Appendix C – Implementation guidance

This guidance accompanies, but is not part of, this Standard.

A number of additional examples are available in the relevant IFRS Standards on financial instruments illustrating various aspects related to the accounting of financial instruments.

Scope

Example 1: What transactions are within the scope of this Standard?

Annexure A of this Appendix summarises the scope inclusions and exclusions of this Standard.

Example 2: Option to put a non-financial asset

Entity A owns an office building. A enters into a put option with an investor that permits A to put the building to the investor for R150-million. The current value of the building is R175-million. The option expires in five years. The option, if exercised, may be settled through physical delivery or net cash, at A's option. How do both A and the investor account for the option?

Entity A's accounting depends on its intention and past practice for settlement. Although the contract meets the definition of a derivative, A does not account for it as a derivative if it intends to settle the contract by delivering the building if it exercises its option and there is no past practice of settling net (paragraphs 1.11 and 1.12).

The investor, however, cannot conclude that the option was entered into to meet the investor's expected purchase, sale or usage requirements because the investor does not have the ability to require delivery. In addition, the option may be settled net in cash. Therefore, the investor has to account for the contract as a derivative. Regardless of past practices, the investor's intention does not affect whether settlement is by delivery or in cash. The investor has a written an option, and a written option in which the holder has a choice of physical settlement or net cash settlement can never satisfy the normal delivery requirement for the exemption from this Standard because the option writer does not have the ability to require delivery.

However, if the contract was a forward contract as opposed to an option, and if the contract required physical delivery and the reporting entity had no past practice of settling net in cash, or of taking delivery of the building and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price, the contract would not be accounted for as a derivative.

Definitions

Example 3: Definition of a derivative: examples of derivatives and underlyings

What are examples of common derivative contracts and the identified underlying?

This Standard defines a derivative as follows:

A *derivative* is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

The following table indicates typical derivative contracts, indicating the main pricing variable of the contract (the list is not exhaustive):

Type of contract	Main pricing-settlement variable (underlying variable)
Interest rate swap	Interest rates
Currency swap (foreign exchange swap)	Currency rates
Credit swap	Credit rating, credit index or credit price
Total return swap	Total fair value of the reference asset and interest rates
Currency futures	Currency rates
Commodity futures	Commodity prices
Currency forward	Currency rates

Example 4: Definition of a derivative: settlement at a future date, interest rate swap with net or gross settlement

For the purpose of determining whether an interest rate swap is a derivative financial instrument, does it make a difference whether the parties pay the interest payments to each other (gross settlement) or settle on a net basis?

No. The definition of a derivative does not depend on gross or net settlement. To illustrate: Municipality ABC enters into an interest rate swap with Bank X that requires ABC to pay a fixed rate of 8 per cent and receive a variable amount based on three-month JIBAR, reset on a quarterly basis. The fixed and variable amounts are determined on the basis of a R100 million notional amount. ABC and X do not exchange the notional amount. ABC pays or receives a net cash amount each quarter based on the difference between 8 per cent and three-month JIBAR. Alternatively, settlement may be on a gross basis.

The contract meets the definition of a derivative regardless of whether there is net or gross settlement because its value changes in response to changes in an underlying variable (JIBAR), there is no initial net investment, and settlements occur at future dates.

Example 5: Definition of a derivative: prepaid interest rate swap (fixed rate payment obligation prepaid at inception or subsequently)

If a party prepays its obligation under a pay-fixed, receive-variable interest rate swap at inception, is the swap a derivative financial instrument?

Yes. To illustrate: Municipality S enters into a R100 million notional amount five-year pay-fixed, receive-variable interest rate swap with Bank C. The interest rate of the variable part of the swap is reset on a quarterly basis to three-month JIBAR. The interest rate of the fixed part of the swap is 10 per cent per year. Municipality S prepays its fixed obligation under the swap of R50 million (R100 million × 10% × 5 years) at inception, discounted using market interest rates, while retaining the right to receive interest payments on the R100 million reset quarterly based on three-month JIBAR over the life of the swap.

The initial net investment in the interest rate swap is significantly less than the notional amount on which the variable payments under the variable leg will be calculated. The contract requires an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, such as a variable rate bond. Therefore, the contract fulfils the 'no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors'. Even though Municipality S has no future performance obligation, the ultimate settlement of the contract is at a future date and the value of the contract changes in response to changes in the JIBAR index. Accordingly, the contract is regarded as a derivative contract.

Would the answer change if the fixed rate payment obligation is prepaid subsequent to initial recognition?

If the fixed leg is prepaid during the term, that would be regarded as a termination of the old swap and an origination of a new instrument that is evaluated in terms of this Standard.

Example 6: Definition of a derivative: prepaid pay-variable, receive-fixed interest rate swap

If a party prepays its obligation under a pay-variable, receive-fixed interest rate swap at inception of the contract or subsequently, is the swap a derivative financial instrument?

No. A prepaid pay-variable, receive-fixed interest rate swap is not a derivative if it is prepaid at inception and it is no longer a derivative if it is prepaid after inception because it provides a return on the prepaid (invested) amount comparable to the return on a debt instrument with fixed cash flows. The prepaid amount fails the 'no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors' criterion of a derivative.

To illustrate: Municipality S enters into a R100 million notional amount five-year pay-variable, receive-fixed interest rate swap with Bank C. The variable leg of the swap is reset on a quarterly basis to three-month JIBAR. The fixed interest payments under the swap are calculated as 10 per cent times the swap's notional amount, i.e. R10 million per year. Municipality S prepays its obligation under the variable leg of the swap at inception at current market rates, while retaining the right to receive fixed interest payments of 10 per cent on R100 million per year.

The cash inflows under the contract are equivalent to those of a financial instrument with a fixed annuity stream since Municipality S knows it will receive R10 million per year over the life of the swap. Therefore, all else being equal, the initial investment in the contract should equal that of other financial instruments that consist of fixed annuities. Thus, the initial net investment in the pay-variable, receive-fixed interest rate swap is equal to the investment required in a non-derivative contract that has a similar response to changes in market conditions. For this reason, the instrument fails the 'no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors'. Therefore, the contract is not accounted for as a derivative. By discharging the obligation to pay variable interest rate payments, Municipality S in effect provides a loan to Bank C.

Example 7: Definition of a derivative: offsetting loans

National Government ~~Entity~~ A makes a five-year fixed rate loan to Regional Body B, while B at the same time makes a five-year variable rate loan for the same amount to A. There are no transfers of contractual par amount at inception of the two loans, since A and B have a netting agreement. Is this a derivative?

Yes. This meets the definition of a derivative (that is to say, there is an underlying variable, no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement). The contractual effect of the loans is the equivalent of an interest rate swap arrangement with no initial net investment. Non-derivative transactions are aggregated and treated as a derivative when the transactions result, in substance, in a derivative. Indicators of this would include:

- they are entered into at the same time and in contemplation of one another
- they have the same counterparty
- they relate to the same risk
- there is no apparent economic need or substantive ~~business~~ purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

The same answer would apply if National Government A and Regional Body B did not have a netting agreement, because the definition of a derivative instrument does not require net settlement.

Example 8: definition of a derivative: option not expected to be exercised

The definition of a derivative requires that the instrument 'is settled at a future date'. Is this criterion met even if an option is expected not to be exercised, for example, because it is out of the money?

Yes. An option is settled upon exercise or at its maturity. Expiry at maturity is a form of settlement even though there is no additional exchange of consideration.

Example 9: Definition of a derivative: initial net investment

Many derivative instruments, such as futures contracts and exchange traded written options, require margin accounts. Is the margin account part of the initial net investment?

No. The margin account is not part of the initial net investment in a derivative instrument. Margin accounts are a form of collateral for the counterparty or clearing house and may take the form of cash, securities or other specified assets, typically liquid assets. Margin accounts are separate assets that are accounted for separately.

Example 10: Definition of held for trading: portfolio with a recent actual pattern of short term profit taking

The definition of a financial asset or financial liability held for trading states that 'a financial asset or financial liability is classified as held for trading if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking'. What is a 'portfolio' for the purposes of applying this definition?

Although the term 'portfolio' is not explicitly defined, the context in which it is used suggests that a portfolio is a group of financial assets or financial liabilities that are managed as part of that group. If there is evidence of a recent actual pattern of short-term profit-taking on financial instruments included in such a portfolio, those financial instruments qualify as held for trading even though an individual financial instrument may in fact be held for a longer period of time.

Example 11: Definition of gross carrying amount: perpetual debt instruments with fixed or market-based variable rate

Sometimes entities purchase or issue debt instruments that are required to be measured at amortised cost and in respect of which the issuer has no obligation to repay the gross carrying amount. The interest rate may be fixed or variable. Would the difference between the initial amount paid or received and zero ('the maturity amount') be amortised immediately on initial recognition for the purpose of determining amortised cost if the rate of interest is fixed or specified as a market-based variable rate?

No. Since there is no repayment of the gross carrying amount, there is no amortisation of the difference between the initial amount and the maturity amount if the rate of interest is fixed or specified as a market-based variable rate. Because interest payments are fixed or market-based and will be paid in perpetuity, the amortised cost (the present value of the stream of future cash payments discounted at the effective interest rate) equals the gross carrying amount in each period.

Example 12: Definition of gross carrying amount: perpetual debt instruments with decreasing interest rate

If the stated rate of interest on a perpetual debt instrument decreases over time, would the gross carrying amount equal the contractual par amount in each period?

No. From an economic perspective, some or all of the contractual interest payments are repayments of the gross carrying amount. For example, the interest rate may be stated as 16 per cent for the first 10 years and as zero per cent in subsequent periods. In that case, the initial amount is amortised to zero over the first 10 years using the effective interest method, since a portion of the contractual interest payments represents repayments of the gross carrying amount. The gross carrying amount is zero after Year 10 because the present value

of the stream of future cash payments in subsequent periods is zero (there are no further contractual cash payments in subsequent periods).

Example 13: Calculating the gross carrying amount: financial asset

How is the gross carrying amount calculated for financial assets measured at amortised cost?

The gross carrying amount is calculated using the effective interest method. The effective interest rate inherent in a financial instrument is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument or, where appropriate, a shorter period to the net carrying amount at initial recognition. The computation includes all fees and points paid or received that are an integral part of the effective interest rate, directly attributable transaction costs and all other premiums or discounts.

The following example illustrates how the gross carrying amount is calculated using the effective interest method. Entity A purchases a debt instrument with five years remaining to maturity for its fair value of R1 000 (including transaction costs). The instrument has a contractual par amount of R1 250 and carries fixed interest of 4.7% that is paid annually (R1 250 × 4.7% = R59 per year). The contract also specifies that the borrower has an option to prepay the instrument and that no penalty will be charged for prepayment. At inception, the entity expects the borrower not to prepay (and, therefore, the entity determines that the fair value of the prepayment feature is insignificant when the financial asset is initially recognised).

It can be shown that in order to allocate interest receipts and the initial discount over the term of the debt instrument at a constant rate on the carrying amount, they must be accrued at the rate of 10 per cent annually. The table below provides information about the amortised cost, interest income and cash flows of the debt instrument in each reporting period.

Year	(a)	(b = a × 10%)	(c)	(d = a + b – c)
	Gross carrying amount at the beginning of the year	Interest revenue	Cash flows	Gross carrying amount at the end of the year
20X5	1 000	100	59	1 041
20X6	1 041	104	59	1 086
20X7	1 086	109	59	1 136
20X8	1 136	113	59	1 190
20X9	1 190	119	1 250 + 59	–

On the first day of 20X7 the entity revises its estimate of cash flows. It now expects that 50% of the contractual par amount will be prepaid at the end of 20X7 and the remaining 50% at the

end of 20X9. The gross carrying amount of the debt instrument in 20X7 is adjusted. The gross carrying amount is recalculated by discounting the amount the entity expects to receive in 20X7 and subsequent years using the original effective interest rate (10%). This results in the gross carrying amount in 20X7 of R1 138. The adjustment of R52 (R1 138 – R1 086) is recorded in surplus or deficit in 20X7. The table below provides information about the gross carrying amount, interest revenue and cash flows as they would be adjusted taking into account the change in estimate.

Year	(a)	(b = a × 10%)	(c)	(d = a + b – c)
	Gross carrying amount at the beginning of the year	Interest revenue	Cash flows	Gross carrying amount at the end of the year
20X5	1 000	100	59	1 041
20X6	1 041	104	59	1 086
20X7	1 086 + 52	114	625 + 59	568
20X8	568	57	30	595
20X9	595	60	625 + 30	–

Example 14: Calculating amortised cost: debt instruments with stepped interest payments

Sometimes entities purchase or issue debt instruments with a predetermined rate of interest that increases or decreases progressively ('stepped interest') over the term of the debt instrument. If a debt instrument with stepped interest is issued at R1 250 and has a maturity amount of R1 250, would the gross carrying amount equal R1 250 in each reporting period over the term of the debt instrument?

No. Although there is no difference between the initial amount and maturity amount, an entity uses the effective interest method to allocate interest payments over the term of the debt instrument to achieve a constant rate on the carrying amount.

The following example illustrates how amortised cost is calculated using the effective interest method for an instrument with a predetermined rate of interest that increases or decreases over the term of the debt instrument ('stepped interest').

On 1 January 20X5, Entity A issues a debt instrument for a price of R1 250. The contractual par amount is R1 250 and the debt instrument is repayable on 30 June 20X9. The rate of interest is specified in the debt agreement as a percentage of the contractual par amount as follows: 6.0% in 20X5 (R75), 8.0% in 20X6 (R100), 10.0% in 20X7 (R125), 12.0% in 20X8 (R150), and 16.4% in 20X9 (R205). In this case, the interest rate that exactly discounts the stream of future cash payments through maturity is 10%. Therefore, cash interest payments are reallocated over the term of the debt instrument for the purposes of determining the gross carrying amount in each period. In each period, the gross carrying amount at the beginning of the period is multiplied by the effective interest rate of 10% and added to the gross carrying

amount. Any cash payments in the period are deducted from the resulting number. Accordingly, the gross carrying amount in each period is as follows:

Year	(a)	(b = a × 10%)	(c)	(d = a + b – c)
	Gross carrying amount at the beginning of the year	Interest revenue	Cash flows	Gross carrying amount at the end of the year
20X5	1 250	125	75	1 300
20X6	1 300	130	100	1 330
20X7	1 330	133	125	1 338
20X8	1 338	134	150	1 322
20X9	1 322	133	1 250 + 205	–

Embedded derivatives

Example 15: Identifying contracts containing embedded derivatives

The examples below illustrate whether an embedded derivative exists in the following contracts (assume that the entity's functional currency is Rands).

Description of contract and related features	Impact of the conditions?	Why is it an embedded derivative or not?
Leases		
An entity is the tenant in a 10 year lease of a property with the rental payments contractually determined for the first year, but thereafter increase in line with:		
(a) Consumer Price Index (CPI)	The rental payments due in terms of the rental agreement will fluctuate in accordance with CPI.	The rental payments escalate in accordance with an inflation index in the same economic environment as the lease. Therefore this feature is closely related to the host contract, and no embedded derivative exists (see paragraph 4.62(d)(i)). The entire lease contract should be accounted for in accordance with the Standard of GRAP on *Leases*.
(b) Three time CPI	The rental payments due in	Although the rental payments

	terms of the rental agreement will fluctuate in accordance with three times the CPI.	escalate in accordance with an inflation index in the same economic environment as the lease, but the index is leveraged (i.e. it is a multiple of CPI, see paragraph 4.62(d)(i)). The embedded derivative should be separated from the host lease contract and accounted for as a financial instrument (the lease contract should be accounted for in accordance with the Standard of GRAP on *Leases*).
(c) South African Property Price Index	The rental payments due in terms of the rental agreement will fluctuate in accordance with a property price index.	The rental payments escalate in accordance with an inflation index in the same economic environment as the lease. Therefore this feature is closely related to the host contract, and no embedded derivative exists (see paragraph 4.62(d)(i)). The entire lease contract should be accounted for in accordance with the Standard of GRAP on *Leases*.
(d) UK Property Price Index	The rental payments due in terms of the rental agreement will fluctuate in accordance an index which is in a foreign currency.	The rental payments escalate in accordance with an inflation index which is not in the same economic environment as the lease. Therefore this feature is not closely related to the host contract, and an embedded derivative exists (see paragraph 4.62(d)(i)). The embedded derivative should

		be separated from the host lease contract and accounted for as a financial instrument (the lease contract should be accounted for in accordance with the Standard of GRAP on *Leases*).
Contracts for the purchase or supply of goods		
A municipality contracts with a firm to build low cost houses in various sites over the next five years. The contract stipulates that the building price escalates by: 60% of the cost increases in line with a wage index; 20% of the cost increases in line with the price of steel; 20% of the cost increases with the cost of cement.	The effect of this clause in the contract is that the payments for the houses will increase based on the increases in raw materials and other inputs into the construction of the houses, in specific ratios.	If it can be proven reliably that the cost of building houses is comprised 60% of labour, 20% steel and 20% cement, these features are closely linked to the host contract. If not, it can be argued that the price are leveraged (because the ratios may be incorrect and do not reflect the cost structure). The entity will then need to account for the embedded derivative separately from the host contract.
The department of defence enters into an agreement to sell surplus arms and ammunitions to another country within the SADC region. The contract price is agreed at USD100 000.	The contract will be settled in US dollars, which is neither the functional currency of South Africa nor the other country.	Even though the contract will be settled in US dollars (which is not the functional currency of either country), business transactions undertaken in Africa are usually denominated in US dollars, largely due to the instability of the currencies of the various countries in the region. Thus, the terms are closely related to the sale/purchase agreement; therefore no embedded derivative exists (see paragraph 4.62(d)(iii)).

(Some of the examples in the table above are sourced and adapted from: Manual of Accounting – IFRS for the UK, issued by PricewaterhouseCoopers Inc in 2006)

Initial recognition

Accounting for compound financial instruments

Example 16: Separation of a compound financial instrument on initial recognition

Paragraph 3.10 of this Standard describes how the components of a compound financial instrument are separated by the entity on initial recognition. The following example illustrates how such a separation is made.

An entity issues 2 000 convertible bonds at the start of year 1. The bonds have a three-year term, and are issued at par with a face value of R1 000 per bond, giving total proceeds of R2-million. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9%.

The liability component is measured first, and the difference between the proceeds of the bond issue and the fair value of the liability is assigned to the residual interest component. The present value of the liability component is calculated using a discount rate of 9%, the market interest rate for similar bonds having no conversion rights, as shown below.

	R
Present value of the principal – R2 000 000 payable at the end of three years	1 544 367
Present value of the interest – R120 000 payable annually in arrears for three years	303 755
Total liability component	1 848 122
Residual interest component (by deduction)	151 878
Proceeds of the bond issue	2 000 000

Example 17: Separation of a compound financial instrument with multiple embedded derivative features

The following example illustrates the application of paragraph 3.10 to the separation of the liability and residual interest components of a compound financial instrument with multiple embedded derivative features.

Assume that the proceeds received on the issue of a callable convertible bond are R6 000. The value of a similar bond without a call or conversion option is R5 700. Based on an option

pricing model, it is determined that the value to the entity of the embedded call feature in a similar bond without a conversion option is R200. In this case, the value allocated to the liability component under paragraph 3.13 is R5 500 (R5 700 – R200) and the value allocated to the residual interest component is R500 (R6 000 – R5 500).

Trade date accounting

Example 18: Recognition and derecognition of financial liabilities using trade date accounting

This has special rules about recognition and derecognition of financial assets using trade date accounting. Do these rules apply to transactions in financial instruments that are classified as financial liabilities?

No. This Standard does not contain any specific requirements about trade date accounting in the case of transactions in financial instruments that are classified as financial liabilities. Therefore, the general recognition and derecognition requirements in this ~~the~~ Standard state that financial liabilities are recognised on the date the entity 'becomes a party to the contractual provisions of the instrument'. Such contracts generally are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of this ~~the~~ Standard. This Standard specifies that financial liabilities are derecognised only when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Example 19: Purchases or sales of financial assets

How is the principle of trade date accounting applied to a purchase of a financial asset?

The following example illustrates the application of the trade date accounting principles in this ~~the~~ Standard for a purchase of a financial asset. On 29 March 20X8, an entity commits itself to purchase a financial asset for R1 000, which is its fair value on commitment (trade) date. Transaction costs are immaterial. On 31 March 20X8 (financial year-end) and on 4 April 20X8 (settlement date) the fair value of the asset is R1 002 and R1 003, respectively. The amounts to be recorded for the asset are shown in the table below.

Balances	Assets measured at amortised cost or cost	Assets measured at fair value
Trade date		
29 March 20X8		
Financial asset	1,000	1,000
Financial liability	(1,000)	(1,000)
Year end		

31 March 20X8		
Receivable	–	–
Financial asset	1,000	1,002
Financial liability	(1,000)	(1,000)
Fair value adjustment recognised in surplus or deficit	–	(2)
Settlement date		
4 April 20X8		
Receivable	–	–
Financial asset	1,000	1,003
Financial liability	–	–
Fair value adjustment recognised in surplus or deficit	–	(1)

How is the principle of trade date accounting applied to a sale of a financial asset?

The following example illustrates the application of the trade date accounting principles in this ~~the~~ Standard for a sale of a financial asset. On 29 March 20X8 (trade date) an entity enters into a contract to sell a financial asset for its current fair value of R1 010. The asset was acquired one year earlier for R1 000 and its amortised cost is R1 000. On 31 March 20X8 (financial year-end), the fair value of the asset is R1 012. On 4 April 20X8 (settlement date), the fair value is R1 013. The amounts to be recorded are shown in the table below (any interest that might have accrued on the asset is disregarded).

A change in the fair value of a financial asset that is sold on a regular way basis is not recorded in the financial statements between trade date and settlement date because the seller's right to changes in the fair value ceases on the trade date.

Balances	**Assets measured at amortised cost or cost**	**Assets measured at fair value**
Trade date		
29 March 20X8		
Receivable	1,010	1,010
Financial asset	-	-
Fair value adjustment recognised in surplus or deficit	10	10
Year end		
31 March 20X8		
Receivable	1,010	1,010
Financial asset	-	-

Fair value adjustment recognised in surplus or deficit	-	-
Settlement date **4 April 20X9**		
Fair value adjustment recognised in surplus or deficit	-	-

Example 20: Recognition: Cash collateral

Entity B transfers cash to Entity A as collateral for another transaction with Entity A (for example, a securities borrowing transaction). The cash is not legally segregated from Entity A's assets. Should Entity A recognise the cash collateral it has received as an asset?

Yes. The ultimate realisation of a financial asset is its conversion into cash and, therefore, no further transformation is required before the economic benefits of the cash transferred by Entity B can be realised by Entity A. Therefore, Entity A recognises the cash as an asset and a payable to Entity B while Entity B derecognises the cash and recognises a receivable from Entity A.

Concessionary loans

Example 21: Receipt of a concessionary loan

A municipality receives loan funding to the value of R5-million from an international agency to build clinics in rural areas over a period of 5 years. The agreement stipulates that loan should be repaid over the 5 year period as follows:

Year 1: no capital repayments

Year 2: 10% of the capital

Year 3: 20% of the capital

Year 4: 30% of the capital

Year 5: 40% of the capital

Interest is paid annually in arrears, at a rate of 5% per annum on the outstanding balance of the loan. A market related rate of interest for a similar debt instrument with the same credit risk profile is 10%.

The entity has received a concessionary loan of R5-million, which will be repaid at 5% below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market related rate of interest, is recognised as non-exchange revenue.

Journal entries

1. On initial recognition, the entity recognises the following (assuming that the entity subsequently measures the concessionary loan at amortised cost):

Dr Bank	5 000 000	
Cr Loan (refer to Table 2 below)		4 215 450
Cr Liability or non-exchange revenue		784 550

Recognition of the receipt of the loan at fair value

GRAP 23 is considered in recognising either a liability or revenue for the off-market portion of the loan.

2. Year 1: The entity recognises the following:

Dr Interest (refer to Table 3 below)	421 545	
Cr Loan		421 545

Recognition of interest using the effective interest method (R4 215 450 X 10%)

Dr Loan (refer to Table 1 below)	250 000	
Cr Bank		250 000

Recognition of interest paid on outstanding balance (R5m X 5%)

3. Year 2: The entity recognises the following:

Dr Interest	438 700	
Cr Loan		438 700

Recognition of interest using the effective interest method (R4 386 995 X 10%)

Dr Loan	750 000	
Cr Bank		750 000

Recognition of interest paid on outstanding balance (R5m X 5% + R500 000 capital repaid)

4. Year 3: The entity recognises the following:

Dr Interest	407 569	
Cr Loan		407 569

Recognition of interest using the effective interest method (R4 075 695 X 10%)

Dr Loan	1 225 000	
Cr Bank		1 225 000

Recognition of interest paid on outstanding balance (R4.5m X 5% + R1m capital repaid)

5. Year 4: The entity recognises the following:

Dr Interest	325 826	
Cr Loan		325 826

Recognition of interest using the effective interest method (R4 3 258 264 X 10%)

Dr Loan	1 675 000	
Cr Bank		1 675 000

Recognition of interest paid on outstanding balance (R3.5m X 5% + R1.5m capital repaid)

6. Year 5: The entity recognises the following:

Dr Interest	190 909	
Cr Loan		190 909

Recognition of interest using the effective interest method (R1 909 091 X 10%)

Dr Loan	2 100 000	
Cr Bank		2 100 000

Recognition of interest paid on outstanding balance (R2m X 5% + R2m capital repaid)

Calculations:

Table 1: Amortisation schedule (using contractual repayments at 5% interest):

	Capital R	Interest R	Payments R	Balance R
Year 0	5 000 000	-	-	5 000 000
Year 1	5 000 000	250 000	250 000	5 000 000
Year 2	5 000 000	250 000	750 000	4 500 000
Year 3	4 500 000	225 000	1 225 000	3 500 000
Year 4	3 500 000	175 000	1 675 000	2 000 000
Year 5	2 000 000	100 000	2 100 000	-

Table 2: Discounting contractual cash flows (based on market rate of 10%)

	Year 1 R	Year 2 R	Year 3 R	Year 4 R	Year 5 R
Capital balance	5 000 000	4 500 000	3 500 000	2 000 000	-
Interest payable	250 000	250 000	225 000	175 000	100 000
Total payments (capital and interest)	250 000	750 000	1 225 000	1 675 000	2 100 000

Present value of payments	227 272	619 835	920 360	1 144 048	1 303 935
Total present value of payments	4 215 450				

Proceeds received	5 000 000
Less: Present value of outflows (fair value of loan on initial recognition)	4 215 450
Off-market portion of loan to be recognised as non-exchange revenue	784 550

Table 3: Calculation of loan balance and interest using the effect interest method:

	Capital	Interest accrual	Interest and capital payments	Balance
	R	R	R	R
Year 1	4 215 540	421 545	250 000	4 386 995
Year 2	4 386 995	438 700	750 000	4 075 695
Year 3	4 075 695	407 569	1 225 000	3 258 264
Year 4	3 258 264	325 826	1 675 000	1 909 091
Year 5	1 909 091	190 909	2 100 000	2 100 000

Recognition and measurement of financial assets and financial liabilities

Example 22: Payment of a concessionary loan

The Student Finance Agency makes low interest loans available to qualifying students on flexible repayment terms as a means of promoting post-secondary education.

The Agency advanced R250 million to various students at the beginning of the financial year, with the following terms and conditions:

Capital is repaid as follows:

Year 1 to 3: no capital repayments

Year 4: 30% capital to be repaid

Year 5: 30% capital to be repaid

Year 6: 30% capital to be repaid

The capital balance outstanding at the end of year 6 is forgiven.

Interest is calculated at 11.5% interest on the outstanding loan balance, and is paid annually in arrears. Assume the market rate of interest for a similar loan is 11.5%.

Scenario 1: Amortised cost

After assessing the substance of the concessionary loan, the Agency determines the classification of the financial asset in accordance with paragraphs 4.1 to 4.6. Based on the case facts provided in the example, the Agency concludes the financial asset is classified at amortised cost.

The journal entries to account for the concessionary loan when classified at amortised cost are as follows:

1. On initial recognition, the entity recognises the following:

Dr		Loan	236 989 595	
Dr		Expense (social benefit recognised i.a.w Framework)	13 010 405	
	Cr	Bank		250 000 000

See Table 5 below.

2. Year 1: The entity recognises the following

Dr		Loan	27 253 803	
	Cr	Interest revenue		27 253 803

Interest accrual using the effective interest method R236 989 595 × 11.5%. See Table 6 below.

Dr		Bank	28 750 000	
	Cr	Loan		28 750 000

Interest payment of R250m × 11.5%

3. Year 2: The entity recognises the following:

Dr		Loan	27 081 741	
	Cr	Interest revenue		27 081 741

Interest accrual using the effective interest method R235,493,399 × 11.5%. See Table 6 below.

Dr		Bank	28 750 000	
	Cr	Loan		28 750 000

Interest payment of R250m × 11.5%

4. Year 3: The entity recognises the following:

Dr		Loan	26 889 891	
	Cr	Interest revenue		26 889 891

Interest accrual using the effective interest method R233,825,140 × 11.5%

Dr		Bank	28 750 000	
	Cr	Loan		28 750 000

5. Year 4: The entity recognises the following:

Dr		Loan	26 675 979	
	Cr	Interest revenue		26 675 979

Interest accrual using the effective interest method R231,965,031 × 11.5%

Dr		Bank	103 750 000	
	Cr	Loan		103 750 000

Interest payment of R250m X 11.5% + R75m capital repaid

6. Year 5: The entity recognises the following:

Dr		Loan	17 812 466	
	Cr	Interest revenue		17 812 466

Interest accrual using the effective interest method R154 891 009 × 11.5%

Dr		Bank	85 500 000	
	Cr	Loan		85 500 000

Interest payment of R175m X 11.5% + R75m capital repaid

7. Year 6: The entity recognises the following:

Dr		Loan	8 921 525	
	Cr	Interest revenue		8 921 525

Interest accrual using the effective interest method R95 067 265 × 11.5%

Dr		Bank	86 500 000	
	Cr	Loan		86 500 000

Interest payment of R100m X 11.5% + R75m capital repaid

Scenario 3: Fair value through surplus/deficit

In addition to the terms outlined in scenario 1, the instrument provides the Agency the ability to call the instrument at any time for an amount that does not substantially reflect payment of outstanding principal and interest. After assessing the substance of the concessionary loan, the Agency determines the classification of the financial asset in accordance with paragraph 4.1 to 4.6. Based on the case facts provided in the example, the Agency concludes the financial asset is classified at fair value through surplus/deficit.

The market rates of interest used to determine fair value are outlined in Table 7.

The journal entries to account for the concessionary loan when classified at fair value through surplus or deficit are as follows:

1. On initial recognition, the entity recognises the following:

Dr		Loan	236 989 595	
Dr		Expense (social benefit recognised i.a.w Framework)	13 010 405	
	Cr	Bank		250 000 000

See Table 5 below.

2. Year 1: The entity recognises the following

Dr		Loan	27 253 803	
	Cr	Interest revenue		27 253 803

Interest accrual of R236 989 595 × 11.5%. See Table 6 below.

Dr		Bank	28 750 000	
	Cr	Loan		28 750 000

Interest payment of R250m × 11.5%. See Table 6 below.

3. Year 2: The entity recognises the following:

Dr		Loan	27 081 741	
	Cr	Interest revenue		27 081 741

Interest accrual of R235 493 399 × 11.5%

Dr		Bank	28 750 000	
	Cr	Loan		28 750 000

Interest payment of R250m × 11.5%

Dr		Loan	2 766 222	
	Cr	Fair value adjustment		2 766 222

Fair value adjustment (R231 058 918 – R235 493 399 – R27 081 741 + R28 750 000) See Table 7 below.

4. Year 3: The entity recognises the following:

Dr		Loan	26 571 776	
	Cr	Interest revenue		26 571 776

Interest accrual of R235 493 399 × 11.5%

Dr		Bank	28 750 000	
	Cr	Loan		28 750 000

Interest payment of R250m × 11.5%

Dr		Loan	2 620 866	
	Cr	Fair value adjustment		26 571 776

Fair value adjustment (R226 259 827 – R231 058 918 – R26 571 776 + R28 750 000)

5. Year 4: The entity recognises the following:

Dr		Loan	26 019 880	
	Cr	Interest revenue		26 019 880

Interest accrual of R235 493 399 × 11.5%

Dr		Bank	103 750 000	
	Cr	Loan		103 750 000

Interest payment of R250m X 11.5% + R75m capital repaid

Dr		Fair value adjustment	1 472 217	
	Cr	Loan		1 472 217

Fair value adjustment (R150 001 924 - R226 259 827 – R26 019 880 + R103 750 000)

6. Year 5: The entity recognises the following:

Dr		Loan	17 250 221	
	Cr	Interest revenue		17 250 221

Interest accrual of R235 493 399 × 11.5%

Dr		Bank	95 125 000	
	Cr	Loan		95 125 000

Interest payment of R175m X 11.5% + R75m capital repaid

Dr		Fair value adjustment	3 750 048	
	Cr	Loan		3 750 048

Fair value adjustment (R75 877 193 – R150 001 924 – R17 250 221 + R95 125 000)

7. Year 6: The entity recognises the following:

Dr		Loan	8 725 877	
	Cr	Interest revenue		8 725 877

Interest accrual of R235 493 399 × 11.5%

Dr		Bank	76 500 000	
	Cr	Loan		76 500 000

Interest payment of R100m X 11.5% + R75m capital repaid

Dr		Fair value adjustment	1 896 930	
	Cr	Loan		1 896 930

Fair value adjustment (R0 – R75 877 193 – R17 250 221 + R76 500 000)

Calculations for scenarios 1 and 2

Scenario 1

Table 4: Amortisation schedule (Using contractual repayments at 11.5% Interest)

	Year 0 R'000	Year 1 R'000	Year 2 R'000	Year 3 R'000	Year 4 R'000	Year 5 R'000	Year 6 R'000
Capital	250 000	250 000	250 000	250 000	250 000	175 000	100 000
Interest	–	28 750	28 750	28 750	28 750	20 125	11 500
Payments	–	28 750	28 750	28 750	103 750	95 125	86 500
Balance	**250 000**	**250 000**	**250 000**	**250 000**	**175 000**	**100 000**	**25 000**

Table 5: Discounting contractual cash flows (based on a market rate of 11.5%)

	Year 1 R'000	Year 2 R'000	Year 3 R'000	Year 4 R'000	Year 5 R'000	Year 6 R'000
Capital balance	250 000	250 000	250 000	175 000	100 000	25 000
Interest payable	28 750	28 750	28 750	28 750	20 125	11 500
Total payments (capital and interest)	28 750	28 750	28 750	103 750	95 125	86 500
Present value of payments	25 784 753	23 125 339	20 740 215	67 125 670	55 197 618	45 016 000
Total present value of payments						236 989 595
Proceeds paid						250 000 000
Less: Present value of outflows (fair value of loan on initial recognition)						236 989 595
Off-market portion of loan to be recognized as expense						13 010 405

Table 6: Calculation of loan balance and interest using the effective interest method

	Year 1 R	Year 2 R	Year 3 R	Year 4 R	Year 5 R	Year 6 R
Capital	236 989 595	235 493 399	233 825 140	231 965 031	154 891 009	77 578 475
Interest accrual	27 253 803	27 081 741	26 889 891	26 675 979	17 812 466	8 921 525
Interest	28 750 000	28 750 000	28 750 000	28 750 000	20 125 000	11 500 000
Capital payments	-	-	-	75 000 000	75 000 000	75 000 000
Balance	235 493 399	233 825 140	231 965 031	154 891 009	77 578 475	–

Table 7: Fair value of loan

	Year 1 R	Year 2 R	Year 3 R	Year 4 R	Year 5 R	Year 6 R
Fair value	236 989 595	235 493 399	233 825 140	226 259 827	150 001 924	75 877 193
Market interest rate	11.5%	11.5%	12%	13%	14%	14%
Interest Accrual (11.5%)	27 253 803	27 081 741	26 571 776	26 019 880	17 250 221	8 725 877
Interest	28 750 000	28 750 000	28 750 000	28 750 000	20 125 000	11 500 000
Capital payments	-	-	-	75 000 000	75 000 000	75 000 000
Fair value adjustment	-	(2 766 222)	(2 620 866)	1 472 217	3 750 048	1 896 930
Balance	235 493 399	233 825 140	226 259 827	150 001 924	75 877 193	–

Example 23: Payment of a concessionary loan that is credit impaired on initial recognition

Assume the same fact pattern as in scenario 1, except that the loan is credit impaired on origination as a portfolio of students defaulted on loans provided in previous reporting periods. The nominal value of the portfolio of loans granted to students is R75 million, and Agency does not expect to receive 50% of both the interest and capital repayments. These students received the same 10% capital concession in year 6, and any interest due is payable each year.

The purpose of this example is to illustrate the calculations and journal entries on initial recognition, as well as the disclosure requirements for originated credit impaired concessionary loans.

1. On initial recognition, the entity recognises the following:

Loan	42 652	
Expense (social benefit recognised i.a.w Framework and expected credit losses on credit impaired loan)	32 348	
Bank		75 000

2. Disclosures required by paragraph 8.27 in the year in which the loans are granted:

	Year 1
	R'000
Nominal value of credit impaired loans granted	75 000
Impairment of loan (50%)	(33 750)
[(75 000 – 7 500)/2]	
Capital of 10% forgiven in terms of scheme	(7 500)
Nominal value of loan to be recovered over the period	33 750

Calculations

Schedule of contractual payments (at nominal interest of 11.5%)

	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Capital	75 000	75 000	75 000	75 000	75 000	75 000	75 000
Interest	-	8 625	8 625	8 625	8 625	6 038	3 450
Payments	-	8 625	8 625	8 625	31 125	28 358	25 950
Balance	75 000	75 000	75 000	75 000	52 500	30 000	7 500

Determine the credit adjusted effective interest rate based on expected cash flows

	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Expected cash flows, loss rate of 50% of capital and interest cash flows	(75 000)	4 313	4 313	4 313	15 563	14 269	12 975
Effective interest rate							6.6%

Amortisation of expected cash flows of concessionary loan (at credit adjusted effective interest rate of 6.6%)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Capital	37 500	37 500	37 500	37 500	37 500	26 250	15 000
Interest	-	4 313	4 313	4 313	4 313	3 019	1 725
Payments	-	4 313	4 313	4 313	15 563	14 269	12 975
Balance	37 500	37 500	37 500	37 500	26 250	15 000	3 750
Present value of cash flows	-	4 054	3 795	3 580	11 984	10 416	8 823
Present value of loan on initial recognition							**42 652**
Loan proceeds							75 000
Present value							42 652
Social benefit component (concession and impairment on initial recognition)							**32 348**

Example 24: Financial guarantee contract provided at nominal consideration

Entity C is a major motor vehicle manufacturer in the country. 20x1 National Government (the issuer) enters into a financial guarantee contract with Entity B (the holder) to reimburse Entity B against the financial effects of default by Entity C (the debtor) for a 5 year loan of R50 million repayable in two equal instalments of R25 million in 20x3 and 20x5. Entity C provides nominal consideration of R5 000 to National Government. At initial recognition, National Government measures the financial guarantee contract at fair value. Applying a valuation technique, National Government determines the fair value of the financial guarantee contract to be R5 000 000.

On 31 March 20x1, having reviewed the financial position and performance of Entity C and having evaluated forward looking information including expected automotive industry trends, National Government determines there has been no significant increase in credit risk since initial recognition. National Government measures the financial guarantee contract at the higher of (a) the amount of the loss allowance; and (b) the amount initially recognised, less the cumulative amount of revenue recognised.

National Government measures the loss allowance at an amount equal to the 12 month expected credit losses. National Government calculates the amount of loss allowance to be less than the amount initially recognised. National Government therefore does not recognise an addition liability in its statement of financial position. National Government makes the disclosures relating to fair value and credit risk in respect of the financial guarantee contract. In its statement of financial performance National Government recognises revenue of R100 000 in respect of the initial fair value of the instrument (total consideration of R5 000 000 / 5 years).

In 20x2 there has been a downturn in the motor manufacturing sector affecting Entity C. Although it has met its obligations for interest payments, Entity C is seeking bankruptcy protection and is expected to default on its first repayment of principal. Negotiations are advanced with a potential acquirer (Entity D), which will restructure Entity C. Entity D has indicated that it will assume responsibility for the final instalment of the loan with Entity B, but not the initial instalment. National Government determines there has been a significant increase in credit risk since initial recognition of the financial guarantee contract and measures the loss allowance associated with the financial guarantee contract at an amount equal to the lifetime expected credit losses. National Government calculates the lifetime expected credit losses to be R25.5 million and recognises an expense for, and increases its liability by, R22.5 million (expected loss of R25 million on the first instalment, R500 000 on the final instalment, less remaining R3 million balance on financial guarantee).

The journal entries at initial acquisition and at the reporting dates are as follows:

On initial recognition, the entity recognises the following:

Dr		Bank	5 000	
Dr		Expense	4 995 000	
	Cr	Financial guarantee contract		5 000 000

2. Year 1: The entity recognises the following

Dr		Financial guarantee contract	1 000 000	
	Cr	Revenue		1 000 000

Revenue of R500 000 is recognised over a 5 year period

3. Year 2: The entity recognises the following:

Dr		Financial guarantee contract	1 000 000	
	Cr	Revenue		1 000 000

Revenue of R500 000 is recognised over a 5 year period

Dr		Expense	22 500 000	
	Cr	Financial guarantee contract		22 500 000

Lifetime expected credit losses of R25.5 million less R3 000 000 recognised as a liability

Example 25: Initial measurement: transaction costs

Transaction costs should be included in the initial measurement of financial assets and financial liabilities other than those are subsequently measured at fair value. How should this requirement be applied in practice?

For financial assets, incremental costs that are directly attributable to the acquisition of the asset (e.g. fees and commissions) are added to the amount originally recognised. For financial liabilities, directly related costs of issuing debt are deducted from the amount of debt originally recognised. For financial instruments that are measured at fair value, transaction costs are not added to the fair value measurement at initial recognition.

For financial instruments that are carried at amortised cost transaction costs are subsequently included in the calculation of amortised cost using the effective interest method and, in effect, amortised through surplus or deficit over the life of the instrument.

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

Derecognition of financial assets

Example 26: An entity sells a group of its accounts receivable to a bank at less than their face value. The entity continues to handle collections from the debtors on behalf of the bank, including sending monthly statements, and the bank pays the entity a market-rate fee for servicing the receivables. The entity is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. Would this arrangement result in the derecognition of the accounts receivable in accordance with this Standard?

In this case the entity has transferred substantially all of the risks and rewards of ownership of the receivables to the bank. Accordingly, it removes the receivables from its statement of financial position (i.e. it derecognises them), and shows no liability in respect of the proceeds received from the bank. The entity recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The entity recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example 27: The facts are the same as the preceding example except that the entity has agreed to buy back from the bank any receivables for which the debtor is in arrears as to principal or interest for more than 120 days. Would this arrangement result in the derecognition of the accounts receivable in accordance with this Standard?

In this case, the entity has retained the risk of slow payment or non-payment by the debtors — a significant risk with respect to receivables. Accordingly, the entity does not treat the receivables as having been sold to the bank and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The entity continues to recognise the receivables as an asset until they are collected or written off as uncollectible.

Example 28: What are some typical examples of arrangements where the requirements for the derecognition of assets are met or are not met?

(a) *Repurchase agreements and securities lending.* If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return, or if it is loaned under an agreement to return it to the transferor, it is not derecognised because the transferor retains substantially all the risks and rewards of ownership. If the transferee obtains the right to sell or pledge the asset the transferor reclassifies the asset in its statement of financial position, e.g. as a loaned asset or repurchase receivable.

(b) *Repurchase agreements and securities lending—assets that are substantially the same.* If a financial asset is sold under an agreement to repurchase the same asset, or substantially the same asset, at a fixed price or at the sale price plus a lender's return or

if a financial asset is borrowed or loaned under an agreement to return the same asset or substantially the same asset to the transferor, it is not derecognised because the transferor retains substantially all the risks and rewards of ownership.

(c) *Repurchase agreements and securities lending—right of substitution.* If a repurchase agreement at a fixed repurchase price or a price equal to the sale price plus a lender's return, or a similar securities lending transaction, provides the transferee with a right to substitute assets that are similar and of equal fair value to the transferred asset at the repurchase date, the asset sold or lent under a repurchase or securities lending transaction is not derecognised because the transferor retains substantially all the risks and rewards of ownership.

(d) *Repurchase right of first refusal at fair value.* If an entity sells a financial asset and retains only a right of first refusal to repurchase the transferred asset at fair value if the transferee subsequently sells it, the entity derecognises the asset because it has transferred substantially all the risks and rewards of ownership.

(e) *Wash sale transaction.* The repurchase of a financial asset shortly after it has been sold is sometimes referred to as a wash sale. Such a repurchase does not preclude derecognition provided that the original transaction met the derecognition requirements. However, if an agreement to sell a financial asset is entered into concurrently with an agreement to repurchase the same asset at a fixed price or the sale price plus a lender's return, then the asset is not derecognised.

(f) *Put options and call options that are deeply in the money.* If a transferred financial asset can be called back by the transferor and the call option is deeply in the money, the transfer does not qualify for derecognition as the transferor has retained substantially all the risks and rewards of ownership. Similarly, if the financial asset can be put back by the transferee and the put option is deeply in the money, the transfer does not qualify for derecognition as the transferor has retained substantially all the risks and rewards of ownership.

(g) *Put options and call options that are deeply out of the money.* A financial asset that is transferred subject only to a deep out-of-the-money put option held by the transferee or a deep out-of-the-money call option held by the transferor is derecognised. This is because the transferor has transferred substantially all the risks and rewards of ownership.

(h) *Readily obtainable assets subject to a call option that is neither deeply in the money nor deeply out of the money*. If an entity holds a call option on an asset that is readily obtainable in the market and the option is neither deeply in the money nor deeply out of the money, the asset is derecognised. This is because the entity (i) has neither retained nor transferred substantially all the risks and rewards of ownership, and (ii) has not retained control. However, if the asset is not readily obtainable in the market,

derecognition is precluded to the extent of the amount of the asset that is subject to the call option because the entity has retained control of the asset.

(i) *A not readily obtainable asset subject to a put option written by an entity that is neither deeply in the money nor deeply out of the money.* If an entity transfers a financial asset that is not readily obtainable in the market, and writes a put option that is not deeply out of the money, the entity neither retains nor transfers substantially all the risks and rewards of ownership because of the written put option. The entity retains control of the asset if the put option is sufficiently valuable to prevent the transferee from selling the asset. The entity transfers control of the asset if the put option is not sufficiently valuable to prevent the transferee from selling the asset, in which case the asset is derecognised.

(j) *Assets subject to a fair value put or call option or a forward repurchase agreement.* A transfer of a financial asset that is subject only to a put or call option or a forward repurchase agreement that has an exercise or repurchase price equal to the fair value of the financial asset at the time of repurchase results in derecognition because of the transfer of substantially all the risks and rewards of ownership.

(k) *Cash settled call or put options.* An entity evaluates the transfer of a financial asset that is subject to a put or call option or a forward repurchase agreement that will be settled net in cash to determine whether it has retained or transferred substantially all the risks and rewards of ownership. If the entity has not retained substantially all the risks and rewards of ownership of the transferred asset, it determines whether it has retained control of the transferred asset. That the put or the call or the forward repurchase agreement is settled net in cash does not automatically mean that the entity has transferred control (see paragraphs AG6.10 ~~AG139~~. and (g), (h) and (i) above).

(l) *Subordinated retained interests and credit guarantees.* An entity may provide the transferee with credit enhancement by subordinating some or all of its interest retained in the transferred asset. Alternatively, an entity may provide the transferee with credit enhancement in the form of a credit guarantee that could be unlimited or limited to a specified amount. If the entity retains substantially all the risks and rewards of ownership of the transferred asset, the asset continues to be recognised in its entirety. If the entity retains some, but not substantially all, of the risks and rewards of ownership and has retained control, derecognition is precluded to the extent of the amount of cash or other assets that the entity could be required to pay.

(m) *Total return swaps.* An entity may sell a financial asset to a transferee and enter into a total return swap with the transferee, whereby all of the interest payment cash flows from the underlying asset are remitted to the entity in exchange for a fixed payment or variable rate payment and any increases or declines in the fair value of the underlying asset are absorbed by the entity. In such a case, derecognition of all of the asset is prohibited.

(n) *Interest rate swaps.* An entity may transfer to a transferee a fixed rate financial asset and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount that is equal to the principal amount of the transferred financial asset. The interest rate swap does not preclude derecognition of the transferred asset provided the payments on the swap are not conditional on payments being made on the transferred asset.

Disclosure of financial instruments

Examples 29: Classes of instruments and level of disclosure

Paragraph AG8.4 states that "an entity decides in the light of its circumstances how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining with different characteristics". To satisfy the requirements, an entity may not need to disclose all the information suggested in this guidance.

Paragraph .19(c) of GRAP 1 requires an entity to provide additional disclosures when compliance with the specific requirements in the Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Example 30: Are defaults and breaches of loans only disclosed in accordance with this Standard?

No. This Standard requires the disclosure of any defaults or breaches of loans payable. Any defaults and breaches may affect the current/non-current classification of these loans.

Example 31: How is total interest expense presented in the statement of financial performance?

The total interest expense is disclosed as a component of finance costs, for which GRAP 1 requires that these costs be presented separately in the statement of financial performance. The line item for finance costs may also include amounts that arise on non-financial assets or non-financial liabilities.

Example 32: How does an entity disclose the differences between fair value on initial recognition and subsequent measurement, when a valuation technique is used?

The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG5.42. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in surplus or deficit in subsequent periods in accordance with this Standard (if for example, the instrument is a concessionary loan) or the

entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG5.53). An entity might disclose the following:

Background

On 1 January 20X8 an entity purchases for R15-million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of R15-million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to establish the financial assets' fair value. This valuation technique includes variables other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of R14-million, which differs from fair value by R1-million.

The entity has existing differences of R5-million at 1 January 20X8.

Application of requirements

The entity's 20X9 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to determine the fair value of financial instruments that are not traded in an active market: [description of technique not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with this Standard, is generally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with this Standard, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy].

The differences yet to be recognised in surplus or deficit are as follows:

	31 March 20X9	31 March 20X8
	R million	R million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognised in surplus or deficit during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	4.5	5.3

Example 33: What would typically be disclosed for the qualitative disclosures required in paragraph 8.39?

The type of qualitative information an entity might disclose to meet the requirements in paragraph 8.39 includes, but is not limited to, a narrative description of:

(a) the entity's exposures to risk and how they arose. Information about risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions.

(b) the entity's policies and processes for accepting, measuring, monitoring and controlling risk, which might include:

  (i) the structure and organisation of the entity's risk management function(s), including a discussion of independence and accountability;

  (ii) the scope and nature of the entity's risk reporting or measurement systems;

  (iii) the entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral.

(c) the entity's policies and procedures for avoiding excessive concentrations of risk.

Information about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.

In accordance with paragraph 8.39(c), entities disclose any change in the qualitative information from the previous period and explain the reasons for the change. Such changes may result from changes in exposure to risk or from changes in the way those exposures are managed.

Example 34: What would typically be disclosed for the quantitative disclosures required in paragraph 8.40?

Paragraph 8.40 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from the following.

(a) Sectors. Thus, if an entity's counterparties are concentrated in one or more sectors (such as household consumers and businesses) it would disclose separately exposure to risks arising from each concentration of counterparties.

(b) Credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans/credit or unsecured loans/credit) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.

(c) Geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical areas (such as areas within a municipality) it would disclose separately exposure to risks arising from each concentration of counterparties.

(d) A limited number of individual counterparties or groups of closely related counterparties.

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

In accordance with paragraph AG8.7, disclosure of concentrations of risk includes a description of the shared characteristic that identifies each concentration. For example, the shared characteristic may refer to geographical distribution of counterparties.

When quantitative information at the end of the reporting period is unrepresentative of the entity's exposure to risk during the period, paragraph 8.40 requires further disclosure. To meet this requirement, an entity might disclose the highest, lowest and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures.

Example 35: What are possible ways of disclosing information on credit risk?

The following examples illustrate possible ways in which an entity might provide the disclosures required by paragraphs 8.42-8.55. However, these illustrations do not address all possible ways of applying the disclosure requirements.

Illustrating the application of paragraphs 8.49 and 8.50

The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 8.49 to 8.50. This example does not illustrate the requirements for financial assets that are purchased or originated credit impaired.

Technology Agency X provides loans to advance innovation in a number of areas.

Area X– loss allowance	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
	R'000	**R'000**	**R'000**	**R'000**
Loss allowance as at 1 April	**X**	**X**	**X**	**X**
Changes due to financial instruments recognised as at 1 April				
Transfers to lifetime expected credit losses	-X	X	X	-
Transfer to credit-impaired financial assets	-X	-	-X	X
Transfers to 12-month expected credit losses	X	-X	-X	-
Financial assets derecognised during the period	-X	-X	-X	-X
New financial assets originated or purchased	X	-	-	-
Write-offs	-	-	-X	-X
Changes in models/risk parameters	X	X	X	X
Foreign exchange and other movements	X	X	X	X
Loss allowance at 31 March	**X**	**X**	**X**	**X**

Significant changes in the gross carrying amount of loans for activity X that contributed to changes in the loss allowance were:

> The acquisition of entity X increased the residential mortgage book by x per cent, with a corresponding increase in the loss allowance measured on a 12-month basis.

The write off of the RXX DEF portfolio following the collapse of the market for product X reduced the loss allowance for financial assets with objective evidence of impairment by RX.

The expected downturn in the economy in region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of RX in the lifetime expected credit losses allowance.

The significant changes in the gross carrying amount of mortgage loans are further explained below:

Area X – gross carrying amount	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
	R'000	**R'000**	**R'000**	**R'000**
Gross carrying amount as at 1 April	**X**	**X**	**X**	**X**
Individual financial assets transferred to lifetime expected credit losses	-X	-	X	-
Individual financial assets transferred to credit impaired financial assets	-X	-	-X	X
Individual financial assets transferred from credit-impaired financial assets	X	-	X	-X
Financial assets assessed on a collective basis	-X	X	-	-
New financial assets originated or purchased	X	-	-	-
Write-offs	-	-	-X	-X
Financial assets that have been derecognised	-X	-X	-X	-X
Changes due to modification that did not result in derecognition	-X	-	-X	-X
Other changes	X	X	X	X
Gross carrying amount as at 31 March	**X**	**X**	**X**	**X**

Illustrating the application of paragraphs 8.54 and 8.55

The following example illustrates some ways of providing information about an entity's credit risk exposure and significant credit risk concentrations in accordance with paragraph 8.54. The number of grades used to disclose the information in accordance with paragraph 8.54 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in

accordance with paragraph 5.26, the entity shall provide an analysis by past due status for those financial assets.

Start-up credit risk exposure by internal rating grades				
R'000	**Activity X**		**Activity Y**	
	Gross carrying amount		**Gross carrying amount**	
	Lifetime	**12-month**	**Lifetime**	**12-month**
Internal grade 1-2	X	X	X	X
Internal grade 3-4	X	X	X	X
Internal grade 5-6	X	X	X	X
Internal grade 7	X	X	X	X
Total	**X**	**X**	**X**	**X**
Established corporation credit risk profile by external rating grades	**Corporate – activity X**		**Corporate – activity Y construction**	
	Gross carrying amount		**Gross carrying amount**	
	Lifetime	**12-month**	**Lifetime**	**12-month**
R'000				
AAA-AA	X	X	X	X
A	X	X	X	X
BBB-BB	X	X	X	X
B	X	X	X	X
CCC-CC	X	X	X	X
C	X	X	X	X
D	X	X	X	X
Total	**X**	**X**	**X**	**X**
Established corporation risk profile by probability of default				
R'000	**X**	**X**	**X**	**X**
0.000-0.10	**X**	**X**	**X**	**X**
0.11-0.40	**X**	**X**	**X**	**X**
0.41-1.00	**X**	**X**	**X**	**X**
1.01-3.00	**X**	**X**	**X**	**X**
3.01-6.00	**X**	**X**	**X**	**X**
6.01-11.00	**X**	**X**	**X**	**X**

11.01-17.00	**X**	**X**	**X**	**X**
17.01-25.00	**X**	**X**	**X**	**X**
25.01-50.00	**X**	**X**	**X**	**X**
50.01+	**X**	**X**	**X**	**X**

Entity A provides goods and services to both households and corporate customers. Entity A discloses its household and corporate customers separate classes of financial instruments and applies the simplified approach to its receivables so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

R'000	**Trade receivables days past due**				
	Current	**More than 30 days**	**More than 60 days**	**More than 90 days**	**Total**
Household					
Expected credit loss rate	10%	2%	5%	13%	
Estimated total gross carrying amount at default	20,777	1,416	673	235	23,101
Lifetime expected credit losses	21	28	34	31	114
Corporate					
Expected credit loss rate	20%	3%	8%	15%	
Estimated total gross carrying amount at default	19,222	2,010	301	154	21,687
Lifetime expected credit losses	38	60	24	23	145

Paragraph 8.56 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that loans to state-owned entities, corporates and other governments each have different economic characteristics.

Example 36: What should an entity disclose about collateral and other credit enhancements held?

Paragraph 8.56(b) requires an entity to describe collateral available as security for assets it holds and other credit enhancements obtained. An entity might meet this requirement by disclosing:

(a) the policies and processes for valuing and managing collateral and other credit enhancements obtained;

(b) a description of the main types of collateal and other credit enhancements (examples of the latter being guarantees, credit derivatives, and netting arrangements that do not quality for offset);

(c) the main types of counterparties to collateral and other credit enhancements and their creditworthiness; and

(d) information about risk concentrations within the collateral or other credit enhancements.

Example 37: What are possible ways of presenting the disclosures on liquidity risk?

The following examples illustrate how an entity might meet the disclosure requirement in paragraph 8.58(a).

Illustrating the application of paragraph 8.58(a)

Undiscounted cash flows: Non-derivative financial liabilities								
	Maturity							
	Total	**Less than 1 month**	**1-3 months**	**3-6 months**	**6 months – 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Bank borrowings	1,625	-	-	-	285	740	600	-
Lease liabilities	2,300	70	140	210	400	750	620	110
Payables	350	70	190	90	-	-	-	-

Illustrating the application of paragraph 8.58(a)

Undiscounted cash flows: Non-derivative financial liabilities									
	Maturity								
	Total	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5-7 years**	**7-10 years**	**More than 10 years**
Bank borrowings	3,100	40	300	38	280	2,442	-	-	-
Lease liabilities	4,400	500	500	480	430	430	790	800	470
Payables	95	95	-	-	-	-	-	-	-

Illustrating the application of paragraph 8.58(a)

Undiscounted cash flows: Non-derivative financial liabilities							
	Maturity						
	Total	**Less than 1 month**	**1-6 months**	**6 months-1 year**	**1-2 years**	**2-3 years**	**More than 3 years**
Bonds							-
Lease liabilities(1)	4,400	500	500	480	430	430	790
Payables	95	95	-	-	-	-	-

(1) Further information about the maturity of lease liabilities is provided in the table below.

Maturity							
	Total	**Less than 1 year**	**1-5 years**	**5-10 years**	**10-15 years**	**15-20 years**	**20-25 years**
Lease liabilities	4,970	340	1,200	1,110	1,050	970	300

Example 38: Is the market sensitivity required, and what information should be presented in this analysis?

Market sensitivity

Paragraph 8.58(a) only requires the disclosure of a sensitivity analysis for each significant type of market risk to which the entity is exposed. There are three types of market risk: interest rate risk, currency risk and other price risk. Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (i.e. the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk. Risk variables that are relevant to disclosing market risk include, but are not limited to:

(a) the yield curve of market interest rates.

(b) foreign exchange rates.

(c) prices of equity instruments.

(d) market prices of commodities.

Paragraph 8.58(a) requires the sensitivity analysis to show the effect on surplus or deficit of reasonably possible changes in the relevant risk variable. For example, relevant risk variables might include:

(a) prevailing market interest rates, for interest-sensitive financial instruments such as a variable-rate loan; or

(b) currency rates and interest rates, for foreign currency financial instruments such as foreign currency bonds.

For interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:

(a) interest revenue and expense; and

(b) other line items of surplus or deficit.

An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk.

As the factors affecting market risk vary depending on the specific circumstances of each entity, the appropriate range to be considered in providing a sensitivity analysis of market risk varies for each entity and for each type of market risk.

The following example illustrates the application of the disclosure requirement in paragraph 8.58(a):

Interest rate risk

At 31 March 20X8, if interest rates at that date had been 10 basis points lower with all other variables held constant, surplus for the year would have been R1.7-million (20X7 — R2.4-million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, surplus or deficit would have been R1.5-million (20X7 — R2.1-million) lower, arising mainly as a result of higher interest expense on variable borrowings. Surplus is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X8 than in 20X7 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X).

Foreign currency exchange rate risk

At 31 March 20X8, if the Rand had weakened 10% against the US dollar with all other variables held constant, surplus for the year would have been R2.8-million (20X7 — R6.4 million) lower. Conversely, if the Rand had strengthened 10% against the US dollar with all other variables held constant, surplus would have been R2.8-million (20X7—R6.4-million) higher. The lower foreign currency exchange rate sensitivity in surplus in 20X8 compared with 20X7 is attributable to a reduction in foreign currency denominated debt.

Example 39: How should information be disclosed about the offsetting of arrangements?

Disclosures (paragraphs 8.14-8.19 and AG8.38-AG8.51)

The following examples illustrate ways in which an entity might provide the quantitative disclosures required by paragraph 8.16. However, these illustrations do not address all possible ways of applying the disclosure requirements as set out in paragraphs 8.15 to 8.18.

Background

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties. The entity has the following recognised financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 8.14.

Counterparty A:

The entity has a derivative asset (fair value of R100 million) and a derivative liability (fair value of R80 million) with Counterparty A that meet the offsetting criteria in paragraph 7.9. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of R20 million in the entity's statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (R10 million). The cash collateral of R10 million does not meet the offsetting criteria in paragraph 7.9, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty B:

The entity has a derivative asset (fair value of R100 million) and a derivative liability (fair value of R80 million) with Counterparty B that do not meet the offsetting criteria in paragraph 7.9, but which the entity has the right to set off in the case of default and insolvency or bankruptcy. Consequently, the gross amount of the derivative asset (R100 million) and the gross amount of the derivative liability (R80 million) are presented separately in the entity's statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (R20 million). The cash collateral of R20 million does not meet the offsetting criteria in paragraph 7.9, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty C:

The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralised borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is R79 million and their fair value is R85 million. The carrying amount of the collateralised borrowing (repo payable) is R80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralised lending. The fair value of the financial assets (bonds) received as collateral (and not recognised in the entity's statement of financial position) is R105 million. The carrying amount of the collateralised lending (reverse repo receivable) is R90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in paragraph 7.9. Consequently, the related repo payable and repo receivable are presented separately in the entity's statement of financial position.

Illustrating the application of paragraph 8.16(a)–(e) by type of financial instrument

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Rmillion						
As at 31 March 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**	**(d)**		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets	**Gross amounts of recognised financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Description						
Derivatives	200	(80)	120	(80)	(30)	10

Reverse repurchase, securities borrowing and similar agreements	90	–	90	(90)	–	–
Other financial instruments	–	–	–	–	–	–
Total	290	(80)	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Rmillion						
As at 31 March 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**	**(d)**		**(e)=(c)-(d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets set off in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral pledged**	**Net amount**
Description						
Derivatives	160	(80)	80	(80)	–	–
Repurchase, securities lending and similar agreements	80	–	80	(80)	–	–
Other financial instruments	–	–	–	–	–	–
Total	240	(80)	160	(160)	–	–

Illustrating the application of paragraph 8.16(a)–(c) by type of financial instrument and paragraph 8.16 (c)–(e) by counterparty

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Rmillion			
As at 31 March 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**
	Gross amounts of recognised financial assets	**Gross amounts of recognised financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**
Description			
Derivatives	200	(80)	120
Reverse repurchase, securities borrowing and similar agreements	90	–	90
Other financial instruments	–	–	–
Total	290	(80)	210

Net financial assets subject to enforceable master netting arrangements and similar agreements, by counterparty

Rmillion				
As at 31 March 20XX	**(c)**	**(d)**		**(e)=(c)-(d)**
		Related amounts not set off in the statement of financial position		
	Net amounts of financial assets presented in the statement of financial position	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Counterparty A	20	–	(10)	10
Counterparty B	100	(80)	(20)	–

Counterparty C	90	(90)	–	–
Other	–	–	–	–
Total	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Rmillion			
As at 31 March 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**
	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets set off in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**
Description			
Derivatives	160	(80)	80
Repurchase, securities lending and similar agreements	80	–	80
Other financial instruments	–	–	–
Total	240	(80)	160

Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

Rmillion			
As at 31 March 20XX	**(c)**	**(d)**	**(e)=(c)-(d)**
		Related amounts not set off in the statement of financial position	

	Net amounts of financial liabilities presented in the statement of financial position	(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral pledged	Net amount
Counterparty A	–	–	–	–
Counterparty B	80	(80)	–	–
Counterparty C	80	(80)	–	–
Other	–	–	–	–
Total	160	(160)	–	–

ANNEXURE - SUMMARY OF THE APPLICATION OF THE STANDARD OF GRAP ON FINANCIAL INSTRUMENTS

This summary is for illustrative purposes only and does not form part of this ~~the~~ Standard. The purpose of this summary is to explain the interaction between this Standard and other Standards, where a specific transaction is subject to recognition, measurement, derecognition, presentation and disclosure requirements of more than one Standard. The 'X' in a particular column indicates that the requirements of this ~~the~~ Standard ~~of GRAP on Financial Instruments~~ are applicable to that transaction.

Transaction	Recognition	Measurement		Derecognition	Presentation	Disclosure
		Initial	Subsequent			
Residual interests						
Issuer of a residual interest	**X**				**X**	
Holder of a residual interest in a controlled entity, joint venture or associate (where investment measured at fair value in separate financial statements accordance with paragraph .59(b) in GRAP 6)	**X**	**X**	**X**	**X**	**X**	**X**
Holder of a residual interest (not an interest in a controlled entity, joint venture or associate)	**X**	**X**	**X**	**X**	**X**	**X**

Leases						
Lessor: operating lease receivables (disclosure of portion currently due)			**X (Impairment provisions)**		**X**	**X**
Lessee: operating lease liabilities (disclosure of portion currently due)					**X**	**X**
Lessor: finance lease			**X (Impairment provisions)**		**X**	**X**
Lessee: finance lease				**X**	**X**	**X**
Embedded derivatives in lease contracts (either operating or finance, and from the perspective of lessors and lessees)	**X**	**X**	**X**	**X**	**X**	**X**
Insurance contracts						
Financial guarantees	**X**	**X**	**X**	**X**	**X**	**X**
Embedded derivatives in any insurance contract	**X**	**X**	**X**	**X**	**X**	**X**
Insurance contracts with discretionary participation features (see IFRS 4 Appendix A)	**X (Classification between liabilities and residual interests)**				**X**	**X**

Loan commitments						
Loan commitments at a below market interest rate	**X**	**X**	**X**	**X**	**X**	**X**
Loan commitments that are settled net in cash or another financial instrument	**X**	**X**	**X**	**X**	**X**	**X**
Loan commitments that are designated at fair value on initial recognition	**X**	**X**	**X**	**X**	**X**	**X**
Other loan commitments, e.g. those granted on normal market terms (and the resulting loan will be measured at amortised cost)				**X**	**X**	**X**
Non-exchange revenue transactions						
Monetary assets and monetary liabilities arising out of contractual non-exchange revenue transactions			**X**	**X**	**X**	**X**