

# Financial Instruments on Display

A Guide to IFRS 7 *Financial Instruments: Disclosures*

Grant Thornton 

(C) 2007 Grant Thornton International. All rights reserved.

Member firms of the Grant Thornton International organisation are independently owned and operated. Grant Thornton is not a worldwide partnership

The name "Grant Thornton" signifies one of the world's leading organisations of accounting and consulting firms providing assurance, tax and specialist business advice. Services are delivered nationally by the member and correspondent firms of Grant Thornton International, a network of independent firms throughout the world. Grant Thornton International is a non-practising, non-trading international umbrella organisation and does not deliver services in its own name.

**Important Disclaimer:**

This document has been developed as an information resource. It is intended as a guide only and the application of its contents to specific situations will depend on the particular circumstances involved. While every care has been taken in its presentation, personnel who use this document to assist in evaluating compliance with International Financial Reporting Standards should have sufficient training and experience to do so. No person should act specifically on the basis of the material contained herein without considering and taking professional advice. Neither Grant Thornton International, nor any of its member firms, partners or employees, accept any responsibility for any errors it might contain, whether caused by negligence or otherwise, or any loss, howsoever caused, incurred by any person as a result of utilising or otherwise placing any reliance upon this document.

## Introduction

IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") introduces new and amended disclosure requirements for entities preparing IFRS financial statements. The instruments covered by IFRS 7 are extensive, ranging from straightforward instruments such as bank accounts, trade receivables and trade payables to more complex financial instruments such as derivatives. Accordingly, IFRS 7 is likely to be relevant for all entities applying IFRS financial statements, including non-financial services entities.

IFRS 7 is **mandatory for reporting periods starting on or after 1 January 2007**. It requires **full comparative information**, (subject to certain exemptions if applied for annual periods beginning before 1 January 2006). Advance planning is recommended to ensure full compliance with the extensive disclosure requirements of IFRS 7. Some required disclosures may be considered commercially sensitive. Some of the required information may not be readily available from existing management reporting systems. A number of implementation issues should therefore be addressed well ahead of year-end procedures.

This publication, *Financial Instruments on Display - A Guide to IFRS 7 Financial Instruments: Disclosures*, has been prepared to assist in complying both with IFRS 7 and with other financial instruments-related disclosure requirements. It is organised into three parts:

- (1) The first section discusses certain key implementation issues that may arise when implementing IFRS 7.
- (2) The second section includes selected illustrative disclosures, along with IFRS references and additional discussion of certain requirements (based on a fictional entity, Granthor Inc.).
- (3) The third section is a disclosure checklist extracted from IFRS 7 to assist in assessing completeness of an entity's disclosures.

Not all the potential disclosure requirements are covered in the illustrative disclosures. This guidance should not therefore be used as a substitute for studying IFRS 7, nor as the sole tool for preparing financial statements in accordance with this Standard. Furthermore, the manner of accounting, presentation and disclosure illustrated in the example disclosures should not be considered the only acceptable result of the application of IFRS. Ultimately, management is responsible for the form and content of financial statements as required by IFRS and therefore may find other approaches to compliance preferable over those presented.

February 2007

# Contents

	Page
<b>Introduction</b>	<b>1</b>
<b>Key implementation issues of IFRS 7</b>	<b>3</b>
<b>Illustrative example disclosures and analysis</b>	<b>6</b>
<b>Income statement</b>	<b>6</b>
1 Presenting finance cost and finance income	6
2 Selected disclosures for financial income and expenses	8
2.1 Finance costs.....	8
2.2 Finance income.....	8
2.3 Financial result by category of financial instruments .....	10
<b>Balance sheet</b>	<b>12</b>
3 Presentation of financial assets and liabilities	12
4 Financial assets and liabilities	16
4.1 Financial assets by category .....	16
4.2 Financial liabilities by category.....	16
4.3 Held-to-maturity financial assets .....	18
4.4 Available-for-sale financial assets .....	20
4.5 Derivative financial instruments .....	20
4.6 Trade and other receivables.....	22
4.7 Borrowings .....	24
4.8 Trade and other payables.....	26
4.9 Financial liabilities designated at fair value through profit or loss .....	28
<b>Financial risk management disclosures</b>	<b>30</b>
5 Market risk analysis	30
5.1 Foreign currency sensitivity.....	30
5.2 Interest rate sensitivity.....	34
5.3 Other price risk sensitivity .....	36
6 Credit Risk Analysis	38
7 Liquidity Risk Analysis	40
<b>Other disclosures</b>	<b>42</b>
8 Change in accounting policies	42
9 Accounting policies	42
9.1 Accounting for financial assets .....	42
9.2 Cash flow hedge accounting.....	46
9.3 Financial liabilities .....	48
<b>IFRS 7 Disclosure Checklist</b>	<b>50</b>

## Key implementation issues of IFRS 7

Some of the disclosure requirements of IFRS 7 have been carried over from IAS 32 *Financial Instruments: Presentation and Disclosure*. Other requirements are new and may require system changes or refinements to collate the relevant data. The implementation of IFRS 7 should therefore be planned well ahead of year-end procedures. Some of the more challenging aspects of IFRS 7 are discussed briefly in the following paragraphs.

### Grouping financial instruments into classes

IFRS 7 requires some disclosures based on *classes* of financial assets and liabilities and other disclosures based on *categories* of financial instruments. Carrying amounts of financial instruments and net gains and losses, for example, need to be disclosed by category. Credit risk and fair values, on the other hand, need to be analysed by class.

*Categories* of financial instruments are determined in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The category determines the way an entity measures its financial assets and liabilities as well as whether resulting income and expenses are presented in equity or in profit or loss.

*Classes* of financial instruments are determined by management, in a way that is appropriate to the nature of the information to be given. IFRS 7 does not set out specific criteria for grouping instruments into classes, nor does it indicate the number of classes an entity might identify. It does specify that an entity should distinguish financial instruments:

- measured at amortised cost from those measured at fair value; and
- that are outside the scope of IFRS 7 as a separate class or classes.

One approach to determine classes could be based on the IAS 39 categories of financial instruments, depending on the nature of the information to be given. Other approaches will look more to common legal, economic and risk characteristics of the instruments. Judgement will be required to determine the appropriate groupings, based on the overall objective of IFRS 7 to assist users in understanding the significance of and risks associated with the entity's financial instruments.

### Comprehensive fair value disclosures

IFRS 7 requires the disclosure of fair values for each class of financial instruments, regardless of whether they are carried at fair value in the balance sheet. Exceptions to this basic principle are only available in very limited cases, i.e.:

- financial instruments whose carrying amount is a reasonable approximation of fair value;
- investments in equity instruments, or derivatives linked to such equity instruments that are carried at cost because fair value cannot be measured reliably; and
- contracts that contain a discretionary participation feature, the fair value of which cannot be measured reliably.

Management may therefore need to implement new procedures to estimate fair values for a wider range of instruments. They should assess:

- the extent to which fair values can be determined by direct reference to active markets and the extent to which valuation techniques (models) will be required;
- which methods will be used, if valuation techniques for financial instruments are required;
- what the relevant assumptions are to determine fair value (such as future cash flows, interest rates, credit quality ratings and similar risk assessments);
- whether there are assumptions that cannot be made by reference to published price quotations from observable current transactions in the same instrument on an active market; and
- how the data to support each assumption will be obtained.

The methods and procedures to determine fair values for each class of financial instruments will also have to be disclosed in the explanatory notes to the financial statements. Additional information is required in circumstances where an entity has designated financial assets or liabilities as at fair value through profit or loss. Furthermore, if fair values are not disclosed for certain financial instruments in accordance with IFRS 7, the reasons for this and further information need to be given. Details may only be omitted when financial instruments are carried at amounts that are considered to be a reasonable approximation of fair value.

### Credit quality of financial assets

IFRS 7 contains requirements to disclose information concerning credit risks, some of which is new to IFRS. Some of this information might be seen as commercially sensitive, but there are no exemptions from the disclosure requirement on the grounds of commercial sensitivity. In addition, some of the data required might not be readily available from existing reporting systems. The disclosures include, but are not limited to:

- information on collateral held as security or other credit enhancements;
- information on the credit quality of financial assets that are neither past due nor impaired;
- the carrying amount of financial assets that would be past due or impaired if terms had not been renegotiated;
- an age analysis of financial assets past due but not impaired; and
- details of financial assets that are impaired including the factors that were considered to determine impairment.

Additional information about credit quality and impairment losses is required if the entity uses allowance accounts to record credit losses.

## Financial risk exposures and risk management

IFRS 7 requires an extended analysis of the entity's exposure to risks arising from financial instruments. The required disclosures include quantitative and qualitative information about its financial risk exposures as well as the entity's objectives, policies and processes for managing the risks. Quantitative data must be based on information provided internally to key management personnel.

Furthermore, an entity should assess its exposure to the various types of financial risk and any significant concentrations thereof. Financial risks include, but are not limited to:

- credit risk;
- liquidity risk; and
- market risk, mainly consisting of
  - currency risk;
  - interest rate risk; and
  - other price risk.

In many entities, credit risk will arise mainly in relation to financial assets (see above). Nevertheless, an entity might also be exposed to additional credit risk from other sources such as loan commitments and/or financial guarantees.

An entity's exposure to liquidity risk is illustrated by disclosing a maturity analysis of all of its financial liabilities. This analysis includes finance lease obligations and derivative liabilities where applicable. The maturity analysis discloses the *undiscounted* future cash flows and the time bands in which the payments have to be made.

Market risk exposures are illustrated by presenting a sensitivity analysis for each type of risk. Such an analysis shows how profit or loss and equity would have been affected if a reasonably possible change in the relevant risk variable had occurred. To meet this requirement an entity may disclose an integrated sensitivity analysis that it uses internally to manage financial risks and that takes into account interdependencies of the relevant risk variables. Alternatively, a separate sensitivity analysis is presented for each type of financial risk exposure. Whichever method is selected, the methods and assumptions used should be disclosed.

## Other disclosures

Many of IFRS 7's other disclosure requirements may necessitate an update of an entity's internal financial reporting processes to obtain the underlying data. Examples of such requirements include:

- the carrying amount of each category of financial instruments recognised by the entity;
- gains and losses recognised for each category of financial instruments recognised by the entity;
- details about financial asset derecognition issues;
- information on financial assets pledged as collateral; and
- an explanation of default and breaches by the entity.

## Illustrative example disclosures and analysis

### Income statement

IFRS

#### 1 Presenting finance cost and finance income

	Notes	2007	2006
		€ '000s	€ '000s
IAS 1.46(d)			
IAS 1.46(e)			
IAS 1.81(a)		<b>X,XXX</b>	<b>X,XXX</b>
IAS1.88		XXX	XXX
		<b>X,XXX</b>	<b>X,XXX</b>
		XX	XX
		XX	XX
		XX	XX
		XX	XX
		XXX	XXX
		<b>X,XXX</b>	<b>X,XXX</b>
IAS 1.81(c)		XX	XX
		XX	XX
IAS 1.81(b)	2.1	XXX	XXX
	2.2	XX	XX
		<b>X,XXX</b>	<b>X,XXX</b>
		<b>XX</b>	<b>XX</b>
IAS 1.81(d)		XX	XX
IAS 1.81(f)		<b>X,XXX</b>	<b>X,XXX</b>

## Discussion

IAS 1.81(b) requires that finance costs should be presented on the face of the income statement as a separate line item. The term 'finance costs' is not defined but is generally understood to comprise expenses and losses relating to financial instruments.

Generally, material items of income and expense should be disclosed separately either on the face of the income statement or in the notes (IAS 1.86). If material amounts of finance income and finance costs are presented on the face of the income statement in a combined manner, their nature and amount needs to be explained and disaggregated in the notes.

In presenting finance income or finance costs on the face of the income statement, an entity may combine finance income and expenses that arise from non-financial assets or non-financial liabilities with items that result from financial assets or financial liabilities. If relevant to understanding an entity's financial performance, finance income and finance costs should be disaggregated, by presenting additional line items in the face of the income statement. Additional line items might also be included to meet specific disclosure requirements (e.g. interest costs relating to defined benefit liabilities as required by IAS 19.120A(g)(ii)).

The term 'dividends' generally relates to the entity's distributions to holders of its issued equity instruments, and are deducted from equity. However, some payments with the legal form of dividends may relate to items presented as financial liabilities and therefore are recognised as an expense in profit or loss. If an entity pays dividends classified as an expense, it is considered desirable to disclose them separately in the income statement (IAS 32.40).

The implementation guidance to IFRS 7 implies that it is permissible to offset total interest income and total interest expense in the income statement. However, the IFRIC has indicated that this is unacceptable. IFRS 7 does not therefore alter the established principle that an entity should not offset income and expenses on the face of the income statement unless specifically permitted or required elsewhere in IFRS.

Gains and losses that result from changes of the carrying amount of a financial liability should be disclosed separately on the face of the income statement if relevant to explaining the entity's performance (IAS 32.41).

## 2 Selected disclosures for financial income and expenses

## 2.1 Finance costs

Finance costs for the year ended 31 December 2007 may be analysed as follows:

		2007	2006
		€ '000s	€ '000s
	Interest expense for finance lease arrangements	XXX	XXX
	Interest expense for borrowings at amortised cost	XXX	XXX
IFRS 7.20(b)	<b>Total interest expense for financial liabilities</b>	<b>XXX</b>	<b>XXX</b>
IAS 19.120A(g)(ii)	Employee defined benefit scheme interest expense	XX	XX
IFRS 7.20(a)(i)	Loss on foreign currency financial liabilities designated at fair value	XX	XX
IFRS 7.20(a)(i)	Fair value losses on forward exchange contracts held for trading	XX	XX
IFRS 7.20(a)(ii)	Losses on available-for-sale financial assets recycled from equity	XX	-
IFRS 7.20(e)	Impairment of financial assets	XX	XX
	<b>Finance costs</b>	<b>XXX</b>	<b>XXX</b>

IFRS 7.20(e) For the year ended 31 December 2007 financial asset impairment losses relate solely to trade receivables. The figure shown for 2006 also includes the impairment of the investment in XY Ltd., which is carried at cost less impairment charges as its fair value cannot be measured reliably. See note 4.6 for further details.

IFRS 7.B5(e) The loss on foreign currency financial liabilities designated at fair value takes account of interest payments on these loans.

## 2.2 Finance income

		2007	2006
		€ '000s	€ '000s
IAS 18.35(b)(v)	Dividend income from XY Ltd.	XX	XX
IFRS 7.20(b)	Interest income on financial assets carried at amortised cost	XX	XX
	Fair value gains on forward exchange contracts held for trading	XX	-
IFRS 7.23(d)	Gains on US Dollar forward contracts recycled from equity	XX	XX
IFRS 7.20(a)(ii)	Gains on available-for-sale financial assets recycled from equity	-	X
IFRS 7.20(d)	Interest income on impaired financial assets	XX	XX
	<b>Finance income</b>	<b>XX</b>	<b>XX</b>

## Discussion

Finance income and finance costs as presented on the face of the income statement do not necessarily include only income or expenses arising on financial assets or financial liabilities. These items might be combined with items of income and expense that result from non-financial assets or liabilities, such as the unwinding of a discount on a provision.

An entity may be required by a standard or an interpretation to disclose specific items of finance income or finance costs either on the face of its income statement or in the notes. Examples of these disclosure requirements are:

- net gains or net losses on financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities that have been designated as such upon initial recognition and those held for trading (IFRS 7.20(a)(i));
- net gains or net losses on available-for-sale financial assets that have been recognised in profit or loss for the period (IFRS 7.20(a)(ii));
- net gains or net losses on held-to-maturity investments (IFRS 7.20(a)(iii));
- net gains or net losses on loans and receivables (IFRS 7.20(a)(iv));
- net gains or net losses on financial liabilities measured at amortised cost (IFRS 7.20(a)(v));
- total interest income (IAS 18.35(b)(iii));
- interest income calculated using the effective interest method;
- interest income on impaired assets (IFRS 7.20(d));
- dividend income (IAS 18.35(b)(v));
- interest cost arising on defined employee benefit schemes (IAS 19.120A(g)(ii));
- fee income arising from financial assets or liabilities that are not at fair value through profit and loss (IFRS 7.20(c)(i));
- fee income resulting from trust and other fiduciary activities (IFRS 7.20(c)(ii)).

The IFRS 7.20(a) disclosure of net gains or net losses by IAS 39 category of instrument is provided in note 2.3 on page 10. The illustrative note on the facing page meets certain other IFRS 7.20 requirements as well as providing an analysis of the income statement finance income and cost line items.

A single instrument reported at fair value (e.g. a derivative) might give rise to both gains and losses in the reporting period as its value fluctuates. In our view, the *net* gain or loss on each instrument may be presented as income or expense respectively. Where a portfolio of similar instruments is held, IAS 1.35 requires separate presentation of gains and losses if material. Hence, in this example, Granthor reports both income and expenses for some similar items e.g. forward exchange contracts held for trading.

Disclosure is required of any impairment losses relating to financial assets. This disclosure has to be made separately for each class of financial assets. If the entity records losses in separate accounts such as an allowance account or similar, it also needs to disclose a reconciliation of changes in that account during the period for each class of financial assets (IFRS 7.16).

## IFRS

## 2.3 Financial result by category of financial instruments

Net gains (losses) from financial assets and financial liabilities by category of financial instruments are set out below.

		<b>2007</b>	2006
		€ '000s	€ '000s
IFRS 7.20(a)(i)	Financial instruments held for trading	XXX	(XX)
IFRS 7.20(a)(i)	Financial liabilities designated at fair value through profit or loss	XXX	XXX
IFRS 7.20(a)(ii)	Available-for-sale financial assets:		
	- recognised in equity	XX	(X)
	- recycled from equity to income statement	(XX)	XX
	- recognised directly in income statement	XXX	XXX
IFRS 7.20(a)(iii)	Held-to-maturity financial assets	XX	XX
IFRS 7.20(a)(iv)	Loans and receivables	X	X
IFRS 7.20(a)(v)	Financial liabilities measured at amortised cost	(XX)	(XX)
	<b>Net result from financial assets and financial liabilities</b>	<b>XX</b>	<b>XX</b>
	<b>Net amounts reported in:</b>		
	- <b>Income statement</b>	<b>XX</b>	<b>XX</b>
	- <b>Equity</b>	<b>X</b>	<b>(X)</b>

The net expense arising from financial liabilities measured at amortised cost comprises interest on the entity's borrowings and finance lease arrangements.

The result from financial instruments held for trading comprises net gains and losses from derivative financial instruments that do not qualify for hedge accounting. These instruments are used in accordance with the Group's financial risk management policies - see note 4.5 for further details.

IFRS 7.B5(e) The amounts presented for financial assets or financial liabilities at fair value through profit or loss include interest income and expenses as well as dividends where applicable.

## Discussion

Disclosure is required of net gains or net losses recognised during the period for each category of financial asset and for financial liabilities measured at amortised cost (IFRS 7.20(a)). This is provided in the notes if these figures are not presented on the face of the income statement. Income statement line items should clearly relate to the measurement categories defined in IAS 39 but are not required to be identical.

If financial assets and/or financial liabilities are designated as at fair value through profit or loss, the net gain or net loss from these financial instruments needs to be presented separately from financial assets and/or financial liabilities that are held for trading. Derivative financial instruments that do not qualify as a hedging instrument are one example of financial assets or liabilities that need to be considered.

## Balance sheet

IFRS

### 3 Presentation of financial assets and liabilities

		<b>Notes</b>	<b>2007</b>	2006
			€ '000s	€ '000s
IAS 1.46(d)				
IAS 1.46(e)				
	<b>Assets</b>			
	<b>Non-Current</b>			
IAS 1.68(a)	Property, plant and equipment		XX	XX
IAS 1.68I	Intangible assets		XX	XX
IAS 1.68(e)	Equity accounted investments		XX	XX
IAS 1.68(d)	Available-for-sale financial assets	4.4	XX	XX
IAS 1.68(d)	Held-to-maturity financial assets	4.3	XX	XX
IAS 1.68(n)	Deferred tax assets		XX	XX
			<u>XX,XXX</u>	<u>X,XXX</u>
	<b>Current</b>			
IAS 1.68(g)	Inventories		XX	XX
IAS 1.68(h)	Trade and other receivables	4.6	XX	XX
IAS 1.68(m)	Current taxes		XX	XX
IAS 1.68(d)	Derivative financial instruments	4.5	XX	XX
IAS 1.68(i)	Cash and cash equivalents		XXX	XXX
	Other current assets		XX	XX
			<u>XX,XXX</u>	<u>X,XXX</u>
	<b>Total assets</b>		<u>XX,XXX</u>	<u>XX,XXX</u>

(continued on page 14)

## Discussion

IFRS 7 does not specify how an entity should present its financial instruments on the face of the balance sheet. Paragraph 8 of IFRS 7 does, however, require entities to disclose the carrying amount of its financial instruments by each of the IAS 39 categories. This may be done either:

- by presenting balance sheet line items that specifically refer to the category that a financial asset or financial liability has been classified into;
- by disclosure of the amounts in the notes; or
- by a combination of these approaches.

In the absence of specific presentation requirements regarding financial instruments, the general rules of IAS 1.68 apply. At a minimum, for financial assets and liabilities, separate presentation is required of:

- equity accounted investments (IAS 1.68(e));
- trade and other receivables (IAS 1.68(h));
- cash and cash equivalents (IAS 1.68(i));
- other financial assets (IAS 1.68(d));
- trade and other payables (IAS 1.68(j)); and
- other financial liabilities (IAS 1.68(k)).

The actual description used for each balance sheet line item does not have to be identical to the line items listed in IAS 1.68. Nevertheless, each label should clearly refer to the above mentioned items. Financial assets accounted for using the equity method are not within the scope of IFRS 7.

Each financial asset and liability needs to be classified as either current or non-current and presented accordingly in the balance sheet, unless a presentation based on liquidity provides information that is more reliable and is relevant (IAS 1.51). In summary, these criteria require current classification for

- assets and liabilities that are held primarily for the purposes of being traded; or
- assets that are:
  - i. expected to be realised within 12 months of the balance sheet date; or
  - ii. expected to be realised, or are intended for sale/consumption, in the entity's normal operating cycle;
- liabilities that are:
  - i. due to be settled within 12 months of the balance sheet date; or
  - ii. expected to be settled within the entity's normal operating cycle (if this is not 12 months and is clearly identifiable); or
  - iii. for which the entity does not have the unconditional right to defer settlement beyond 12 months.

[\(continued on page 15\)](#)

## 3 Presentation of financial assets and liabilities

(continued from page 12)

		<b>Notes</b>	<b>2007</b> € '000s	2006 € '000s
IAS 1.46(d)				
IAS 1.46(e)				
	<b>Equity</b>			
IAS 1.68(p)	Share capital		XX	XX
IAS 1.68(p)	Additional paid-in capital		XXX	XXX
IAS 1.68(p)	Reserves		XXX	X
			<b>X,XXX</b>	<b>X,XXX</b>
	<b>Liabilities</b>			
	<b>Non-current</b>			
IAS 1.68(k)	Provisions		XXX	XXX
IAS 1.68(l)	Borrowings	4.7	X,XXX	X,XXX
IAS 1.68(n)	Deferred tax liabilities		XX	XX
	Finance lease liabilities	4.8	XXX	XXX
			<b>X,XXX</b>	<b>X,XXX</b>
	<b>Current</b>			
IAS 1.68(k)	Provisions		XX	XX
IAS 1.68(m)	Current tax liabilities		XX	XXX
IAS 1.68(j)	Trade payables	4.8	XXX	XXX
IAS 1.68(l)	Borrowings	4.7	XX	XX
IAS 1.68(l)	Derivative financial instruments		XXX	XXX
	Other liabilities		XXX	XXX
			<b>X,XXX</b>	<b>X,XXX</b>
	<b>Total equity and liabilities</b>		<b>X,XXX</b>	<b>X,XXX</b>

## Discussion

(continued from page 13)

The current/non-current classification of financial assets and liabilities is straightforward in most cases. For example, trade receivables and payables are generally considered to be realised or settled within the entity's normal operating cycle and therefore are regarded as current (IAS 1.61). Financial liabilities that are due within 12 months are also classified as current, even if the entity expects to refinance or roll over the obligation.

In some cases long-term financial items have to be split into a current and a non-current part. For example, the amount due within 12 months of a financial liability that provides financing on a long-term basis (i.e. the financial liability is neither part of the entity's working capital nor due for settlement as a whole within 12 months) needs to be presented separately as a current item in the balance sheet (IAS 1.62). The same principle applies to the current portion of a non-current financial asset (IAS 1.59).

An area of interpretation arises regarding the current/non-current distinction of derivatives. Derivatives are classified as held for trading in IAS 39.9. IAS 1.59 seems to suggest a link between the classification of financial instruments in accordance with IAS 39 and the classification requirements of IAS 1.

However we consider the classification of derivatives should follow the general rules as set out in paragraphs 57 and 60 of IAS 1. Free-standing derivatives should either be classified as current or non-current in accordance with the contractual conditions of the financial instrument by considering whether the entity's management has the intention to trade with them. The classification of embedded derivatives should be classified as either current or non-current together with the host-contract as a whole.

The liquidity risk arising from financial liabilities needs to be disclosed in detail. One approach to meeting the requirements of IFRS 7 to analyse liquidity risk is shown and discussed in note 7 on page 40.

## 4 Financial assets and liabilities

## 4.1 Financial assets by category

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

		2007 € '000s	2006 € '000s
	<b>Non current assets</b>		
IFRS 7.8(d)	Available-for-sale financial assets	XX	XX
IFRS 7.8(b)	Held-to-maturity financial assets	XX	XX
	<b>Current assets</b>		
	Derivative financial instruments:		
IFRS 7.8(a)	- Financial assets held for trading (carried at fair value through profit or loss)	XX	XX
	Trade and other receivables:		
IFRS 7.8I	- Loans and receivables	XX	XX
	Cash and cash equivalents	XX	XX
		<u>X,XXX</u>	<u>X,XXX</u>

## 4.2 Financial liabilities by category

The IAS 39 categories of financial liability included in the balance sheet and the headings in which they are included are as follows:

		2007 € '000s	2006 € '000s
	<b>Current liabilities</b>		
	Borrowings:		
IFRS 7.8(e)(i)	- Financial liabilities designated at fair value through profit or loss	XXX	XXX
IFRS 7.8(f)	- Financial liabilities measured at amortised cost	XXX	XXX
IFRS 7.8(e)(ii)	Derivative financial instruments:		
	- Financial liabilities held for trading (carried at fair value through profit or loss)	XX	XX
	Trade payables:		
IFRS 7.8(f)	- Financial liabilities measured at amortised cost	X,XXX	XXX
	<b>Non current liabilities</b>		
	Borrowings:		
IFRS 7.8(e)(i)	- Financial liabilities designated at fair value through profit or loss	XXX	XXX
IFRS 7.8(f)	- Financial liabilities measured at amortised cost	XXX	XXX
		<u>X,XXX</u>	<u>X,XXX</u>

## Discussion

IFRS 7.8 requires disclosure of the carrying amounts of financial assets and liabilities by IAS 39 category. IAS 39 *categories* need to be distinguished from *classes* of financial instrument. As discussed in the Key Implementation Issues section, classes of financial instrument are determined by management and are required for certain of IFRS 7's disclosures.

The illustrative disclosure on the facing page shows the amounts by category and also the balance sheet headings in which the amounts are included. IFRS 7 does not require the amounts by category to be reconciled (or be reconcilable) to the balance sheet line items but we consider this to be good practice.

IFRS 7.6 does require that sufficient information is provided to enable *classes* of financial instrument to be reconciled to balance sheet line items.

### 4.3 Held-to-maturity financial assets

Held-to-maturity financial assets comprise zero coupon and US straight bonds with fixed interest rates between 5.5 and 6.2%. They mature in 2009 and 2010. The carrying amounts, measured at amortised cost, and fair values of these financial assets are as follows:

		2007 € '000s	2006 € '000s
	Zero coupon bonds	XXX	XXX
	US straight bonds	XXX	XXX
IFRS 7.8(b)	<b>Held-to-maturity financial assets - carrying amounts</b>	<b>X,XXX</b>	<b>X,XXX</b>
IFRS 7.25	Zero coupon bonds	XXX	XXX
	US straight bonds - see below	XXX	XXX
	<b>Held-to-maturity financial assets - fair values</b>	<b>X,XXX</b>	<b>X,XXX</b>
IFRS 7.27(a), (b)	As these bonds are not publicly traded, fair values have been estimated based on present values of the expected cash flows. The interest rate-spread between the bond's fixed and current rates were determined by reference to an active market, i.e. by observation of market interest rates of comparable bonds which have been determined at 6.5-7.2% (2006: 6.4-6.6%). The fair value valuation for the US straight bonds also reflects the US-Dollar spot rate as at 31 December 2007 and 2006 respectively.		
IFRS 7.36(a), (c)	No impairment loss has been recorded in relation to the bonds which have been graded AA by Standard & Poors. No amounts in relation to the bonds are past due. The carrying amounts disclosed above are Granthor's maximum possible credit risk exposure in relation to these instruments. A discussion of Granthor's exposure to credit risk is set out on page 38.		
IFRS 7.IG23(a)			
IFRS 7.20(e)			

## Discussion

A significant development in IFRS 7 is the extensive disclosure requirements regarding the credit quality of all financial assets. This includes information on financial assets:

- that are neither past due nor impaired, including those that would be past due or impaired if their terms had not been renegotiated;
- that are past due but not impaired; and
- that have been individually determined to be impaired.

An entity needs to explain credit risk for each *class* of financial instruments (not for each IAS 39 *category*). These disclosures can be made in conjunction with information that describes balance sheet line items or as part of a comprehensive review of financial risk disclosures - see page 38 for an illustrative example.

Refer to pages 30 to 41 in this document for further information about financial risk disclosures required by IFRS 7.

With limited exemptions, an entity must disclose fair values for each class of its financial instruments (IFRS 7.25-29). This can be done either in the notes to the financial statements or on the face of the balance sheet. The latter approach will however only be possible if:

- the financial asset or liability is effectively measured at fair value; and
- the entity distinguishes classes of financial assets and liabilities in its balance sheet presentation.

In most cases, these disclosures will therefore be in the notes to the financial statements. The fair value disclosures should be given in a way that permits comparison with its carrying amount presented in the balance sheet (IFRS 7.25).

In this example, fair value information has been provided separately for each class of financial instrument where required. A common alternative approach is to present a single "fair value table".

See the Key Implementation Issues section for further guidance on how to distinguish classes of financial assets and liabilities for disclosure purposes.

## IFRS

## 4.4 Available-for-sale financial assets

		2007	2006
		€ '000s	€ '000s
IFRS 7.25	Listed equity securities	XXX	XXX
	Participation in XY Ltd.	XXX	XXX
IFRS 7.25	Debentures	XXX	XXX
	<b>Available-for-sale financial assets</b>	<b>X,XXX</b>	<b>X,XXX</b>

Other than the participation in XY Ltd, the assets are stated at fair value.

- IFRS 7.27(a), (b) All the listed equity securities and debentures have been issued by publicly traded companies in the Euro zone. Fair values for these securities have been determined by reference to their quoted bid prices at the balance sheet date.
- IFRS 7.30(a)-(d) XY Ltd., one of Granthor's suppliers in the telecommunication business, is not a listed company. XY Ltd. is currently in its second year of a major restructuring process, which has triggered possible litigation by third parties. Due to numerous uncertainties regarding the future development of XY Ltd., the fair value of Granthor's equity participation in this entity cannot be reliably measured. This investment has therefore been stated at cost. Granthor plans to continue to hold its 15% interest in XY while it secures other supply lines.

## 4.5 Derivative financial instruments

- IFRS 7.22(a)-(c) Granthor uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast sales in US dollars and other currencies. All US-Dollar forward exchange contracts have been designated as hedging instruments in cash flow hedges in accordance with IAS 39. Other contracts are considered by management to be part of economic hedge arrangements but have not been formally designated.

	2007	2006
	€ '000s	€ '000s
<b>Derivative financial assets (liabilities)</b>		
US-Dollar forward contacts - cash flow hedge	XX	X
Other forward exchange contracts - held-for-trading	XX	XX
<b>Derivative financial assets</b>	<b>XX</b>	<b>XX</b>
US-Dollar forward contacts - cash flow hedge	(XX)	(XXX)
Other forward exchange contracts - held-for-trading	(XXX)	-
<b>Derivative financial liabilities</b>	<b>(XXX)</b>	<b>(XXX)</b>
<b>Net fair value of derivatives</b>	<b>(XX)</b>	<b>(X)</b>

- IFRS 7.27(a) The fair values for these contracts have been estimated using relevant market exchange and interest rates.
- IFRS 7.23(a), (c), (d) Granthor's US-Dollar forward contracts relate to cash-flows that have been forecasted for October - December 2008. At 31 December 2007, a cumulative gain of TEUR XX (2006: TEUR X) has been recorded within equity in relation to these instruments. Total net gains of TEUR XXX (2006: TEUR XX) have been recycled from equity into profit or loss.

## Discussion

In addition to the disclosure of fair values for each class of financial asset or liability, the entity also needs to explain how these fair values have been determined (IFRS 7.27 and 28). These disclosures include, but are not limited to, whether valuation techniques have been used or whether fair value has been determined by reference to an active market.

However, an entity is exempted from disclosing fair values in the following circumstances:

- if the carrying amount is a reasonable approximation of fair value;
- if the fair value of a quoted equity instrument or a derivative linked to such an instrument cannot reasonably be determined; or
- if the financial instrument is a contract containing a discretionary participation feature, whose fair value cannot reasonably be determined (IFRS 7.29).

Other than when the carrying amount of a class of financial assets or liabilities is a reasonable approximation of fair value, the entity has to disclose further information about the financial assets or liabilities to help users make their own judgments about the extent of possible differences between carrying amount and fair value (IFRS 7.30).

Additional disclosures are required for loans and receivables that have been designated at fair value through profit or loss. See IFRS 7.9 and 11 for further information. Disclosure examples for financial liabilities at fair value through profit or loss (which are similar) can be found on page 28.

Disclosure requirements apply to financial instruments that qualify for hedge accounting in accordance with IAS 39. In addition to general information about the characteristics of each hedge, specific disclosure requirements apply for fair value and cash flow hedges. The above illustrative examples do not include all of those required under IFRS 7 (in the event that hedge accounting is used). When hedge accounting is used IFRS 7.22 to IFRS 7.24 should be referred to in detail.

	<b>2007</b>	2006
	€ '000s	€ '000s
Trade receivables	XXX	XXX
Social security and other taxes	XXX	XXX
Receivable due from ABC associates	XXX	XXX
	<b>X,XXX</b>	<b>X,XXX</b>

IFRS 7.25 With the exception of the receivable due from ABC associates, all amounts are  
IFRS 7.29 short-term. The carrying value of trade receivables is considered a reasonable approximation of fair value.

IAS 1.52 The receivable due from ABC associates relates to the remaining consideration due on the sale of a former subsidiary in 2004. Granthor collects the purchase consideration in instalments. All but TEUR XX (2006: TEUR XXX) of the carrying amount is due within 12 months of the balance sheet date. The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset (which is measured at amortised cost) is expected to be paid within a short timescale, such that the time value of money impact is not significant.

IFRS 7.36 All of Granthor's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of TEUR XXX (2006: TEUR XX) has been recorded accordingly. The impaired trade receivables are mostly due from customers in Granthor's business-to-business market that are experiencing financial difficulties.

IFRS 7.37(a) In addition, some of the unimpaired trade receivables are past due as at the  
IFRS 7.IG28 reporting date. The age of financial assets past due but not impaired is as follows:

	<b>2007</b>	2006
	€ '000s	€ '000s
Not more than 3 months	XX	XX
More than 3 months but not more than 6 months	XX	X
More than 6 months but not more than 1 year	X	XX
More than one year	X	-
	<b>XXX</b>	<b>XXX</b>

## Discussion

The example on the facing page discloses "past due" amounts for trade and other receivables. Where there are past due amounts for other classes of financial assets, then similar analysis is also required for those classes of financial assets (IFRS 7.37(a)). We consider that any amounts uncollected one day or more beyond their contractual due date are "past due".

This information may not be readily available in some cases. It is therefore recommended that entities review their systems to ensure the necessary data can be obtained.

## 4.7 Borrowings

	<b>2007</b>	2006
	€ '000s	€ '000s
US-Dollar loans at fair value through profit or loss (see note 4.9)	X,XXX	XXX
Other borrowings at amortised cost:		
- Other bank borrowings	XXX	XXX
- Non-convertible bond	XXX	XXX
- Subordinated shareholder loan	XXX	XXX
<b>Total borrowings</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Comprising:</b>		
- <b>current portion</b>	<b>XX</b>	<b>XX</b>
- <b>non-current portion</b>	<b>X,XXX</b>	<b>X,XXX</b>
	<b>X,XXX</b>	<b>X,XXX</b>

- IAS 16.74(a)  
IFRS 7.31 Other bank borrowings are secured by land and buildings owned by Granthor. Current interest rates are variable and average X.X% (2006: X.X%).
- IFRS 7.31 Granthor's non-convertible bond has a fixed interest rate of X% and will mature on 20 May 2011.
- IAS 24.17 The subordinated shareholder loan is perpetual and carries a fixed coupon of X.X%. It is repayable only upon liquidation of Granthor.
- IFRS 7.31  
IFRS 7.25 Other than the US-Dollar loans, all borrowings are denominated in Euros. Their estimated fair values are as follows:

	<b>2007</b>	2006
	€ '000s	€ '000s
US-Dollar loans at fair value through profit or loss	X,XXX	XXX
Other bank borrowings	XXX	XXX
Non-convertible bond	XXX	XXX
Subordinated shareholder loan	XXX	XXX
<b>Fair value of borrowings</b>	<b>X,XXX</b>	<b>X,XXX</b>

## Discussion

In this example, "borrowings" is one of the classes of financial instrument identified in accordance with IFRS 7.6. Included within borrowings are certain liabilities that have been designated at fair value through profit or loss, for which additional disclosures are required under IFRS 7.10. These additional disclosures are given in note 4.9.

#### 4.8 Trade and other payables

IFRS

	<b>2007</b>	2006
	€ '000s	€ '000s
Trade payables	XXX	XXX
Short term bank overdrafts	XXX	XXX
Finance lease liabilities	XXX	XXX
Trade and other payables	<u>X,XXX</u>	<u>X,XXX</u>
Less: non-current portion of finance lease liabilities	XXX	XXX
<b>Trade and other payables - current</b>	<b><u>XXX</u></b>	<b><u>XXX</u></b>

IFRS 7.25  
IFRS 7.27(a), (b)  
IFRS 7.29

With the exception of finance lease liabilities, all amounts are short term. The carrying values are considered to be a reasonable approximation of fair value.

The fair value of Granthor's finance lease liabilities has been estimated at TEUR XXX (2006: TEUR XXX). This amount reflects present value and takes into account interest rates available on secured bank borrowings on similar terms.

## Discussion

Finance lease liabilities are within the scope of IFRS 7, even though the recognition and measurement principles are set out in IAS 17 *Leases* rather than IAS 39. This example disclosure does not include the various finance lease disclosures set out in IAS 17.

#### 4.9 Financial liabilities designated at fair value through profit or loss

Derivatives (other than those designated as hedging instruments in a cash flow hedge) are held for trading and so are carried at fair value through profit or loss. In addition US-Dollar loans, which fund overseas activities in the US investment property market, have been designated at fair value through profit or loss. Information concerning these loans is set out below:

		<b>2007</b>	2006
		€ '000s	€ '000s
	<b>Carrying amount at 1 January</b>	X,XXX	X,XXX
	Repayments	(XXX)	(XXX)
	New borrowings	XXX	-
	Change in fair values:		
IFRS 7.10(a)	- attributable to changes in credit risk	X	(X)
	- attributable to other market factors	XX	(X)
IFRS 7.25	<b>Carrying amount at 31 December</b>	<u>X,XXX</u>	<u>X,XXX</u>
IFRS 7.10(b)	The total undiscounted amount repayable at maturity in respect of these loans, converted at year-end exchange rates, is TEUR X,XXX (2006: TEUR X,XXX).		
IFRS 7.27	The fair values of these financial liabilities is estimated using valuation techniques with all significant inputs based on observable market prices.		
IFRS 7.10(a)	Granthor estimates the credit risk-related change in fair value on a residual basis,		
IFRS 7.11(a)	as the difference between fair value-changes specifically attributable to interest rates and foreign exchange rates and the total change in fair value.		

## Discussion

Additional disclosure requirements apply when an entity designates:

- loans and receivables; and/or
- any of its financial liabilities

as at fair value through profit or loss (FVTPL) in accordance with IAS 39.9.

Generally, an entity has to disclose fair values for all its financial assets and liabilities. For financial assets or liabilities that have been designated as at FVTPL, disclosure is required of the amount of the total change in fair value that relates to credit risk. As IFRS 7.9 (c) and IFRS 7.10 (a) explain, this amount can be determined either:

- as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk, i.e. using a residual value approach; or
- by using an alternative method if it achieves a more faithful representation.

The residual value approach is further discussed in IFRS 7.B4 and IG7-IG11.

These disclosures might be regarded as commercially sensitive information, because the entity is required to comment at least indirectly on its own credit standing.

## Financial risk management disclosures

IFRS

### 5 Market risk analysis

Granthor is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks.

#### 5.1 Foreign currency sensitivity

IFRS 7.33(a)

Most of Granthor's transactions are carried out in Euros. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US-Dollars and Japanese Yen. Granthor also holds an investment in a US-Dollar bond. Further, Granthor has a US-Dollar loan which has been used to fund the purchase of US investment property. This loan has been designated at fair value through profit or loss.

IFRS 7.33(b)

To mitigate the Group's exposure to foreign currency risk, non-Euro cash flows are monitored and forward exchange contracts are entered into in accordance with our risk management policies. Generally, Granthor's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

Foreign currency denominated financial assets and liabilities, translated into Euros at the closing rate, are as follows.

IAS 1.46(d)

IAS 1.46(e)

2007

€ '000s

2006

€ '000s

IFRS 7.34(a)

IFRS 7.35

<b>Nominal amounts</b>	US\$	JP¥	Other	US\$	JP¥	Other
Financial assets	XX	XXX	XX	XX	XXX	XX
Financial liabilities	XX	XXX	XX	XX	XXX	XX
<b>Short-term exposure</b>	<b>XX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>	<b>XXX</b>	<b>XX</b>
Financial assets	XX	XXX	XX	XX	XXX	XX
Financial liabilities	XX	XXX	XX	XX	XXX	XX
<b>Long-term exposure</b>	<b>XX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>	<b>XXX</b>	<b>XX</b>

See also note 4.5 for further information on Granthor's hedging activities.

(continued on page 32)

## Discussion

In accordance with IFRS 7.31-42, disclosures are required to describe the nature and extent of risks arising through an entity's use of financial instruments along with the entity's objectives, policies and processes to manage those risks. Summary quantitative data, based on the information provided internally to key management personnel, is used to illustrate the risk exposures.

IFRS 7 identifies the following main types of risk:

- credit risk, i.e. the risk that the entity will experience a financial loss due to a counterparty failing to discharge an obligation;
- liquidity risk, i.e. the risk that the entity will encounter difficulty in meeting its obligations arising from financial liabilities; and
- market risk, i.e. the risk that the fair value or cash flows of a financial instrument will change because of changes in market conditions. Market risk is further subdivided into three main types (see below).

IFRS 7 does not prescribe a format for financial risk disclosures. However, to meet the requirements of this Standard and organise the necessary disclosures, it may be useful to note that each type of risk needs to be discussed differently. Credit risk needs to be discussed by class of financial instruments, whereas the maturity analysis required to explain liquidity risk exposures focuses on individual financial liabilities. Market risk exposures are usually explained by type of risk and illustrated using a sensitivity analysis. Alternatively (or additionally) an integrated sensitivity analysis may be presented to explain market risk exposures, if such an approach is used internally to manage financial risks.

IFRS 7 distinguishes three types of market risk:

- currency exchange risk, i.e. the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates;
- interest rate risk, i.e. the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; and
- other price risk, i.e. the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market conditions not related to interest rate risk or currency exchange risk.

Each sensitivity analysis should identify how "reasonably possible" changes in market conditions would have affected the entity's reported equity and profit or loss. "Reasonably possible" is not defined and professional judgement will be required in selecting the appropriate changes in conditions. The assumptions underlying the sensitivity analysis and how these were determined should be disclosed.

[\(continued on page 33\)](#)

(continued from page 30)

IFRS 7.40(a), (b),  
IFRS 7 IG36

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the US Dollar - Euro exchange rate and Japanese Yen - Euro exchange rate.

It assumes a +/- X% change of the Euro/US-Dollar exchange rate for the year ended at 31 December 2007 (2006: x%). A +/- Y% change is considered for the Euro/Yen exchange rate (2006: y %). Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on Granthor's foreign currency financial instruments held at each balance sheet date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the Euro had strengthened against the US Dollar and Japanese Yen by X% (2006: x%) and Y% (2006: y%) respectively then this would have had the following impact:

IAS 1.46(d)  
IAS 1.46(e)

	2007			2006		
	€ '000s			€ '000s		
	US\$	JP¥	Total	US\$	JP¥	Total
Net result for the year	XX	XXX	XX	XX	XX	XX
Equity	XX	XXX	XX	XX	XX	XX

If the Euro had weakened against the US Dollar and Japanese Yen by X% (2006: x%) and Y% (2006: y%) respectively then this would have had the following impact:

	2007			2006		
	€ '000s			€ '000s		
	US\$	JP¥	Total	US\$	JP¥	Total
Net result for the year	XX	XX	XX	XX	XX	XX
Equity	XX	XX	XX	XX	XX	XX

IFRS 7.42

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of Granthor's exposure to currency risk.

## Discussion

(continued from page 31)

When explaining an entity's exposure to currency exchange risk, a sensitivity analysis should be disclosed for each currency to which an entity has significant exposure. Exposure to foreign currency risk does not arise on non-monetary items or financial instruments denominated in the functional currency of an entity (IFRS 7.B22 and B23).

## IFRS

### 5.2 Interest rate sensitivity

IFRS 7.33(a), (b) Granthor's policy is to minimise interest rate cash flow risk exposures on our long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 31 December 2007, Granthor is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates - see note 4.7 for further information. As in the previous year, all other financial assets and liabilities have fixed rates.

IFRS 7.40(b) The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +X% and -X% (2006: +/-X%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on Granthor's financial instruments held at each balance sheet date. All other variables are held constant.

IAS 1.46(d)	2007		2006	
	€ '000s		€ '000s	
IAS 1.46(e)	+X%	-X%	+X%	-X%
IFRS 7.40(a)				
	Net result for the year	XX	XXX	XX
	Equity	XX	XXX	XX

## Discussion

An entity's exposure to interest rate risk should, at a minimum, illustrate reasonably possible changes in profit or loss and equity. However, more detailed disclosures should be considered depending on the complexity of the entity's interest-bearing financial instruments. For example, if changes in interest rates would affect different line items within profit or loss, further analysis of the resulting effect would clarify the nature of an entity's sensitivity to changes in interest rates. IFRS 7.IG32 - 40 sets out further possibilities of how exposure to market risk may be disclosed with a greater level of detail.

## IFRS

### 5.3 Other price risk sensitivity

- IFRS 7.33(a) Granthor is exposed to other price risk in respect of its listed equity securities, the participation in XY Ltd. and debentures - see note 4.4.
- IFRS 7.40(a), (b) For the listed equity securities, an average volatility of X% has been observed during 2007 (2006: X%). If the quoted stock price for these securities had increased or decreased by that amount, the net result for the year would have been reduced/increased by TEUR XXX (2006: TEUR XX). Equity would have changed by TEUR XXX (2006: TEUR XXX).
- IFRS 7.40(b) Granthor's sensitivity to price risk in regards to its participation in XY Ltd. cannot reliably be determined due to numerous uncertainties regarding the future development of this company - see note 4.4 for further information.
- IFRS 7.33(b) The investments in listed equity securities and in XY Ltd. are considered long-term, strategic investments. In accordance with Granthor's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in Granthor's favour.
- IFRS 7.40(a), (b) The average volatility of the market price of the debentures was X% in 2007 (2006: X%). If the market price had increased or decreased by this amount, equity would have been increased/decreased by TEUR XX (2006: TEUR XXX). As none of these available-for-sale financial assets were sold during any of the periods under review, no effect on the income statement would have occurred.

## Discussion

Examples of other price risks include: equity price risks, commodity price risk, prepayment risk and residual value risk. The disclosures required by IFRS 7 relate to financial instruments. Hence, whilst residual values of property, plant & equipment would affect depreciation charges, those effects are outside IFRS 7's scope. By contrast, an entity that writes guarantees of residual values would need to consider its sensitivity to this price risk.

## IFRS

## 6 Credit Risk Analysis

IFRS 7.33(a) Granthor's exposure to credit risk is limited to the carrying amount of financial  
IFRS 7.36(a) assets recognised at the balance sheet date, as summarised below:

IFRS 7.34(a)	2007	2006
	€ '000s	€ '000s
<b>Classes of financial assets - carrying amounts</b>		
Held-to-maturity financial assets	XX	XX
Available-for-sale financial assets	XX	XX
Derivative financial instruments	XXX	XXX
Cash and cash equivalents	X,XXX	X,XXX
Trade and other receivables	XXX	XXX
	<u>X,XXX</u>	<u>XXX</u>

IFRS 7.33(b) Granthor continuously monitors defaults of customers and other counterparties,  
IFRS 7.36(b) identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Granthor's policy is to deal only with creditworthy counterparties.

Granthor's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See notes 4.3, 4.4 and 4.6 for further information on impairment or financial assets that are past due.

IFRS 7.36(b) None of Granthor's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, Granthor is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

## Discussion

Different formats can be adopted to comply with all disclosure requirements of IFRS 7. For example, credit risk disclosures can be given in a single, comprehensive note as illustrated here. An alternative approach is to implement some or all of the information required by paragraphs 36-38 of IFRS 7 into the detailed analysis of the line items that an entity presents on its balance sheet.

In most cases, an entity's maximum exposure to credit risk is represented by the carrying amounts of financial assets recognised at the balance sheet date (IFRS 7.B9). The maximum credit risk arising from a financial asset that is a debt instrument for the counterparty (e.g. trade receivables, debentures) is usually limited to the case of default.

Some financial instruments, however, may require further disclosures in regards to an entity's exposure to credit risk. For example, the entity may have continuing involvement in transferred financial assets and credit risk exposure may exceed the carrying amount of the continuing involvement asset. Other possible sources of credit risk include credit insurance, collateral, financial guarantees, loan commitments or situations in which netting agreements reduce credit risk exposure of the entity. See IFRS 7.B10 for further guidance.

In our view, to qualitatively disclose the credit quality of financial assets that are neither past due nor impaired, an entity should at least disclose if and how credit quality is usually assessed. This can be done by disclosing whether external credit ratings are used or by explaining what groups of counterparties an entity distinguishes. Paragraphs IG23-IG25 of IFRS 7 set out which further specifications can be considered if a greater level of detail is considered necessary to explain the credit quality of an entity's financial instruments.

## IFRS

## 7 Liquidity Risk Analysis

IFRS 7.33(a), (b) IFRS 7.39(b)	Granthor manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.
IFRS 7.IG31(c), (d)	Granthor maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.
IFRS 7.34(a) IFRS 7.39(a), IFRS 7.B11	As at 31 December 2007, Granthor's liabilities have contractual maturities which are summarised below:

	Current				Non-current			
	within 6 months		6 to 12 months		1 to 5 years		later than 5 years	
	2007	2006	2007	2006	2007	2006	2007	2006
	€	€	€	€	€	€	€	€
	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s
Long-term bank loans	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Finance lease obligations	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Trade payables	XXX	XXX	XXX	-	-	-	-	-
Other short term financial liabilities	XXX	XXX	XXX	XXX	-	-	-	-
Derivatives	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
<b>Totals</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

## Discussion

To highlight potential liquidity risk, each entity must disclose a maturity analysis for financial liabilities and describe how it manages liquidity risk (IFRS 7.39). Some of the issues to be considered are:

- IFRS 7 has a wider scope than IAS 39. The maturity analysis therefore encompasses all financial liabilities within the scope of IAS 39, and certain other liabilities e.g. those arising from lease arrangements or from contracts to buy or sell a business at a future date. Obligations from other types of liabilities such as pension or current tax liabilities are not subject to the maturity analysis.
- The maturity analysis shows gross and undiscounted cash flows. The amounts therefore usually differ from the amounts in the balance sheet.
- IFRS 7 does mandate the time bands that should be featured in the maturity analysis. IFRS 7.B11 does suggest certain time bands. In our view, however, the entity should at least distinguish current and non-current obligations.
- Payments arising from financial liabilities should be allocated to the time band that includes the earliest date possible at which the entity may be required to pay (IFRS 7.B12).
- Payable amounts that are not contractually fixed, but are yet to be determined (e.g. when a derivative is yet to become effective due to characteristics in its underlying) should be assigned to the time band they are most likely to fall into, based on the conditions existing at the reporting date.
- If an entity is a party to derivative financial instruments which give rise to financial liabilities, a maturity analysis should be prepared that separates contractual cash flows arising from derivative financial instruments from non-derivative financial instruments.

If an entity manages liquidity risk on the basis of expected maturity dates, it may disclose a maturity analysis of the expected maturity dates for both financial liabilities and financial assets. However, any "expected maturity analysis" should be presented in addition to and separated from the contractual maturity analysis required by IFRS 7.39. Furthermore, an entity then needs to explain any differences between the presented amounts as well as the methods how the expected cash flows were determined.

A similar maturity analysis of contractual cash flows is required by IAS 17 *Leases* in the financial statements of lessees as well as lessors (IAS 17.31, 35, 47 and 56). In order to give users of financial instruments a more comprehensive overview of contractual cash flows, it may be helpful to combine these disclosure requirements with the maturity analysis. IAS 17, however, sets out specific time band that need to be considered when disclosing future lease payments, whereas IFRS 7 does not.

Further information to analyse liquidity risk may be given in combination with the disclosures that explain the cash flow statement and liquid funds available. For example, IAS 7.50(a) encourages disclosure of available borrowing facilities.

Derivative financial liabilities are included in the scope of the liquidity disclosures. This requirement is somewhat problematic, because the contractual cash flows are not fixed for most derivatives. One approach to meeting this requirement is to base the disclosure on the amount that would be paid if the relevant underlying remained at the year-end amount.

## Other disclosures

### IFRS

IAS 8.28(a), (f)

### 8 Change in accounting policies

A new Standard, IFRS 7 *Financial Instruments: Disclosures* has become mandatory for reporting periods beginning on 1 January 2007 or later. This Standard, which replaces rules previously set out in IAS 32 *Financial Instruments: Presentation and Disclosures*, has been applied by the Group in its 2007 consolidated financial statements. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. The first-time application of IFRS 7 has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items.

### 9 Accounting policies

#### 9.1 Accounting for financial assets

Financial assets, other than hedging instruments, can be divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in profit or loss or charged directly against equity.

IFRS 7.B5(c)  
IFRS 7.B5(f)  
IFRS 7.B5(g)

Generally, Granthor recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. For receivables, this is based on the latest credit information available, i.e. recent counterparty defaults and external credit ratings. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

(continued on page 44)

## Discussion

The first-time application of IFRS 7 should be considered as a change in an entity's accounting policies. IAS 8.28 explains that changes in accounting policies should be explained in the reporting period a new Standard or Interpretation is adopted.

IFRS 7 specifies limited disclosure requirements in regards to an entity's accounting policies only and points towards the general requirements of IAS 1. An entity should therefore disclose at a minimum:

- the measurement basis (or bases) used in accounting for financial instruments; and
- other accounting policies used that are relevant to an understanding of the financial statements (IFRS 7.21).

The level of detail in the summary of significant accounting policies therefore is an area of interpretation. Paragraph B5 of IFRS 7, however, suggests some more detailed disclosures about how an entity applies certain aspects of IAS 39 *Financial Instruments: Recognition and measurements*. Examples are:

- which criteria are used to identify evidence for an impairment loss;
- how net gains or losses are determined for each category of financial instruments;
- how an entity designates its financial instruments into the categories of IAS 39; and also
- judgements that management has made in the process of applying the entity's accounting policies,

to name a few.

In our view an entity should include the disclosures suggested by IFRS 7.B5 insofar as applicable. Furthermore, an outline of the main (relevant) requirements of IAS 39 may be considered helpful for an understanding of the IFRS financial statements. These disclosures should include a reference to the type of financial instruments or line item in the financial statements they relate to.

(continued from page 42)

- IAS 1.108(a)  
IAS 1.108(b)  
IFRS 7.B5(e)
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Granthor's trade and other receivables fall into this category of financial instruments.
- IFRS 7.B5(f)
- Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.
- IAS 1.108(a)  
IAS 1.108(b)  
IAS 1.116.  
Also IFRS 7.B5(a)
- Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. By definition, all derivative financial instruments that do not qualify for hedge accounting fall into this category. Granthor's management, however, does not consider any other financial asset for designation into this category.
- IFRS 7.B5(e)
- Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions.
- IFRS 7.B5(b)
- Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. Granthor's available-for-sale financial assets include listed securities, a number of listed debentures, and its participation in XY Ltd. This investment is reported at cost less any impairment charges, because management consider that its fair value cannot be reliably estimated.
- IAS 1.108(a)  
IAS 1.108(b)
- All other financial assets within this category are subsequently measured at fair value, with changes in value recognised in equity. Gains and losses arising from financial instruments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired. In the case of impairment, any loss previously recognised in equity is transferred to the income statement. Losses recognised in the income statement on equity instruments are not reversed through the income statement. Losses recognised in prior period consolidated income statements resulting from the impairment of debt securities are reversed through the income statement.

(continued on page 46)

## Discussion

The summary of significant accounting policies needs to identify the key judgements made in the process applying the entity's accounting policies (IAS 1.113). For financial instruments, areas that require judgement may include:

- the designation of financial instruments into the fair value through profit or loss category;
- the classification of financial assets into the held-to-maturity category;
- the possible derecognition of financial assets when rights to cash flows are transferred; or
- the policies and procedures involved to identify firm commitments or highly probable forecast transactions for hedge accounting purposes.

If applicable, an entity should highlight any significant judgements made in regards to these application issues of IAS 39 in the explanatory notes to IFRS financial statements.

## 9.1 Accounting for financial assets

*(continued from page 44)*

- IAS 1.108(a)  
IAS 1.108(b)
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity. Granthor currently holds bonds that fall into this category.
- IAS 1.113
- Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

## 9.2 Cash flow hedge accounting

- IAS 1.108(b)
- IAS 39 requires a specific accounting treatment for derivatives that are designated as hedging instruments in cash flow hedge relationships (see below). To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. All other derivative financial instruments are accounted for at fair value through profit or loss.
- IFRS 7.22(a)  
IFRS 7.22(c)
- For the reporting periods under review, Granthor has designated certain forward currency contract as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate currency exchange risk arising from certain legally binding sales and purchase orders denominated in US Dollars. For the periods under review this results in the recognition of financial assets and liabilities, which are presented under "Derivative financial instruments" on the face of the balance sheet.
- To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are reported in equity and "recycled" when the hedging relationship ceases (normally when the hedged transaction occurs). At the time the hedged item affects profit or loss, any gain previously recognised in equity is released to the income statements. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in equity are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in equity is immediately transferred to the income statement. Any ineffectiveness in the hedge relationship is charged immediately to the income statement.
- IAS 1.108(a)  
IFRS 7.B5(c)
- All derivative financial instruments used for hedge accounting are initially recognised at fair value on settlement date and subsequently reported at fair value in the balance sheet.

## Discussion

In this example the hedge accounting disclosures cover cash flow hedging only. If, for example, the entity also undertakes fair value hedge accounting additional accounting policy disclosures should be provided (IFRS 7.22-24).

## IFRS

### 9.3 Financial liabilities

IAS 1.108(a)	The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.
IAS 1.108(a) IFRS 7.B5(a)	<p>Granthor has designated some financial liabilities at fair value through profit or loss to significantly reduce measurement inconsistencies between investment properties and related US-Dollar bank loans with floating interest rates.</p> <p>Investment property assets are measured using the fair value model of IAS 40. Changes in the fair value of these assets are therefore recognised in profit or loss. The fair value of loans that are used to fund these assets correlates significantly with the valuation of the investment properties held by Granthor, because both measures are highly reactive to the market interest rate for 30-year government bonds. It is therefore the Group's accounting policy to designate such variable-interest bank loans as at fair value through profit or loss if they are secured by specific investment property assets that are held by the Group. This accounting policy significantly reduces what would otherwise be an accounting mismatch.</p>
IFRS 7.B5(c) IAS 1.108(b)	Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income".

## Discussion

IAS 39.9 no longer permits a free choice to designate any financial asset or liability at fair value through profit or loss. Such designation is permissible only in circumstances when:

- an accounting mismatch is eliminated or significantly reduced;
- a group of financial assets or liabilities or both is managed and evaluated on fair value basis; or
- the instrument is a hybrid instrument (subject to the further restrictions in IAS 39.11A).

IFRS 7.21 requires disclosure of the measurement bases applied and other relevant accounting policies. IFRS 7.B5(a)(iii) suggests that this should include an explanation as to how the IAS 39 conditions for designation at fair value through profit or loss have been met.

## IFRS 7 Disclosure Checklist

The following checklist is a re-formatted extract from IFRS 7 that may be used to assist in checking for completeness of an entity's disclosures under this Standard. The checklist does not include the additional guidance given in Appendix B of IFRS 7 or the accompanying Implementation Guidance.

Not all of IFRS 7's requirements will apply to most entities. Applicability varies based on an entity's use of financial instruments and the accounting policies applied to them. For example, disclosures regarding accounting policies used for and the actual amounts recorded in an entity's allowance accounts depend on the existence of such accounts. Other parts of IFRS 7 are only applicable if financial instruments have been classified into certain categories, such as the disclosure requirements regarding financial assets or financial liabilities at fair value through profit or loss.

However, IFRS 7 also includes disclosure requirements that will apply to almost all entities, since almost all entities make some use of financial instruments. In order to achieve compliance with IFRS 7 in the most efficient manner, we recommend an initial scoping exercise to assess the extent to which the specific requirements on the Standard will apply.

## IFRS 7 Disclosure Checklist

Please tick box as appropriate:

Disclosure requirement...

... sufficiently considered:

✓

... not or insufficiently considered:

X

... not relevant for financial statements:

⊘

IFRS 7  
paragraph

	<b>Classes of financial instruments and level of disclosure</b>	
6	When this IFRS 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 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 balance sheet.	
	<b>Significance of financial instruments for financial position and performance</b>	
7	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.	
	<b>Balance sheet</b>	
	<b>Categories of financial assets and financial liabilities</b>	
8	The carrying amounts of each of the following categories, as defined in IAS 39, shall be disclosed either on the face of the balance sheet or in the notes: <ul style="list-style-type: none"> <li>(a) financial assets at fair value through profit or loss, showing separately: <ul style="list-style-type: none"> <li>(i) those designated as such upon initial recognition; and</li> <li>(ii) those classified as held for trading in accordance with IAS 39;</li> </ul> </li> <li>(b) held-to-maturity investments;</li> <li>(c) loans and receivables;</li> <li>(d) available-for-sale financial assets;</li> <li>(e) financial liabilities at fair value through profit or loss, showing separately <ul style="list-style-type: none"> <li>(i) those designated as such upon initial recognition; and</li> <li>(ii) those classified as held for trading in accordance with IAS 39; and</li> </ul> </li> <li>(f) financial liabilities measured at amortised cost.</li> </ul>	
	<b>Financial assets or financial liabilities at fair value through profit or loss</b>	
9	If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose: <ul style="list-style-type: none"> <li>(a) the maximum exposure to credit risk (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) at the reporting date;</li> <li>(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;</li> <li>(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: <ul style="list-style-type: none"> <li>(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</li> <li>(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.</li> </ul> <p>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.</p> </li> <li>(d) the amount of the change in the fair value of any related credit derivatives or similar instrument that has occurred during the period and cumulatively since the loan or receivable was designated.</li> </ul>	

## IFRS 7 Disclosure Checklist

Please tick box as appropriate:

Disclosure requirement...

... sufficiently considered:

✓

... not or insufficiently considered:

X

... not relevant for financial statements:

⊘

IFRS 7  
paragraph

10	<p><b>Financial assets or financial liabilities at fair value through profit or loss (continued)</b></p> <p>If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39, it shall disclose:</p> <p>(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:</p> <p>(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 B, paragraph B4); or</p> <p>(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.</p> <p>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.</p> <p>(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.</p>	
11	<p>The entity shall disclose:</p> <p>(a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a).</p> <p>(b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(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.</p>	
12	<p><b>Reclassification</b></p> <p>If the entity has reclassified a financial asset as one measured:</p> <p>(a) at cost or amortised cost, rather than at fair value; or</p> <p>(b) at fair value, rather than at cost or amortised cost,</p> <p>it shall disclose the amount reclassified into and out of each category and the reason for that reclassification (see paragraphs 51–54 of IAS 39).</p>	
13	<p><b>Derecognition</b></p> <p>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 15–37 of IAS 39). The entity shall disclose for each class of such financial assets:</p> <p>(a) the nature of the assets;</p> <p>(b) the nature of the risks and rewards of ownership to which the entity remains exposed;</p> <p>(c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and</p> <p>(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.</p>	

## IFRS 7 Disclosure Checklist

Please tick box as appropriate:

Disclosure requirement...

... sufficiently considered:

✓

... not or insufficiently considered:

X

... not relevant for financial statements:

⊘

IFRS 7  
paragraph

	<b>Collateral</b>	
14	An entity shall disclose: <ul style="list-style-type: none"> <li>(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 37(a) of IAS 39; and</li> <li>(b) the terms and conditions relating to its pledge.</li> </ul>	
15	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: <ul style="list-style-type: none"> <li>(a) the fair value of the collateral held;</li> <li>(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and</li> <li>(c) the terms and conditions associated with its use of the collateral.</li> </ul>	
	<b>Allowance account for credit losses</b>	
16	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.	
	<b>Compound financial instruments with multiple embedded derivatives</b>	
17	If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of IAS 32) 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.	
	<b>Defaults and breaches</b>	
18	For loans payable recognised at the reporting date, an entity shall disclose: <ul style="list-style-type: none"> <li>(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;</li> <li>(b) the carrying amount of the loans payable in default at the reporting date; and</li> <li>(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.</li> </ul>	
19	If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 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 reporting date).	

## IFRS 7 Disclosure Checklist

Please tick box as appropriate:

Disclosure requirement...

... sufficiently considered:

✓

... not or insufficiently considered:

X

... not relevant for financial statements:

⊘

IFRS 7  
paragraph

20	<p><b>Income statement and equity</b></p> <p><b>Items of income, expense, gains or losses</b></p> <p>An entity shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes:</p> <p>(a) net gains or net losses on:</p> <ul style="list-style-type: none"> <li>(i) financial assets or financial liabilities at fair value through profit or loss, 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 IAS 39;</li> <li>(ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised directly in equity during the period and the amount removed from equity and recognised in profit or loss for the period;</li> <li>(iii) held-to-maturity investments;</li> <li>(iv) loans and receivables; and</li> <li>(v) financial liabilities measured at amortised cost;</li> </ul> <p>(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;</p> <p>(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:</p> <ul style="list-style-type: none"> <li>(i) financial assets or financial liabilities that are not at fair value through profit or loss; and</li> <li>(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;</li> </ul> <p>(d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and</p> <p>(e) the amount of any impairment loss for each class of financial asset.</p>	
21	<p><b>Other disclosures</b></p> <p><b>Accounting policies</b></p> <p>In accordance with paragraph 108 of IAS 1 Presentation of Financial Statements, an entity discloses, in the summary of significant accounting policies, 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.</p>	
22	<p><b>Hedge accounting</b></p> <p>An entity shall disclose the following separately for each type of hedge described in IAS 39 (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):</p> <ul style="list-style-type: none"> <li>(a) a description of each type of hedge;</li> <li>(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and</li> <li>(c) the nature of the risks being hedged.</li> </ul>	

## IFRS 7 Disclosure Checklist

		<b>Please tick box as appropriate:</b>	
		Disclosure requirement...	
		... sufficiently considered:	✓
		... not or insufficiently considered:	X
		... not relevant for financial statements:	Ø
IFRS 7 paragraph			
	<b>Hedge accounting (continued)</b>		
23	<p>For cash flow hedges, an entity shall disclose:</p> <ul style="list-style-type: none"> <li>(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;</li> <li>(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;</li> <li>(c) the amount that was recognised in equity during the period;</li> <li>(d) the amount that was removed from equity and included in profit or loss for the period, showing the amount included in each line item in the income statement; and</li> <li>(e) the amount that was removed from 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.</li> </ul>		
24	<p>An entity shall disclose separately:</p> <ul style="list-style-type: none"> <li>(a) in fair value hedges, gains or losses: <ul style="list-style-type: none"> <li>(i) on the hedging instrument; and</li> <li>(ii) on the hedged item attributable to the hedged risk;</li> </ul> </li> <li>(b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and</li> <li>(c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.</li> </ul>		
	<b>Fair value</b>		
25	<p>Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), 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.</p>		
26	<p>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 balance sheet.</p>		
27	<p>An entity shall disclose:</p> <ul style="list-style-type: none"> <li>(a) 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;</li> <li>(b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71–AG79 of IAS 39);</li> <li>(c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in equity, total equity;</li> <li>(d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.</li> </ul>		

## IFRS 7 Disclosure Checklist

Please tick box as appropriate:

Disclosure requirement...

... sufficiently considered:

✓

... not or insufficiently considered:

X

... not relevant for financial statements:

⊘

IFRS 7  
paragraph

IFRS 7 paragraph	Disclosure requirement...	... sufficiently considered:	... not or insufficiently considered:	... not relevant for financial statements:
	<b>Fair value (continued)</b>			
28	If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of IAS 39). 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 AG76 of IAS 39 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 profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and			
	(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.			
29	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 IAS 39 because its fair value cannot be measured reliably; or			
	(c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.			
30	In the cases described in paragraph 29(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 reliably be measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.			
	<b>Nature and extent of risks arising from financial instruments</b>			
31	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 reporting date.			
32	The disclosures required by paragraphs 33–42 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.			
	<b>Qualitative disclosures</b>			
33	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.			

## IFRS 7 Disclosure Checklist

		<b>Please tick box as appropriate:</b>	
		Disclosure requirement...	
		... sufficiently considered:	✓
		... not or insufficiently considered:	X
		... not relevant for financial statements:	☒
IFRS 7 paragraph			
	<b>Quantitative disclosures</b>		
34	For each type of risk arising from financial instruments, an entity shall disclose: <ul style="list-style-type: none"> <li>(a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer;</li> <li>(b) the disclosures required by paragraphs 36–42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality); and</li> <li>(c) concentrations of risk if not apparent from (a) and (b).</li> </ul>		
35	If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.		
	<b>Credit risk</b>		
36	An entity shall disclose by class of financial instrument: <ul style="list-style-type: none"> <li>(a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with IAS 32);</li> <li>(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;</li> <li>(c) information about the credit quality of financial assets that are neither past due nor impaired; and</li> <li>(d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.</li> </ul>		
	<b>Financial assets that are either past due or impaired</b>		
37	An entity shall disclose by class of financial asset: <ul style="list-style-type: none"> <li>(a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired;</li> <li>(b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and</li> <li>(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.</li> </ul>		
	<b>Collateral and other credit enhancements obtained</b>		
38	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: <ul style="list-style-type: none"> <li>(a) the nature and carrying amount of the assets obtained; and</li> <li>(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.</li> </ul>		
	<b>Liquidity risk</b>		
39	An entity shall disclose: <ul style="list-style-type: none"> <li>(a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and</li> <li>(b) a description of how it manages the liquidity risk inherent in (a).</li> </ul>		

## IFRS 7 Disclosure Checklist

Please tick box as appropriate:

Disclosure requirement...

... sufficiently considered:

✓

... not or insufficiently considered:

X

... not relevant for financial statements:

⊘

IFRS 7  
paragraph

	<p><b>Market risk</b></p> <p><b>Sensitivity analysis</b></p>	
40	<p>Unless an entity complies with paragraph 41, it shall disclose:</p> <p>(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;</p> <p>(b) the methods and assumptions used in preparing the sensitivity analysis; and</p> <p>(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.</p>	
41	<p>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 40. The entity shall also disclose:</p> <p>(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</p> <p>(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.</p>	
	<p><b>Other market risk disclosures</b></p>	
42	<p>When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example 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.</p>	