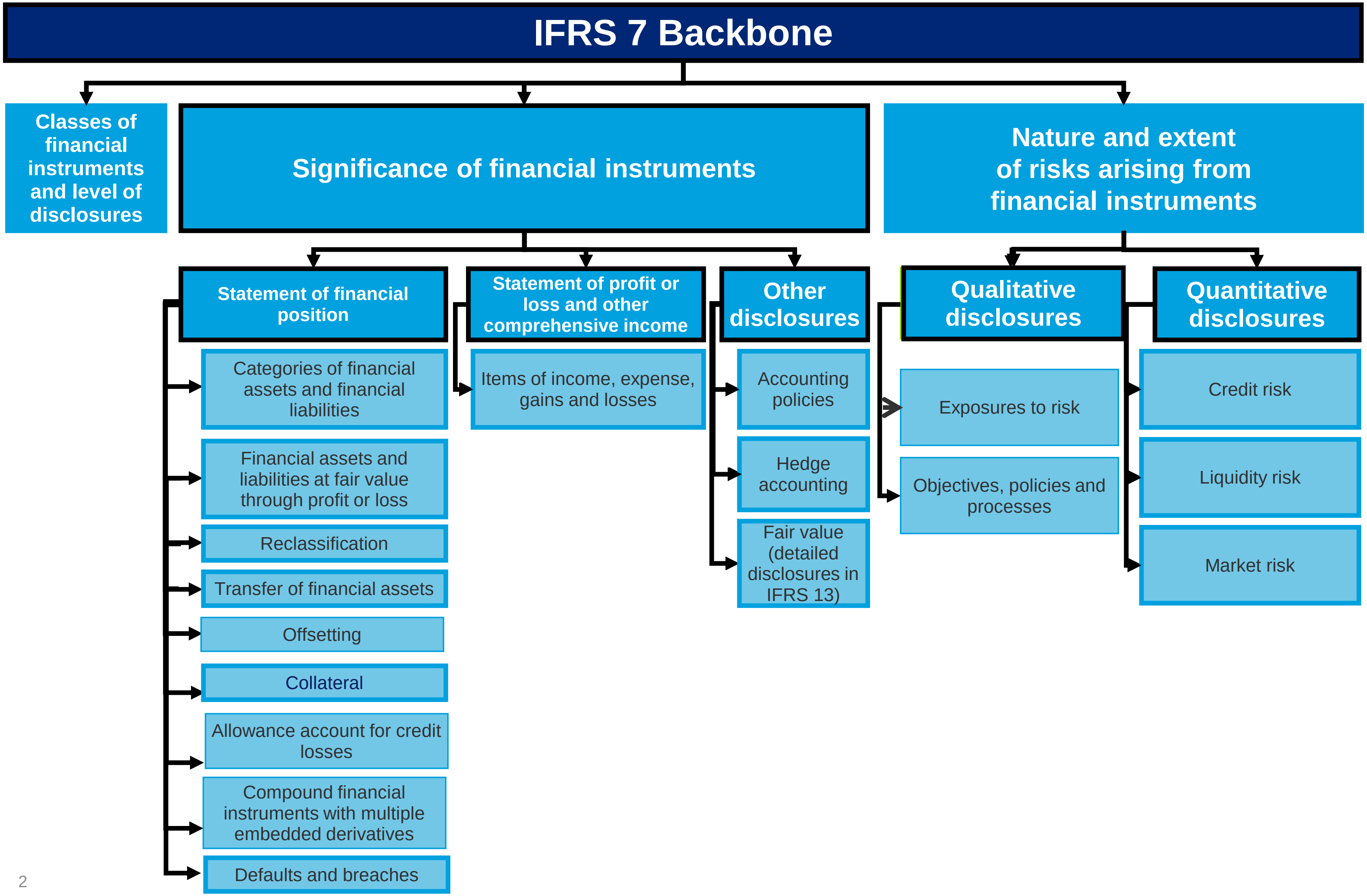
IFRS 7
Financial Instruments: Disclosures

IFRS 7


IFRS 7 Backbone
Classes of financial instruments and level of disclosures
Significance of financial instruments
Nature and extent of risks arising from financial instruments
Statement of financial position
Statement of profit or loss and other comprehensive income
Other disclosures
Qualitative disclosures
Quantitative disclosures
Categories of financial assets and financial liabilities
Financial assets and liabilities at fair value through profit or loss
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Defaults and breaches
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Hedge accounting
Fair value (detailed disclosures in IFRS 13)
Exposures to risk
Objectives, policies and processes
Credit risk
Liquidity risk
Market risk

Scope

All financial instruments

Except

Interests in subsidiaries not accounted for using FV election

Interests in associates not accounted for using FV election

Interests in joint arrangements not accounted for using FV election

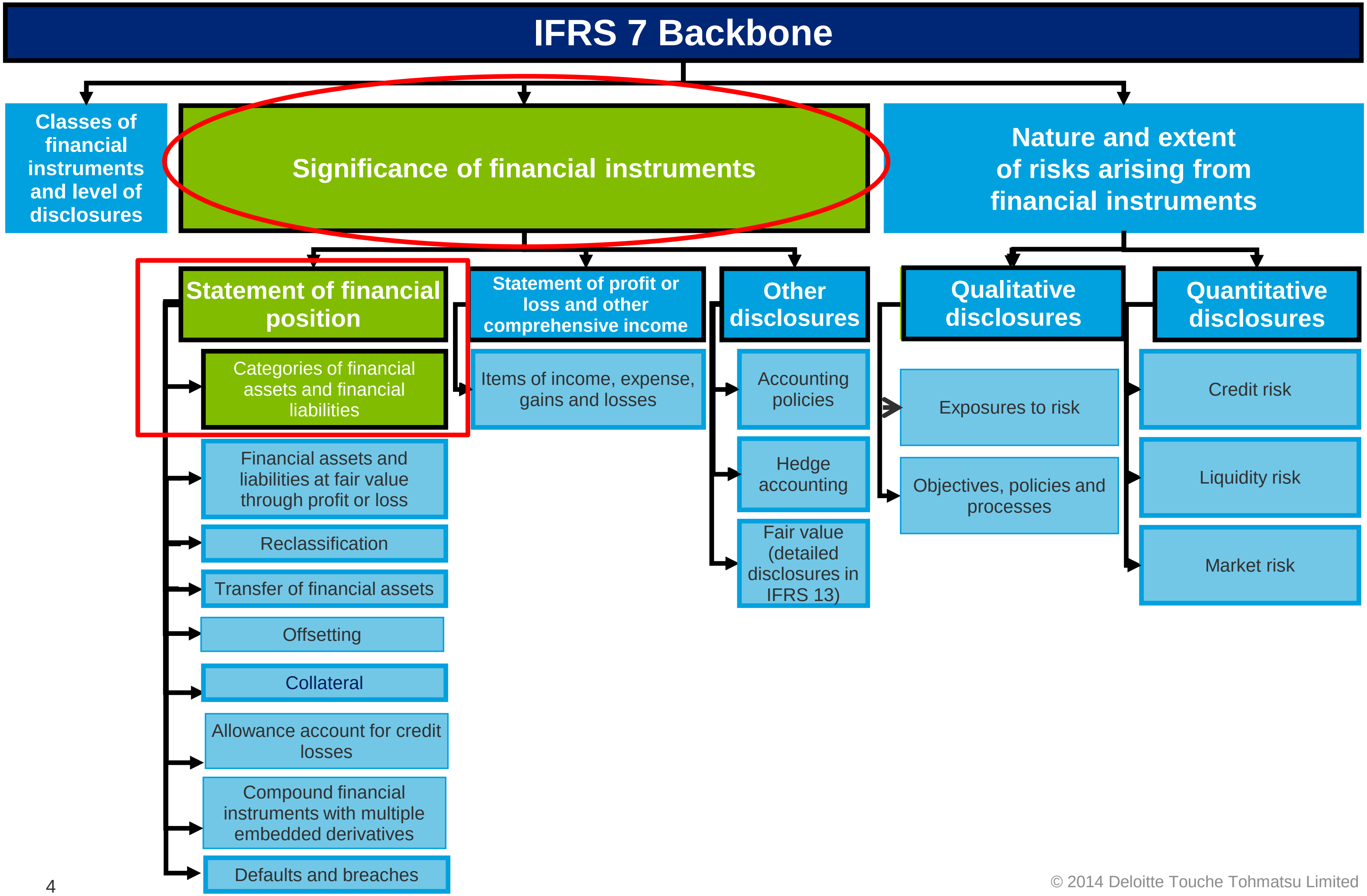
Employee benefit plan's rights and obligations under IAS 19

Insurance contracts under IFRS 4

IFRS 2 arrangements

Instruments classified as equity instruments in the financial statements of the issuer

IFRS 7
Categories disclosure



IFRS 7
Categories disclosure

Categories of financial assets and financial liabilities

The carrying amounts of each of the following categories shall be disclosed either on the face of the balance sheet or in the notes:

(a) financial assets at fair value through profit or loss, showing separately:

(i) those designated as such upon initial recognition and

(ii) those classified as held for trading in accordance with IAS 39;

(b) held-to-maturity investments;

(c) loans and receivables;

(d) available-for-sale financial assets;

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

(i) those designated as such upon initial recognition and

(ii) those classified as held for trading in accordance with IAS 39; and

(f) financial liabilities measured at amortised cost.

IFRS 7
Categories disclosure

Financial Assets

For reconciling purposes

	At Fair value through profit or loss						
	Designated	Held for trading	Loans & receivables	Held to maturity	Available for sale	Non-financial instruments	Total
Assets							
Non-current Assets							
Asset A	X	X	X	X	X	X	**XX**
Asset B	X	X	X	X	X	X	**XX**
Current Assets							
Asset D	X	X	X	X	X	X	**XX**
Asset E	X	X	X	X	X	X	**XX**
	X	**X**	**X**	**X**	**X**	**X**	**XX**

Agree to face of statement of financial position

IFRS 7
Categories disclosure

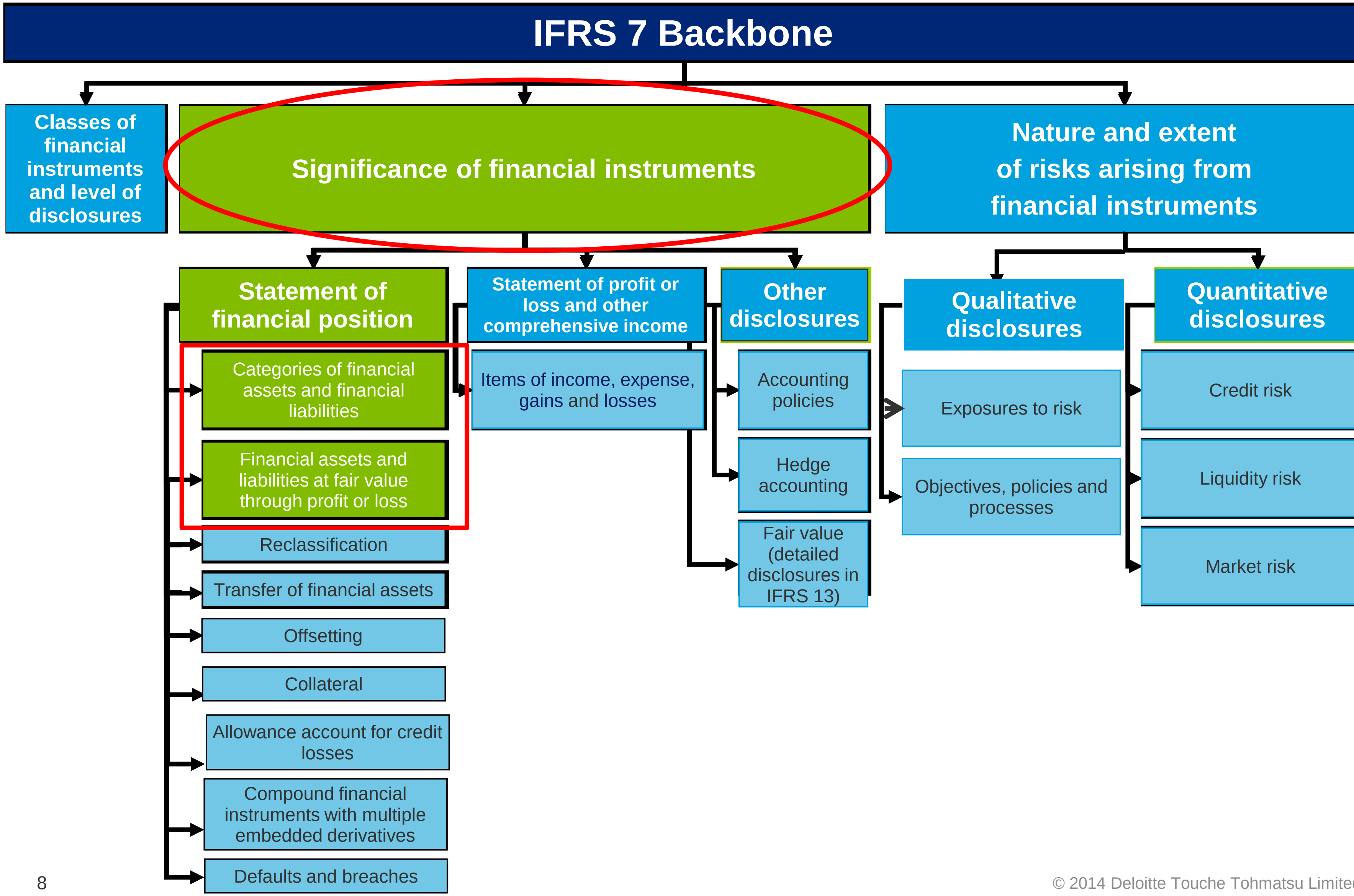
Financial Liabilities

For reconciling purposes

	Designated at FVTPL	Held for trading	Financial liabilities at amortised cost	Non-financial instruments	Total
Liabilities					
Non-current Liabilities					
Liability A	X	X	X	X	**XX**
Liability B	X	X	X	X	**XX**
Current Liabilities					
Liability D	X	X	X	X	**XX**
Liability E	X	X	X	X	**XX**
	X	**X**	**X**	**X**	**XX**

Agree to face of statement of financial position

IFRS 7
Designated at FVTPL



IFRS 7
Financial assets and liabilities at FVTPL

If the entity has designated a **financial asset** as at fair value through profit or loss, it shall disclose:

(a) the maximum exposure to credit risk at the reporting date

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

(c) the amount of change 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

(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.

IFRS 7
Financial assets and liabilities at FVTPL

If the entity has designated a financial liability as at fair value through profit or loss, it shall disclose:

(a) the amount of change 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
- (ii) using an alternative method

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity

IFRS 7

Financial assets and liabilities at FVTPL

Changes in fair value attributable to changes in credit risk

Calculate the fair value that is due to changes in credit risk of T_1

The following assumptions must be made:

- Company A issues a 5 year bond at T_0
- The bond trades on a recognised stock exchange
- The bond is designated as at FVTPL on initial recognition

Details of the bond are as follows:

Maturity date	Year 5
Nominal value	CU 500
Coupon	9 % annual
Issue price	CU 450
Market value at T_1	CU 400
5 year risk free rate @ T_0	10.5%
4 year risk free rate @ T_1	12.75%

Financial assets and liabilities at FVTPL Changes in fair value attributable to changes in credit risk

Solution:

Step 1: Calculate the IRR

Cash flows are as follows:

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
-450	45	45	45	45	545

Coupon interest payments over the period of the bond

Initial investment at T=0

Redemption of the bond at T=5

(face value + coupon)

IRR = 11.76%

Financial assets and liabilities at FVTPL
Changes in fair value attributable to changes in credit risk

Solution (continued):

<u>Step 2</u>: Calculate the instrument specific component of the IRR

Maturity date	Year 5
Nominal value	CU 500
Coupon	9 % annual
Issue price	CU 450
Market value at T_1	CU 400
5 year risk free rate @ T_0	10.5%
4 year risk free rate @ T_1	12.75%

IRR 11.76% − Observed benchmark interest rate 10.5% = Instrument specific component of IRR 1.26%

Financial assets and liabilities at FVTPL Changes in fair value attributable to changes in credit risk

Solution (continued):

<u>Step 3:</u> Calculate the present value of the remaining cash flows

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
-450	45	45	45	45	545

Remaining cash flows

- Discount rate = Benchmark interest rate @ year 1 + Instrument specific component of IRR
  = 14.01% (12.75% + 1.26%)

- PV = CU 427

Financial assets and liabilities at FVTPL

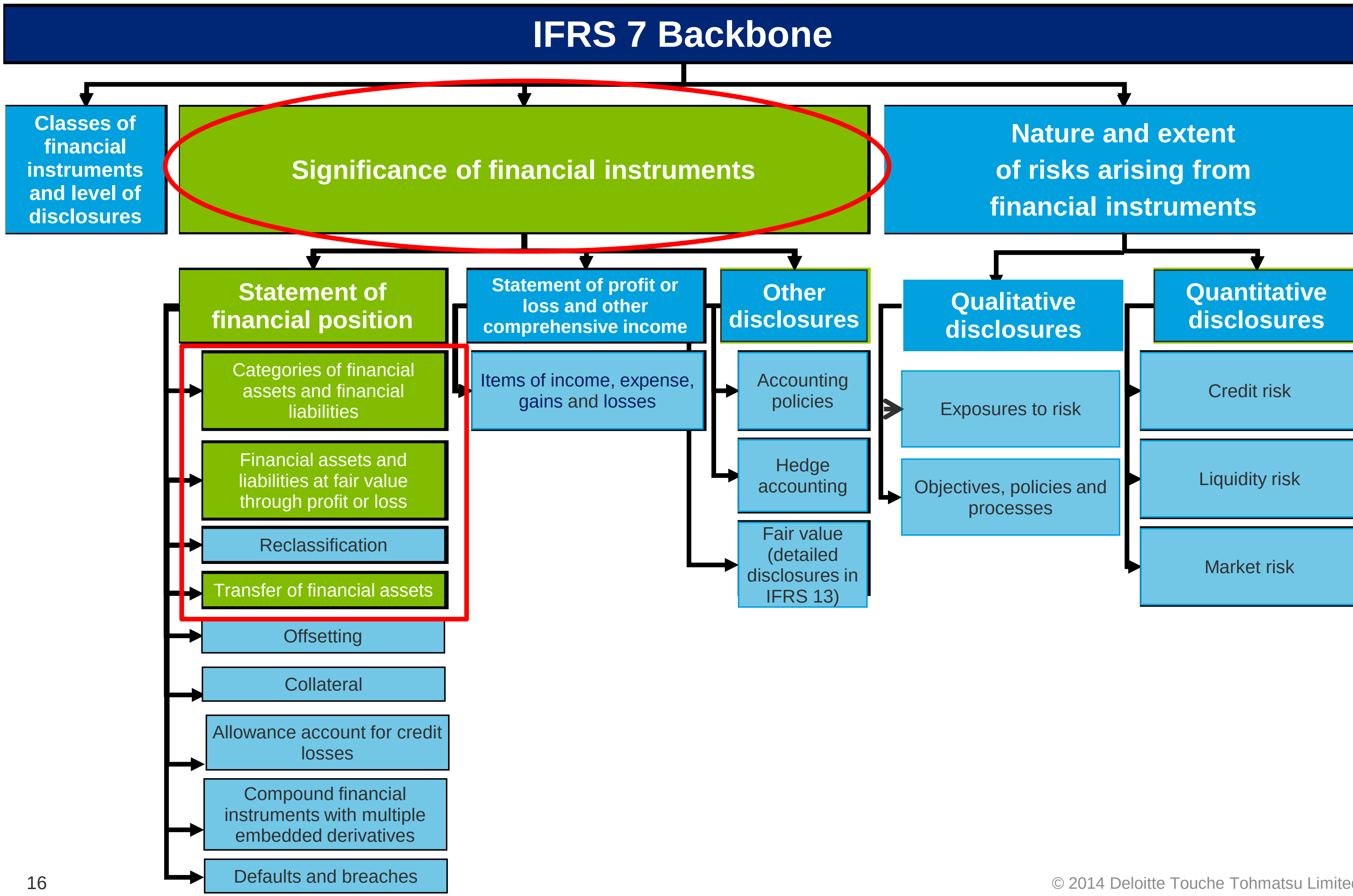
Changes in fair value attributable to changes in credit risk

Solution (continued):

<u>Step 4:</u> Compute fair value due to changes in credit risk

Present value of cash flows CU 427	−	Fair value @ Year 1 CU 400	=	FV due to changes in credit risk CU 27

IFRS 7
Derecognition



IFRS 7
Derecognition

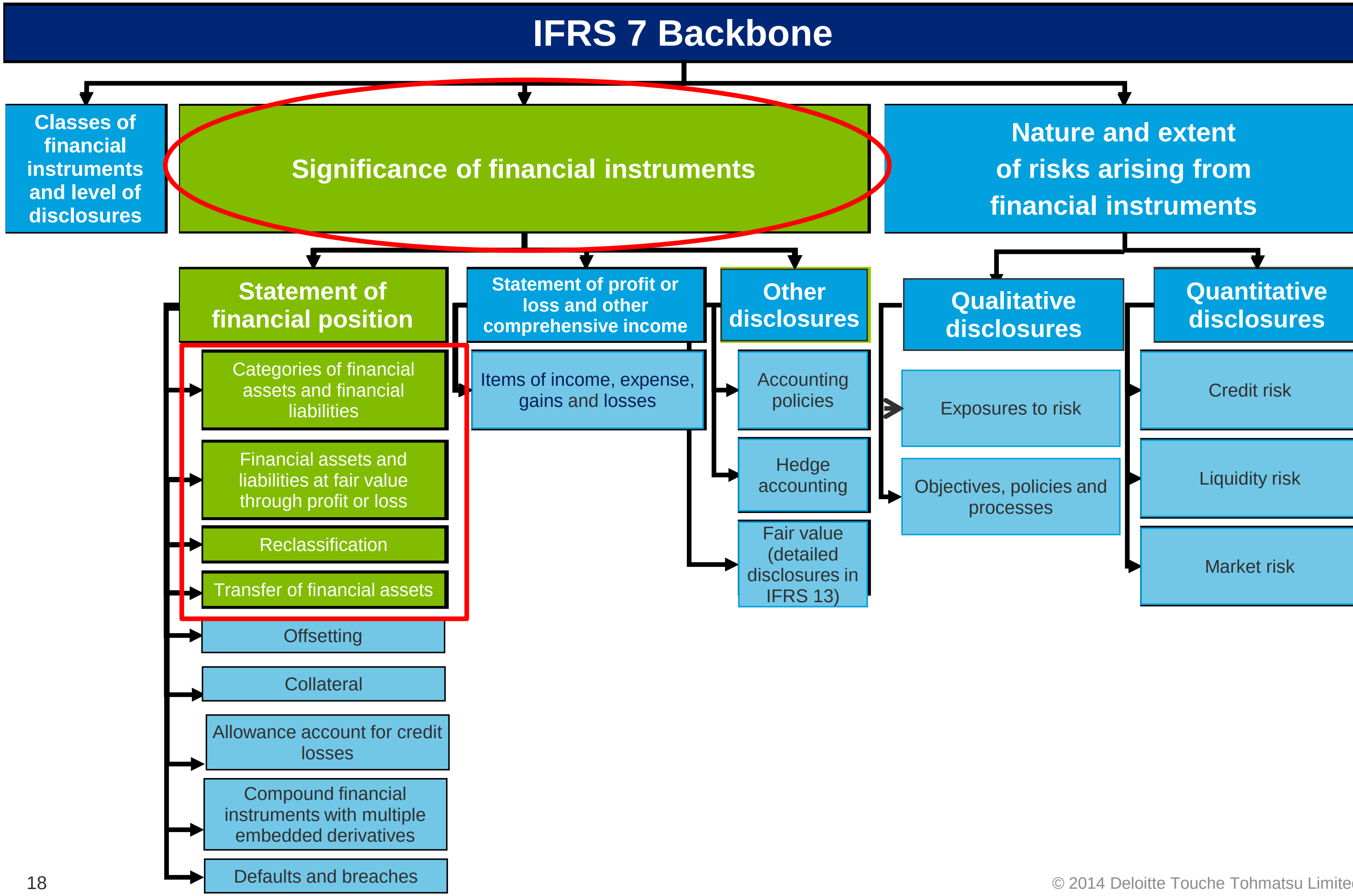
On-balance sheet disclosures

- Financial assets transferred & not derecognised
- Certain disclosures already required by IFRS 7
- Description of nature of relationship between transferred financial asset & associated liabilities (incl. use restricted)
- If recourse only: FV of asset, associated liabilities and net position

Off-balance sheet disclosures

- Nature of & risks from continuing involvement (all new)
- CA & FV & maximum exposure to loss of continuing involvement
- Cash outflows to repurchase assets & maturity analysis of future cash outflows
- Gain/loss on date of derecognition
- Income/expense recognised from continued involvement
- Disclosures if transfer activity not evenly distributed
- Terms of derecognised transaction

IFRS 7
Reclassification

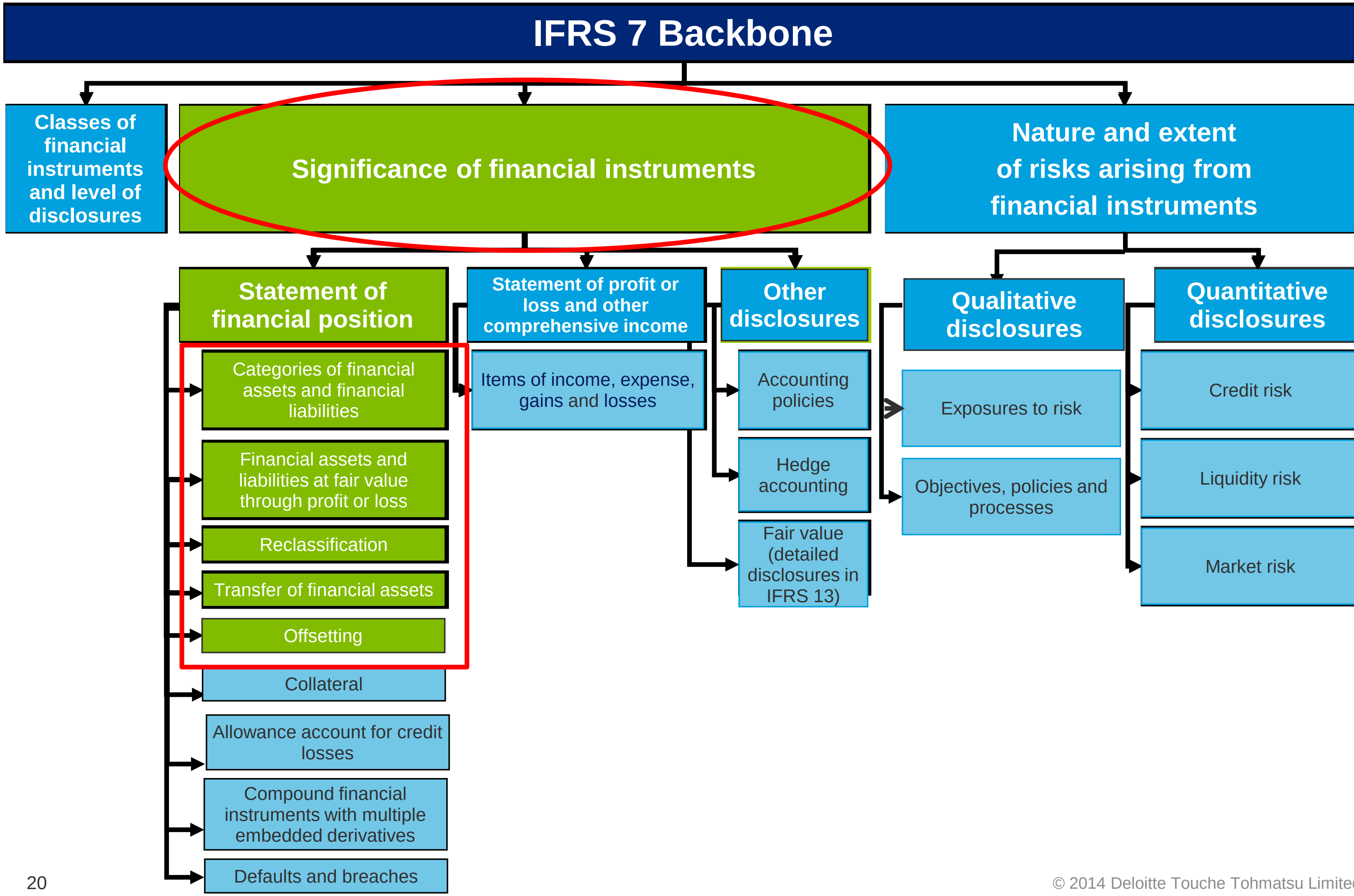


IFRS 7
Reclassification

If the entity has reclassified a financial asset out of the fair value through profit or loss category or out of the available-for-sale category, it shall disclose:

a. the amount reclassified into and out of each category;
b. until derecognition, the carrying amounts and fair values of all reclassified FAs;
c. if reclassified our of FVTPL; explain the rare situation and the facts and circumstances indicating that the situation was rare;
d. the fair value gain or loss in total comprehensive income in that reporting period and in the previous reporting period;
e. until derecognition, the fair value gain or loss that would have been recognised in total comprehensive income if the financial asset had not been reclassified;
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.

IFRS 7
Offsetting arrangements



IFRS 7
Offsetting arrangements

Information to evaluate the impact of netting arrangements by:

a. the gross amounts of those recognised FA and FL

b. the amounts that are set off when determining the net amounts presented in the statement of financial position;

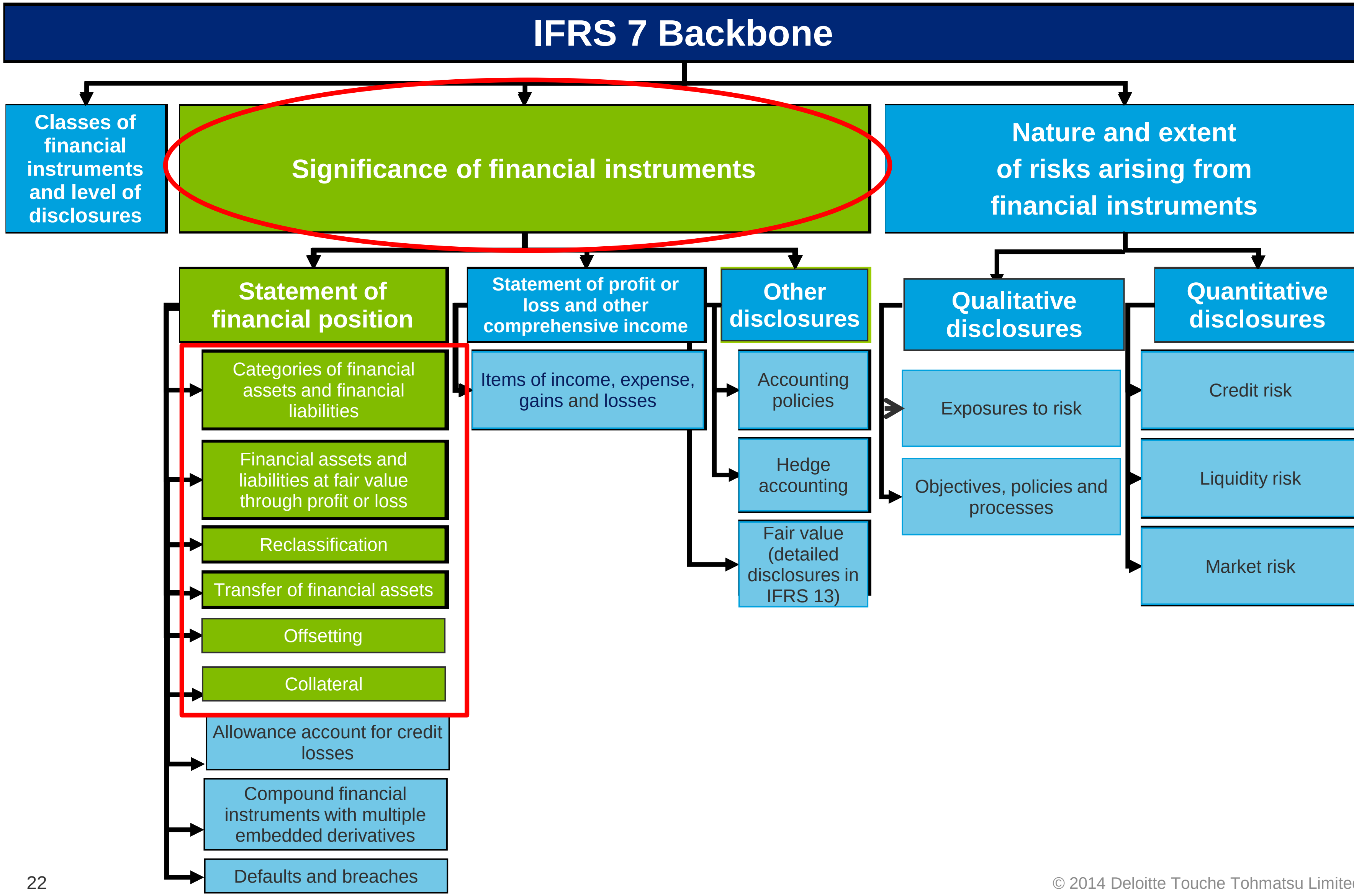
c. the net amounts presented in the statement of financial position;

d. the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including:

    i. amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32; and
    ii. amounts related to financial collateral (including cash collateral); and

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

IFRS 7
Collateral



IFRS 7
Collateral

Provider of collateral

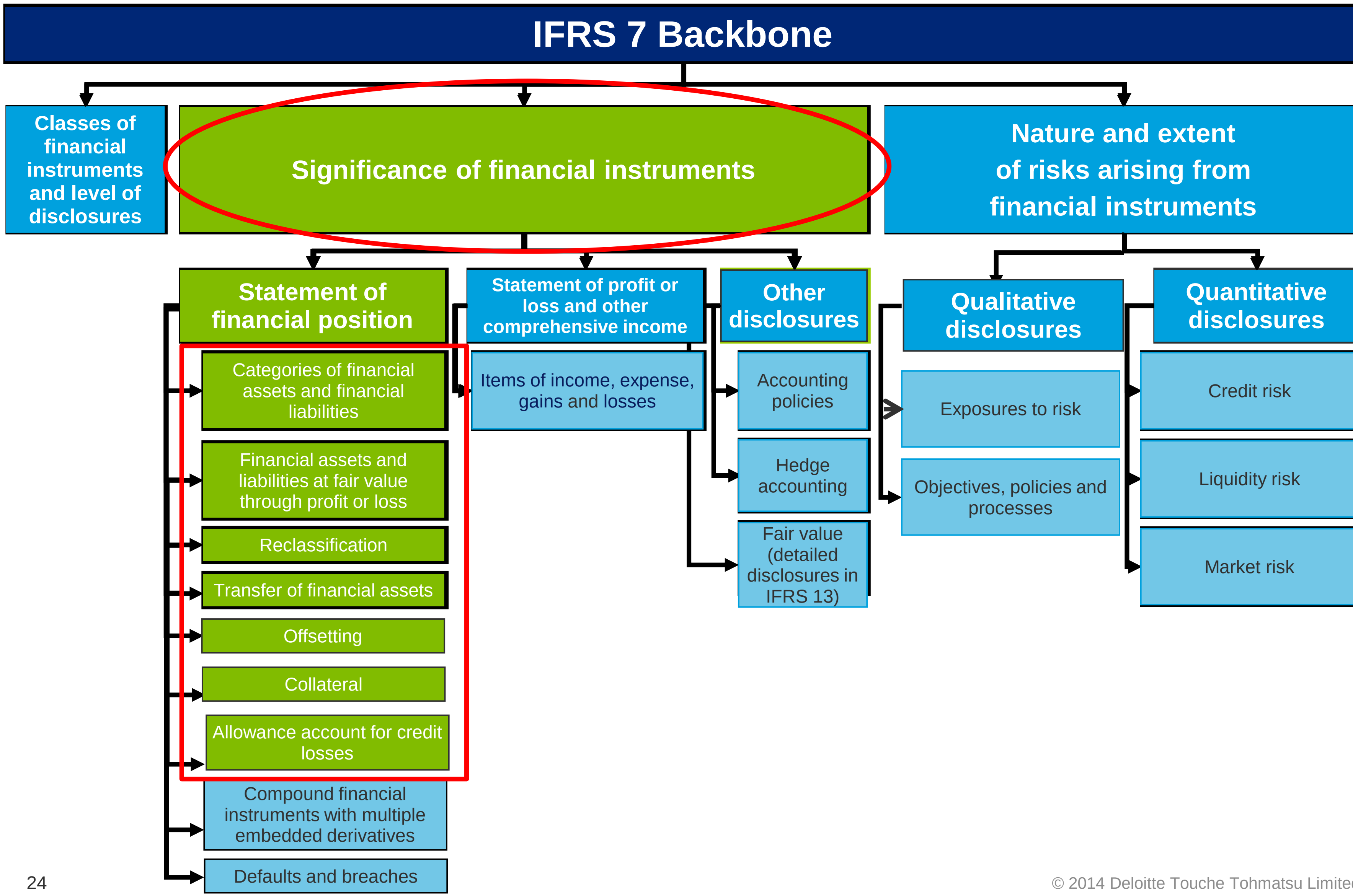
Disclose:
- carrying amount of financial assets it has pledged as collateral
- terms and conditions of pledge

Holder of collateral

Disclose:
- FV of collateral held
- FV of collateral sold/ repledged & if there is an obligation to return it; and
- terms and conditions of use of collateral

  * where permitted to sell or repledge in absence of default

IFRS 7
Allowance account

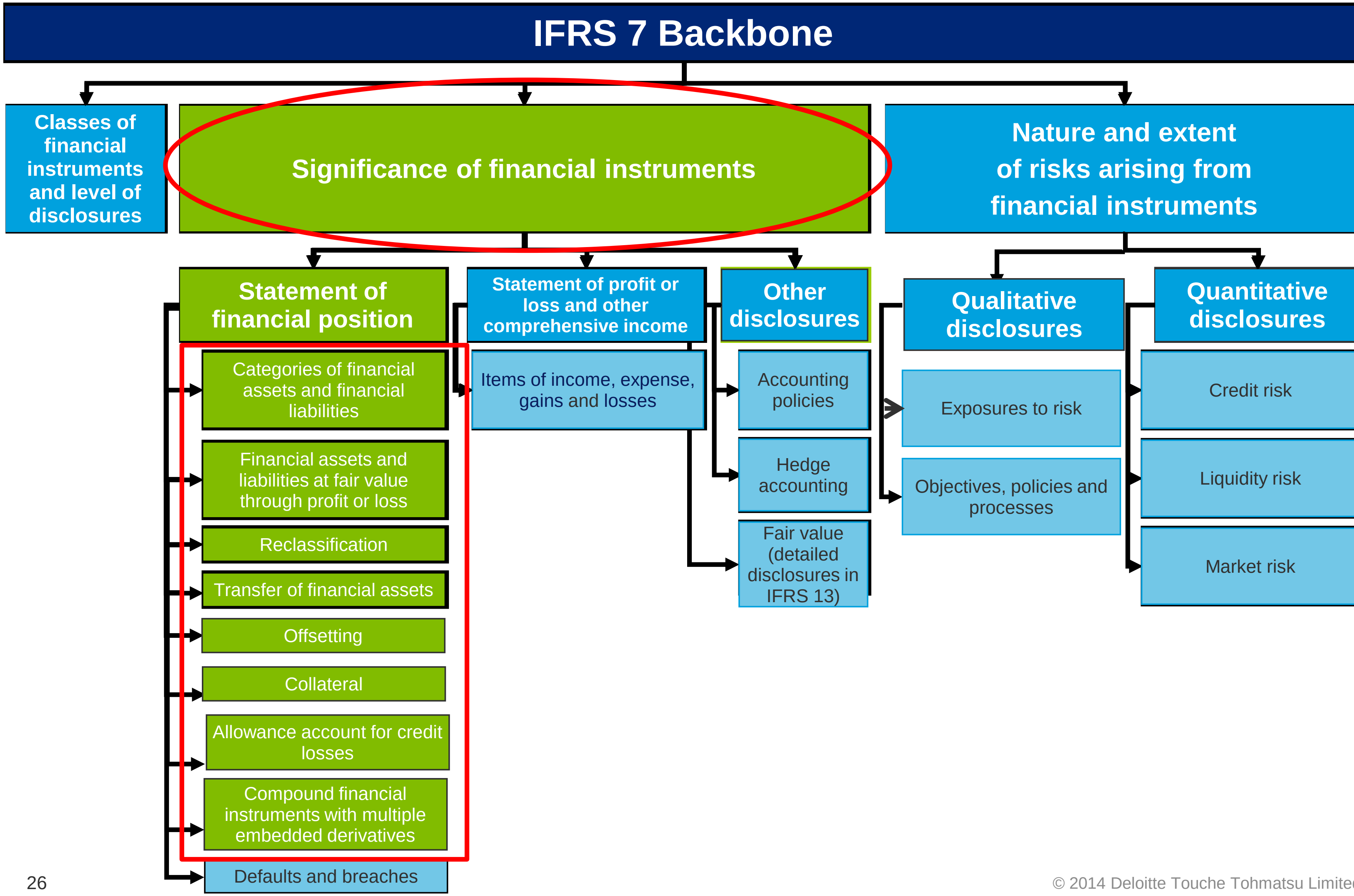


IFRS 7
Allowance account

A reconciliation of the allowance account between opening and closing balances is required:

	Class A	Class B	Class C	Total
Balance at beginning of year	X	X	X	XXX
Plus: Increases in impairment	X	X	X	XXX
Less: Reversals of impairments	X	X	X	XXX
Less: Amounts written off	X	X	X	XXX
Plus/Less: Forex difference	X	X	X	XXX
Less: Unwind of discount	X	X	X	XXX
Balance at end of year	XX	XX	XX	XXX

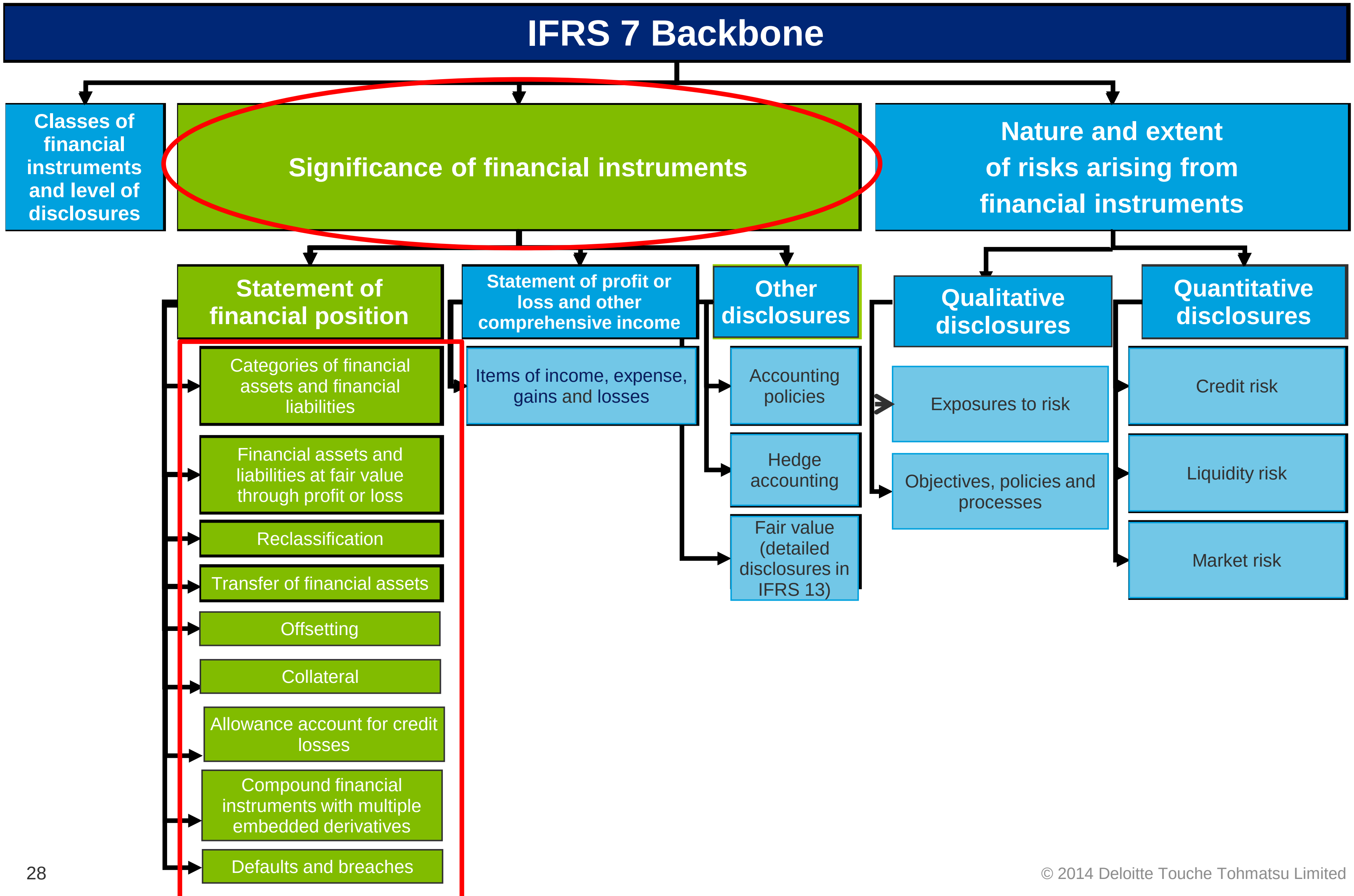
IFRS 7
Compound instruments



IFRS 7
Compound instruments

If an entity has issued an instrument that contains both a liability and an equity component **and** the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

IFRS 7
Defaults and breaches



IFRS 7
Defaults and breaches

For loans payable:

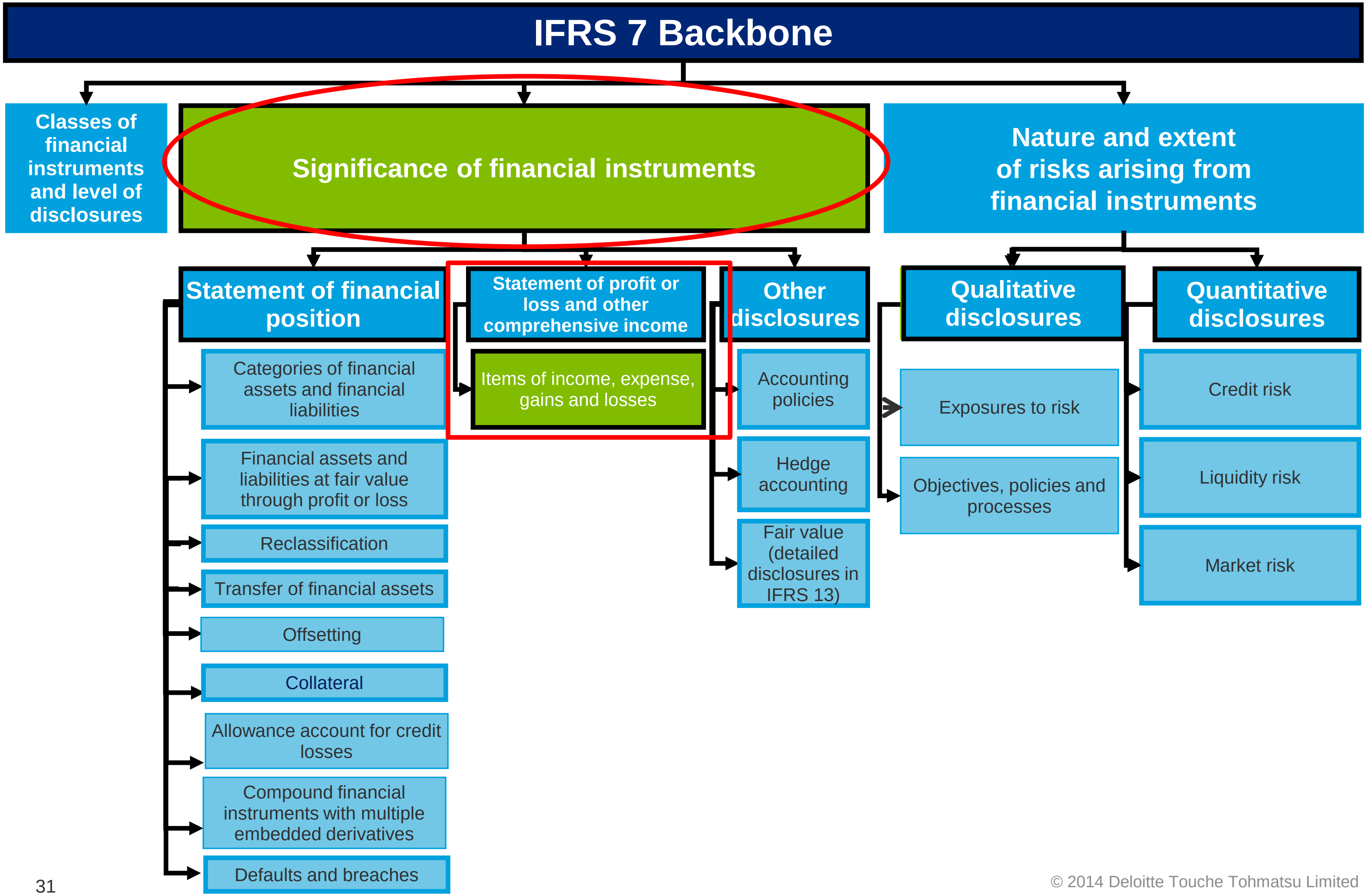
a. details of any defaults

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.

IFRS 7
Significance of financial performance

IFRS 7
Significance of financial performance



IFRS 7

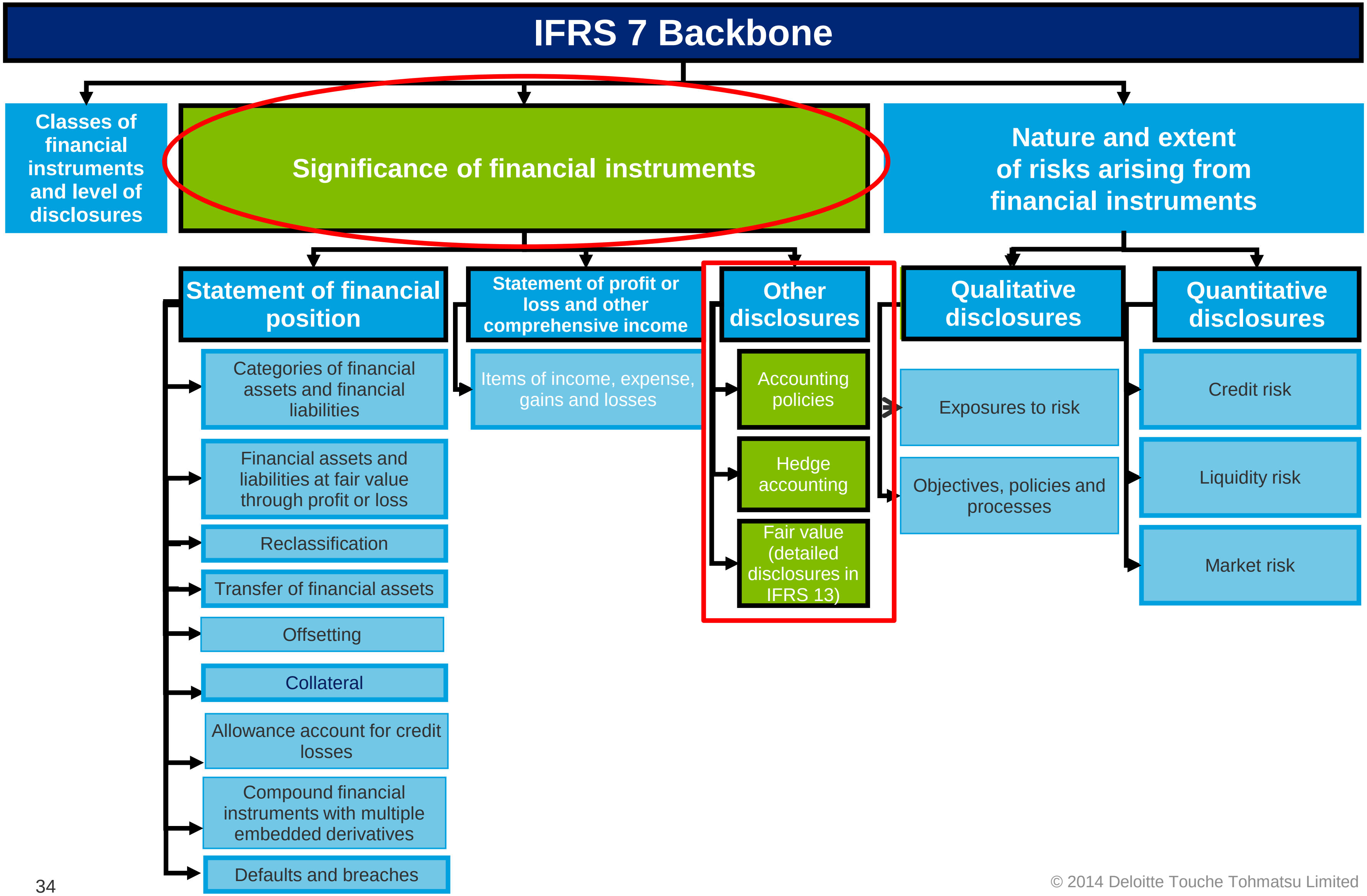
Significance of financial performance

The following items are to be disclosed in the statement of comprehensive income or the notes:

Items of the statement of comprehensive income	Comments
Net gains and net losses	• Required for each category • Split between designated and held for trading • Equity reconciliation for available for sale reserve
Total interest income and expenses	• Aggregated amount excluding FVTPL instruments • Gross amounts • Calculated using effective interest rate method
Fee income and fee expenses	• Separately disclose fees from trust or fiduciary activities
Interest income on impaired financial assets	• Difficult to calculate in practice
Impairment losses	• Required for each class

IFRS 7
Other disclosures

IFRS 7
Other disclosures



IFRS 7
Accounting policies

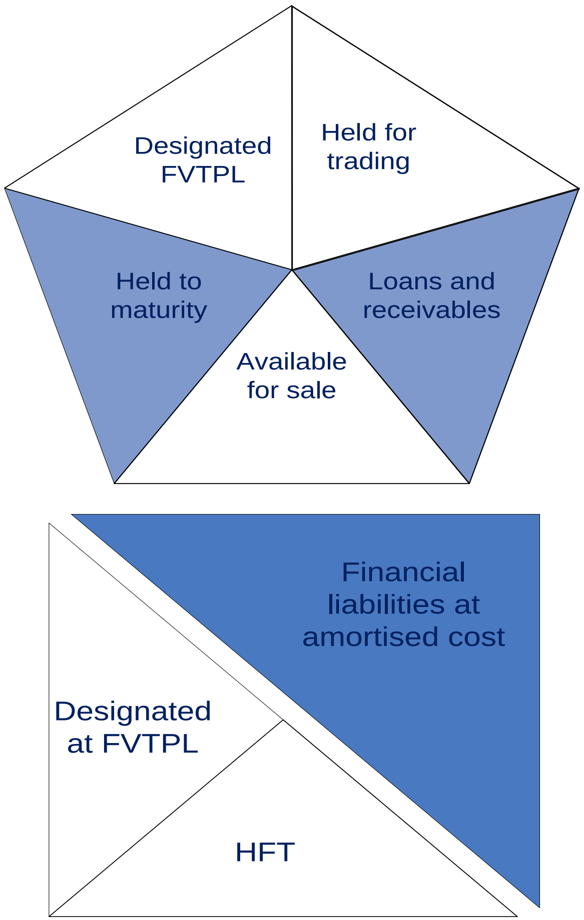
Classification	Comments
Designated at FVTPL	• Nature of FA/FLs designated • Criteria for designating • How satisfied designation criteria in IAS 39
AFS	• Criteria for designating as AFS
Regular way purchases or sales	• Trade date or settlement date
Impairment	• Objective evidence of impairment thresholds • Criteria for allowance account, write-off, reversals • Loans renegotiated which would otherwise be past due or impaired
Determination of net gains and losses	• Interest and dividends included/excluded from FV movements

IFRS 7
Hedging

Classification	Comments
For each type of hedge	• The type of hedge • Hedging instrument used • Nature of risk being hedged
Cash flow hedge	• Period when CF expected to occur • Forecast transaction description • Amount in OCI • Amount recycled from OCI • Ineffectiveness reflected in P/L
Fair value hedge	• FV gains and losses on hedging instrument and hedged item
Net investment hedge	• Ineffectiveness reflected in P/L

IFRS 7
Fair value disclosures

Fair value per class disclosures



Except when

- **Carrying amount approximates FV**
- **Derivatives linked to above equity investments**
- **Contract with a discretionary participation feature that cannot be reliably measured**

Please consider incremental disclosures required by IFRS 13

IFRS 7
Fair value disclosures - the fair value hierarchy

Fair value disclosures

Expanded disclosure:

- Categorisation of fair value measurements into a hierarchy
- Significant transfers between levels (incl reasons)
- Level 3 fair value measurements
  - Reconciliation
  - Total gains or losses (amount & description)
  - Changing inputs

IFRS 7
Fair value disclosures - disclosure example

Fair value disclosures

Description	31 Dec 2011	Fair value measurement at end of the reporting period using: Level 1 ZMK	Level 2 ZMK	Level 3 ZMK
Financial assets through profit or loss				
Trading securities	100	40	55	5
Derivatives	39	17	20	2
Available-for-sale financial assets				
Equity investments	75	30	40	5
Total	**214**	**87**	**115**	**12**

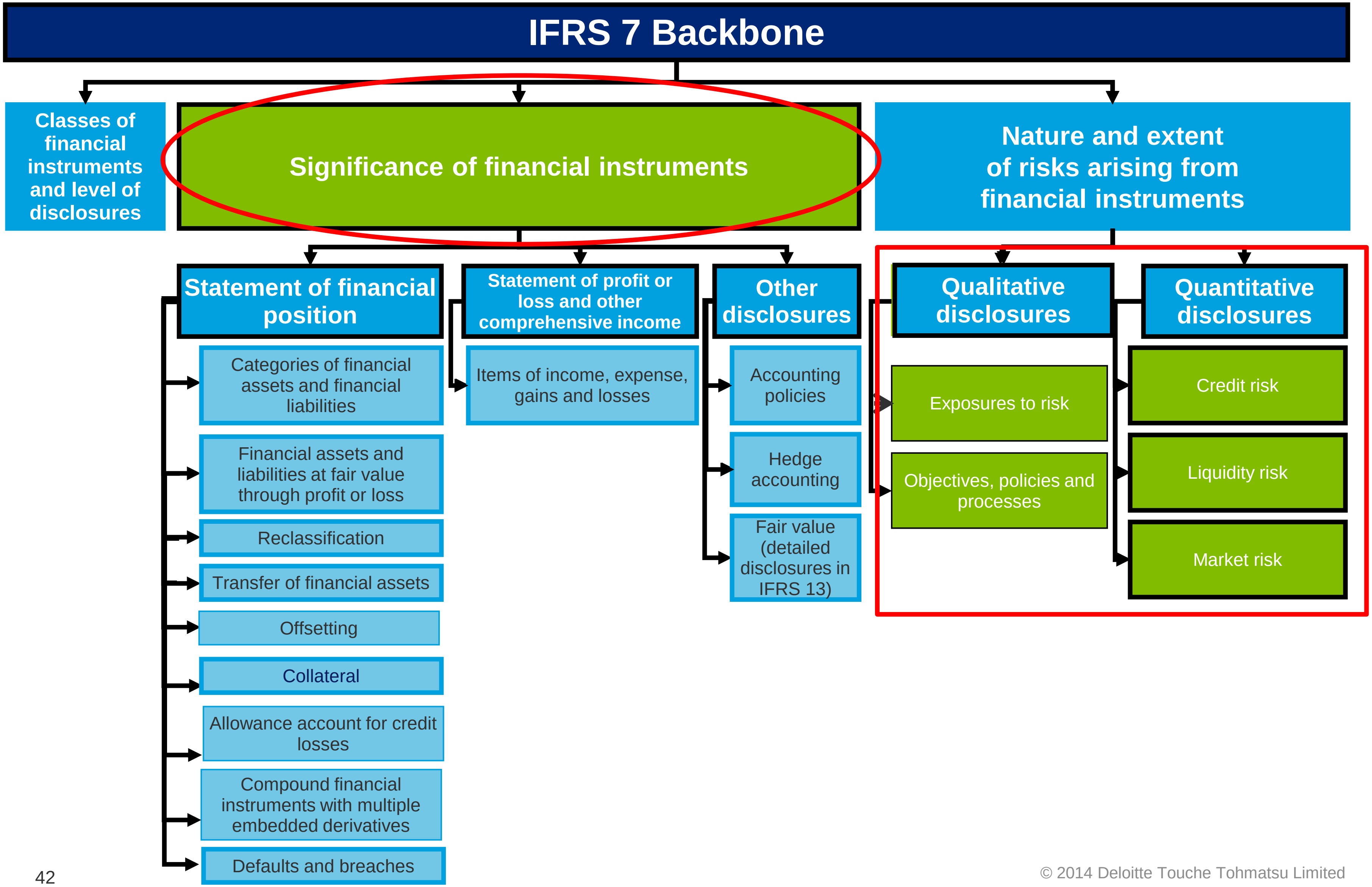
Fair value disclosures - disclosure example (Level 3)

Fair value disclosures

	Fair value measurement at end of the reporting period using:			
	Financial assets at fair value through profit or loss		Available for sale financial assets	Total
	Trading securities ZMK	Derivatives ZMK	Equity investments ZMK	Total ZMK
Opening Balance	6	5	4	15
Total gains or losses				
in profit or loss	(2)	(2)	-	(4)
in other comprehensive income	-	-	(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 profit or loss for assets held at the end of the reporting period	(1)	(1)	-	(2)

IFRS 7
Nature and extent of risks

IFRS 7
Nature and extent of risks



IFRS 7
Quantitative disclosures – credit risk

		Class A	Class B	Class C	Total
1	Neither past due nor impaired	X	X	X	XXX
2	Renegotiated	X	X	X	XXX
3	Past due	X	X	X	XXX
4	Impaired	X	X	X	XXX
		X	**X**	**X**	**XXX**

Reconcile to the statement of financial position

IFRS 7

Credit risk – renegotiated indicators

	Class A	Class B	Class C	Total
1 Neither past due nor impaired	X	X	X	XXX
2 Renegotiated	X	X	X	XXX
3 Past due	X	X	X	XXX
4 Impaired	X	X	X	XXX
	X	**X**	**X**	**XXX**

IFRS 7
Credit risk – past due

		Class A	Class B	Class C	Total
1	Neither past due nor impaired	X	X	X	XXX
2	Renegotiated	X	X	X	XXX
3	Past due	XX	XX	XX	XXX
	Age Analysis: - < 30 days - 31 – 60 days - 61 to 90 days Etc.	X X X X	X X X X	X X X X	X X X X
4	Impaired	X	X	X	XXX
		X	**X**	**X**	**XXX**
	Collateral held	**?**	**?**	**?**	

IFRS 7
Credit risk – impaired

	Class A	Class B	Class C	Total
1 Neither past due nor impaired	X	X	X	XXX
2 Renegotiated	X	X	X	XXX
3 Past due	X	X	X	XXX
4 Impaired	XX	XX	XX	XXX
Impaired asset balance	X	X	X	X
Impairment account	X	X	X	X
	X	**X**	**X**	**XXX**
Collateral held	**?**	**?**	**?**	

Net amount

IFRS 7
Other credit risk disclosures

Disclosures for collateral and other credit enhancements obtained:

- Nature and carrying amount of collateral obtained
- When assets are not readily convertible to cash the policies for:
  - disposing of such assets; or
  - for using them in its operations

Disclosure of collateral and other credit enhancements held as security:

- Policies and procedures for valuing, managing collateral
- Description
- Main types of counterparties to collateral and their creditworthiness
- Risk concentrations within collateral

Remember – collateral is also a class based disclosure

IFRS 7
Liquidity risk

Liquidity risk:

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

Disclosure required:

- Maturity analysis for non- derivative financial liabilities that shows remaining contractual maturities
- Maturity analysis for derivative financial liabilities
- Description of how entity manages liquidity risks inherent

IFRS 7
Liquidity risk
Examples

Fixed rate instruments
- – Fixed rate loan
- – Stepped up interest payments

Floating rate instruments
- Leases
- Prime linked borrowings

Derivatives
- – Interest rate swap
- – Forward exchange contract

Off balance sheet items
- – Loan commitments

IFRS 7
Liquidity risk
Fixed rate instrument (basic)

Company A has a R1 million loan from Bank A. The loan has the following terms:

- fixed interest bearing loan @ 15% per annum
- interest is calculated cumulatively
- the loan is expected to be paid in 5 equal capital instalments

Cash flows in respect of the loan are as follows:

Period	i-rate	Cash flow
0		R 1 000 000
1	15%	(R 350 000)
2	15%	(R 320 000)
3	15%	(R 290 000)
4	15%	(R 260 000)
5	15%	(R 230 000)

Workings

Cash inflow

*(1 000 000*15%) + 200 000*

*(800 000*15%) + 200 000*

*(600 000*15%) +200 000*

*(400 000*15%) +200 000*

*(200 000*15%) +200 000*

IFRS 7

Liquidity risk

Fixed rate instrument (basic)

Period	i-rate	Cash flow
0		R 1 000 000
1	15%	(R 350 000)
2	15%	(R 320 000)
3	15%	(R 290 000)
4	15%	(R 260 000)
5	15%	(R 230 000)

6 -12 months

1 – 2 years

2 – 5 years

2 – 5 years

2 – 5 years

'000's	< 6m	6–12 m	1-2 years	2–5 years	Total
Fixed rate financial liability	-	(350)	(320)	(780)	(1450)

Balance sheet **(1 000)**

Interest **Difference** **(450)**

IFRS 7
Liquidity risk
Fixed rate instrument (stepped interest)

Company A has a R1 million loan from Bank A. The loan has the following terms:

- fixed interest bearing loan @ 15% per annum for the first 2 years
- fixed interest bearing loan @ 18.5% per annum for the remaining period
- interest is calculated cumulatively
- the loan is expected to be paid in 5 equal capital instalments

Cash flows in respect of the loan are as follows:

Period	i-rate	Cash flow
0		R 1 000 000
1	15%	(R 350 000)
2	15%	(R 320 000)
3	18.5%	(R 311 000)
4	18.5%	(R 274 000)
5	18.5%	(R 237 000)

Workings

Cash inflow

*(1 000 000*15%) + 200 000*

*(800 000*15%) + 200 000*

*(600 000*18.5%) +200 000*

*(400 000*18.5%) +200 000*

*(200 000*18.5%) +200 000*

IFRS 7
Liquidity risk
Fixed rate instrument (stepped interest)

Period	i-rate	Cash flow	
0		R 1 000 000	
1	15%	(R 350 000)	*6 -12 months*
2	15%	(R 320 000)	*1 – 2 years*
3	18.5%	(R 311 000)	*2 – 5 years*
4	18.5%	(R 274 000)	*2 – 5 years*
5	18.5%	(R 237 000)	*2 – 5 years*

‘000’s	< 6m	6–12 m	1-2 years	2–5 years	Total
Fixed rate financial liability	-	(350)	(320)	(822)	(1492)

Balance sheet	**(1 000)**
Difference	**(492)**

Interest

Liquidity risk

Floating rate instrument

Company A has a R1 million loan from Bank A. The loan has the following terms:

- prime linked interest rate
- the loan is redeemable in a bullet payment in 5 years time

Cash flows in respect of the loan are as follows:

Interest calculated using a risk adjusted forward curve

Period	i-rate	Cash flow	
0		R 1 000 000	*Cash inflow*
1	5.0%	(R 50 000)	*(1 000 000*5%)*
2	5.5%	(R 55 000)	*(1 000 000*5.5%)*
3	6.0%	(R 60 000)	*(1 000 000*6%)*
4	6.5%	(R 65 000)	*(1 000 000*6.5%)*
5	7.0%	(R 1 070 000)	*(1 000 000*7%)*

IFRS 7

Liquidity risk

Floating rate instrument

Period	i-rate*	Cash flow	
0		R 1 000 000	
1	5.0%	(R 50 000)	*6 -12 months*
2	5.5%	(R 55 000)	*1 – 2 years*
3	6.0%	(R 60 000)	*2 – 5 years*
4	6.5%	(R 65 000)	*2 – 5 years*
5	7.0%	(R 1 070 000)	*2 – 5 years*

'000's	< 6m	6–12 m	1-2 years	2–5 years	Total
Floating rate liability	-	(50)	(55)	(1 195)	(1 300)

Balance sheet	**(1 000)**
Difference	**(300)**

Interest

Liquidity risk

Derivatives: Interest rate swap (net settled)

Company A has an interest rate swap with the following terms:

- nominal value of the loan = R100 million
- pays variable interest rate; receives a fixed interest rate of 5.5%
- annual cash flows
- 5 year maturity

Cash flows are calculated as follows:

Period	Variable rate	Fixed rate	Difference	Cash flows
FV				1 790 422
1	5.0%	5.5%	(0.5%)	(500 000)
2	5.5%	5.5%	0%	0
3	6.0%	5.5%	0.5%	500 000
4	6.5%	5.5%	1.0%	1 000 000
5	7.0%	5.5%	1.5%	1 500 000

IFRS 7
Liquidity risk
Derivatives: Interest rate swap (net settled)

Period	i-rate*	Cash flow	
FV		1 790 422	
1	(0.5%)	(500 000)	*6 -12 months*
2	0%	0	*1 – 2 years*
3	0.5%	500 000	*2 – 5 years*
4	1.0%	1 000 000	*2 – 5 years*
5	1.5%	1 500 000	*2 – 5 years*

‘000’s	< 6m	6–12 m	1-2 years	2–5 years	Total
Interest rate swap	-	500	-	(3 000)	(2 500)

IFRS 7
Liquidity risk
Derivatives: Forward exchange contract (gross settled)

Company A loans US$10 000 from Bank A – the loan is interest free and repayable in 6 months time. To hedge it's risk against foreign currency movements, Company A enters into a 6 month FEC at a rate of R7.59:US$.

Assume that this transaction happens at year end.

The following cash flows are expected to occur in respect of the FEC:

Pay	R75 900	*Financial liability*
Receive	US$10 000	*Financial asset*

'000's	< 6m	6–12 m	1-2 years	2–5 years	Total
FEC	-	75	-	-	75

IFRS 7
Liquidity risk
Off balance sheet items: Loan commitment

Company A has committed to lend Company B an amount of R10 million over a 5 year period, with equal instalments per annum.

Company B draws down R2 million per annum.

There are no draw downs at balance sheet date

Cash flows are as follows:

Period	Cash flow
0	0
1	(R 2 000 000)
2	(R 2 000 000)
3	(R 2 000 000)
4	(R 2 000 000)
5	(R 2 000 000)

IFRS 7
Liquidity risk
Off balance sheet items: Loan commitment

Period	Cash flow	
0	0	
1	(R 2 000 000)	*6 -12 months*
2	(R 2 000 000)	*1 – 2 years*
3	(R 2 000 000)	*2 – 5 years*
4	(R 2 000 000)	*2 – 5 years*
5	(R 2 000 000)	*2 – 5 years*

‘000’s	< 6m	6–12 m	1-2 years	2–5 years	Total
Loan commitment	-	(2 000)	(2 000)	(6 000)	(10 000)

Balance sheet	**0**
Difference	**(10 000)**

Inclusion of off B.S

IFRS 7
Market risk - definitions

Market risk:

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 of:

- currency risk
- interest rate risk
- other price risk.

Interest rate risk:

Arises on interest-bearing financial instruments recognised in the statement of financial position.

Currency risk:

Arises on financial instruments that are denominated in foreign currency

Other price risk:

Arises on financial instruments because of changes in commodity prices or equity prices

Market risk sensitivity process

Market risk process

Step 1

Identify risk variable

Step 2

Identify exposure at BS date

Step 3

Reasonable possible change

Step 4

Appropriate level of aggregation

Step 5

Calculate and present sensitivity analysis

IFRS 7
Market risk
Step 1: Identify risk variable

Examples of risk variables an entity can be exposed to:

Type of risk	Risk variable examples
Interest rate risk	JIBAR
	LIBOR
	Prime
	Other benchmark interest rates
Currency risk	Foreign currencies
Other price risk	Equity price risk
	Commodity price risk
	Prepayment risk

Market risk

Step 1: Identify risk variable

Financial Instrument	Nature of risk	Market risk type
Trade Accounts Receivable / Trade Accounts Payable	For receivables/payables denominated in currency other than functional currency exposure to currency movements exists	Interest Rate Risk Foreign exchange rate risk
Cash and cash equivalents / Bank overdrafts	For cash accounts denominated in currency other than functional currency exposure to currency movements exists	Interest Rate Risk Foreign exchange rate risk
Investment in unlisted equities	Exposed to chages in equity prices / valuation inputs	Equity Risk
Derivative instruments e.g FEC's & Swaps	Fair value of derivative instruments subject to foreign exchange or interest rate volatility	Foreign exchange rate risk and/or Interest Rate Risk

Market risk
Step 2: Identify exposures at balance sheet date

The table below sets out examples of risk exposures and the components that are affected.

Profit and loss	Equity
Floating rate debt instruments	Effective portion of hedging instruments of cash flow and net investment hedges
Foreign currency debt instruments	Intercompany foreign currency denominated debt instruments that form part of the net investment of a foreign operation
All financial instruments at FVTPL	Available for sale items
Derivatives that are designated FV hedge instruments	
Fixed rate debt instruments which are FV hedged items	
Equity investments at FVTPL	Equity investments at AFS

Market risk

Step 3: Determine reasonably possible changes to risk variables

- Entity needs to determine what a reasonably possible change to the risk variable is
- The reasonably possible change should not include “worst case scenarios”
- Reasonably possible change should be assessed over the time frame until the entity next presents these disclosures.
- Range of reasonably possible changes may be wide:
  - Disclosure is not required for each change within a range
  - Sufficient to disclose changes at the limits of the reasonably possible range

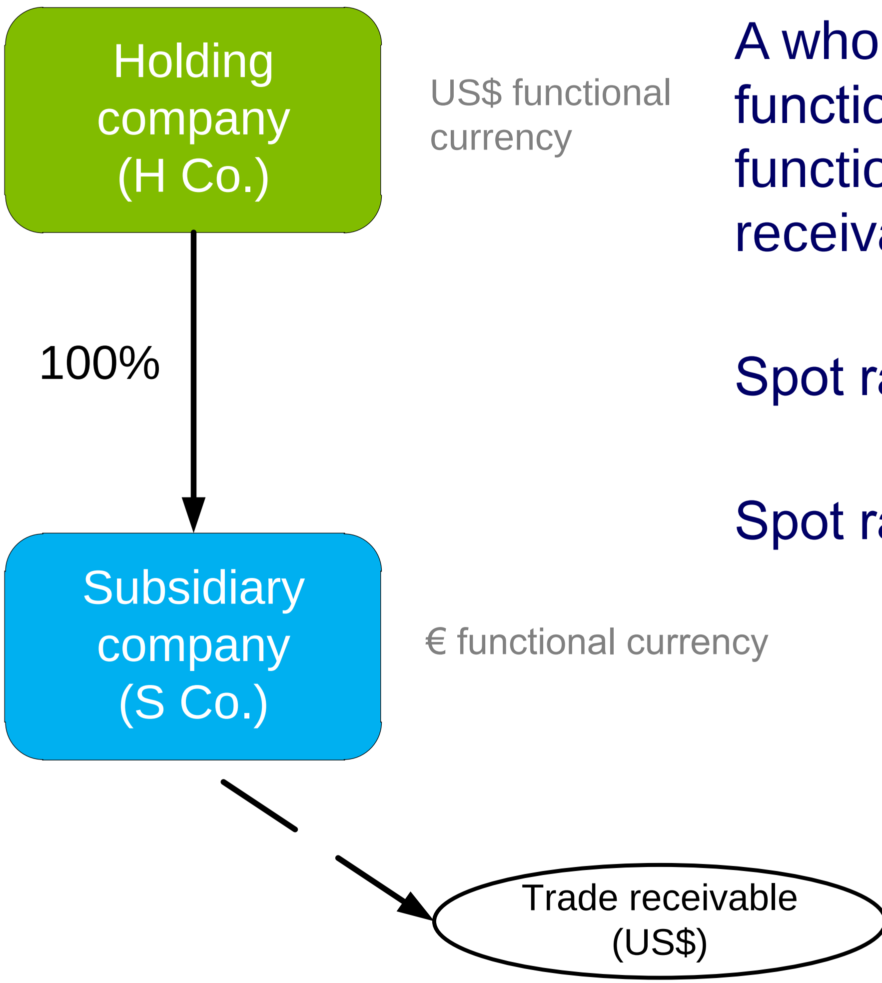
Market risk

Step 4:Determine appropriate level of aggregation

- Decide how to aggregate the information to display:
  - May be for financial instruments that are held for trading from those that are not
  - Alternatively, disclosures may be for each risk
- At a minimum, disclose sensitivity analyses for each currency to which the entity has an exposure to.
- Entity shall provide sensitivity analyses for the whole business
  - But may provide different types of sensitivity analyses for different classes of financial instruments.

Market risk

Consider complexities



A wholly owned subsidiary of H.Co (USD $ functional currency), namely S.Co (€ functional currency) has a USD $ trade receivable of USD $ 50 000.

Spot rate at transaction date $/ € was 1.1

Spot rate at reporting date $/ € is 1.4

Market risk

Consider complexities

Spot rate at reporting date: $/ € = 1.4	Spot rate at reporting date: $/ € = 1.6
Restatement of loan in S.Co at reporting date: Dr Trade Receivable 15k Cr Forex gain 15k Thus 15 000 profit will be consolidated into H.Co Group results	Restatement of loan in S.Co at reporting date: Dr Trade Receivable 25k Cr Forex gain 25k Thus 25 000 profit will be consolidated into H.Co Group results

Reflects sensitivity to currency movements

Market risk
Step 5: Calculate and present the sensitivity analyses

Entity shall disclose the effect on profit and loss and equity for exposures at the balance sheet date assuming reasonably possible changes have been applied to them.

Market risk
Illustrative example

Entity A has the following exposures at Y_0:

Exposure	ZAR
ZAR prime linked borrowings	350
ZAR denominated listed share – classified as available for sale	500
USD denominated fixed rate borrowing at amortised cost	730 (USD 100)

changes:

Risk variable	Expected change
Prime rate	150 basis points
ZAR equity prices	8%
ZAR/USD exchange rate	15%

Market risk
Illustrative example

The market sensitivity analysis may be calculated and presented as follows:

Risk variable	Workings	Profit and loss	Equity
Prime rate	350*1.5%	+/-5.3	
ZAR equity prices	500*8%		+/-40
ZAR/USD exchange rate	730*15%	+/-109.5	

Should be disclosed **AFTER** tax effect