ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

FINANCIAL INSTRUMENTS

(GRAP 104)

Issued by the
Accounting Standards Board

October 2009

Acknowledgement

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Standard of Generally Recognised Accounting Practice

Financial instruments

FINANCIAL INSTRUMENTS

This Standard was originally issued by the Accounting Standards Board (the Board) in October 2009. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Improvements to the Standards of GRAP, issued by the Board in April 2017.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 32 *Service Concession Arrangements: Grantor*
  - GRAP 108 *Statutory Receivables*
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 37 *Joint Arrangements*
- Consequential amendments when the *Amendments to GRAP 1 Presentation of Financial Statements* as part of the project on *Materiality* became effective.
- Consequential amendments when the following Standard of GRAP became effective:
  - GRAP 35 *Employee Benefits*

Introduction

This pronouncement is set out in paragraphs .01 to .137D. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except:

(a) the recognition and measurement of financial instruments issued by the entity that meets the definition of a residual interest;

(b) employers' rights and obligations under employee benefit plans, to which the Standard of GRAP on Employee Benefits applies;

(c) rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19), or for which, in an earlier period, it recognised a provision in accordance with that Standard; and

(d) the initial recognition and initial measurement of financial instruments acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control), a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106)) or a merger (see the Standard of GRAP on Mergers).

.03 This Standard does not apply to the following instruments, except where indicated otherwise:

(a) Interests in controlled entities, associates or joint ventures that are held by an entity and accounted for in accordance with the Standards of GRAP on Consolidated Financial Statements (GRAP 35), Investments in Associates and Joint Ventures (GRAP 36). An entity shall apply this Standard to an interest in a controlled entity, associate or joint venture which, according to GRAP 35 or GRAP 36, is accounted for under this Standard. Entities shall also apply this Standard to derivatives on an interest in a controlled entity, associate or joint venture (see Appendix A paragraphs AG2. and AG3.).

(b) Any forward contracts between an acquirer and a seller to buy or sell an acquiree that will result in an entity combination at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to

complete the transaction.

(c) Rights and obligations under leases to which the Standard of GRAP on Leases (GRAP 13) applies. However:

(i) lease receivables recognised by a lessor are subject to the impairment, derecognition, presentation and disclosure provisions of this Standard (see paragraphs .57 to .79, .84 to .133 and Appendix A paragraphs AG120. to AG143., and AG151. to AG180.);

(ii) finance lease payables recognised by a lessee are subject to the derecognition, presentation and disclosure provisions of this Standard (see paragraphs .80 to.133 and Appendix A paragraphs AG144. to AG180.); and

(iii) derivatives that are embedded in leases are subject to the embedded derivatives provisions of this Standard (see paragraphs .18 to .22 and Appendix A paragraphs AG58. to AG68.). Where an embedded derivative is separated from a lease, the presentation and disclosure requirements of this Standard also apply to the derivative (see paragraphs .84 to .133 and Appendix A paragraphs AG151. to AG180.).

(d) Insurance contracts as defined in the IFRS Accounting Standard(s) on insurance. This Standard shall, however, apply to:

(i) derivatives that are embedded in insurance contracts if this Standard requires the entity to account for them separately; and

(ii) the presentation and disclosure of financial instruments that are within the scope of the IFRS Accounting Standard(s) on insurance since they contain a discretionary participation feature (see paragraphs .84 to .133 and Appendix A paragraphs AG151. to AG180.).

(e) Financial guarantee contracts that are issued by an entity and recognised, measured and/or disclosed in accordance with GRAP 19. The derecognition and disclosure requirements of this Standard apply to all financial guarantees issued by an entity (see paragraphs .80 to .133 and Appendix A paragraphs AG4. to AG7., and AG144. to AG180.).

(f) Loan commitments that are issued by an entity and recognised, measured and/or disclosed in accordance with GRAP 19. All loan commitments are subject to the derecognition and disclosure provisions of this Standard (see paragraphs .80 to .133 and Appendix A paragraphs AG8. to AG10., and AG144. to AG180.).

(g) Contractual rights and obligations arising from non-exchange revenue transactions to which the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23) applies.

However, receivables and payables recognised by an entity as a result of contractual non-exchange revenue transactions are subject to the subsequent measurement, derecognition, presentation and disclosure requirements of this Standard.

(h) Rights and obligations under service concession arrangements to which the Standard of GRAP on Service Concession Arrangements: Grantor (GRAP 32) applies. However, financial liabilities recognised by a grantor under the financial liability model are subject to the provisions of this Standard (see paragraphs .36, .45 to .50 and Appendix A paragraphs AG80. to AG89.).

(i) Statutory receivables as defined in the Standard of GRAP on Statutory Receivables (GRAP 108).

.04 This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

.05 An entity is permitted in terms of this Standard to apply hedge accounting as described in IFRS® Accounting Standards. Where an entity chooses to apply hedge accounting, it must comply in full with the requirements for hedge accounting prescribed in IFRS Accounting Standards.

Residual interests

.06 Residual interests are those contracts that represent an entitlement to the net assets of an entity. This Standard does not establish principles for the recognition and measurement for the issuer of a residual interest. However, issuers of a residual interest are required to apply paragraphs .25 to .35 and paragraphs .84 to .91.

.07 In their separate financial statements, holders of a residual interest are required to apply all the requirements of this Standard, unless they hold residual interests that are an investment in a controlled entity, associate or joint venture, and that investment is measured at cost in their separate financial statements in accordance with GRAP 35 and GRAP 36.

Financial guarantee contracts (see Appendix A paragraphs AG4. to AG7.)

.08 Entities frequently guarantee the debt of other entities or employees. Obligations from financial guarantee contracts are recognised, measured and/or disclosed in accordance with GRAP 19 and derecognised in accordance with this Standard. As financial guarantee contracts expose an entity to certain financial risks, the disclosure requirements of this Standard also apply to such contracts.

Loan commitments (see Appendix A paragraphs AG8. to AG10.)

.09 Loan commitments are commitments to provide credit, in the form of a loan, under pre-specified terms and conditions. Obligations arising from loan commitments are recognised, measured and/or disclosed in accordance with GRAP 19 and derecognised in accordance with this Standard. Since loan commitments expose an entity to certain financial risks, the disclosure requirements of this Standard also apply to such contracts.

Rights and obligations arising from non-exchange revenue transactions (see Appendix A paragraphs AG28. to AG32.)

.10 Contractual rights and obligations under non-exchange revenue transactions may give rise to receivables and payables that meet the definition of financial assets and financial liabilities. These receivables and payables are initially recognised and initially measured in accordance with GRAP 23 and subsequently measured, derecognised, presented and disclosed in accordance with this Standard.

Contracts to buy or sell non-financial items (see Appendix A paragraphs AG11. to AG14.)

.11 There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

(a) when the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;

(b) when the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

(c) when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price; and

(d) when the non-financial item that is the subject of the contract is readily convertible to cash.

A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements, and is thus within the scope of this Standard. Other contracts to which paragraph .04 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirement, and accordingly, whether they are within the scope of this Standard.

.12 A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraphs .11(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Definitions (see Appendix A paragraphs AG15. to AG68.)

.13 The following terms are used in this Standard with the meanings specified:

The <u>amortised cost</u> of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A <u>concessionary loan</u> is a loan granted to or received by an entity on terms that are not market related.

<u>Credit risk</u> is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

<u>Currency risk</u> is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

<u>Derecognition</u> is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A <u>derivative</u> is a financial instrument or other contract within the scope of this Standard (see paragraphs .02 to .12) 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.

(c) It is settled at a future date.

(See Appendix A paragraphs AG46. to AG54.)

The <u>effective interest method</u> is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions (GRAP 9)), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

(See Appendix A paragraphs AG42. to AG45.)

<u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A <u>financial asset</u> is:

(a) cash;

(b) a residual interest of another entity; or

(c) a contractual right to:

- ***(i) receive cash or another financial asset from another entity; or***
- ***(ii) exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.***

(See Appendix A paragraphs AG15. to AG32.)

A <u>financial guarantee contract</u> is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A <u>financial instrument</u> is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

(See Appendix A paragraphs AG15. to AG32.)

A financial liability is any liability that is a contractual obligation to:

(a) deliver cash or another financial asset to another entity; or

(b) exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

(See Appendix A paragraphs AG15. to AG32.)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

(a) equity instruments or similar forms of unitised capital;

(b) a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

(c) a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

(See Appendix A paragraphs AG55. to AG56.)

<u>Transaction costs</u> are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see Appendix A paragraph AG57.). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

.14 The following categories of financial instruments are defined and used in this Standard with the meanings specified:

<u>Financial instruments at amortised cost</u> are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

(a) the entity designates at fair value at initial recognition in accordance with paragraph .17; or

(b) are held for trading.

(See Appendix A paragraphs AG33. to AG41.)

<u>Financial instruments at cost</u> are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

<u>Financial instruments at fair value</u> comprise financial assets or financial liabilities that are:

(a) derivatives;

(aA) contingent consideration of an acquirer in a transfer of functions between entities not under common control to which GRAP 106 applies;

(b) combined instruments that are designated at fair value in accordance with paragraphs .20 or .21;

(c) instruments held for trading. A financial instrument is held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or

(ii) on initial recognition 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;

(d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition in accordance with paragraph .17; and

(e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

(See Appendix A paragraphs AG33. to AG41.)

.15 In this Standard, "entity" includes, amongst others, individuals, partnerships, incorporated bodies, trusts and organs of state.

Contractual arrangements

.16 In this Standard, "contract" and "contractual" refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

Option to designate a financial asset or a financial liability at fair value

.17 At initial recognition, an entity may designate a non-derivative financial instrument with fixed or determinable payment at fair value under the following circumstances:

(a) It may designate non-derivative financial assets with fixed or determinable payments at fair value. An entity is required to disclose the criteria used to make such a designation in its accounting policies.

(b) It may only designate non-derivative financial liabilities with fixed or determinable payment at fair value if such a designation eliminates or significantly reduces a measurement or recognition inconsistency (referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases.

Embedded derivatives **(see Appendix A paragraphs AG58. to AG68.)**

.18 An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract — with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to 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. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

.19 An embedded derivative shall be separated from the host contract and

accounted for as a derivative under this Standard if, and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract (see Appendix A paragraphs AG61. and AG64.);

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid (combined) instrument is not measured at fair value (i.e. a derivative that is embedded in a financial instrument at fair value is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under this Standard if it is a financial instrument, and in accordance with other appropriate Standards if it is not a financial instrument. This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.

.20 Notwithstanding paragraph .19, if a contract contains a host contract that is a financial instrument and one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract to be measured at fair value unless:

(a) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

(b) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

.21 If an entity is required by this Standard to separate an embedded derivative from its host contract, but is unable to measure reliably the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid (combined) contract as at fair value. This designation can only be applied if the host contract is a financial instrument.

.22 Where an entity is required by this Standard to separate an embedded derivative from a host contract that is a financial instrument, it measures the embedded derivative at fair value and the host at amortised cost or cost (unless it applies the designation in paragraph .20). If an entity cannot reliably measure the fair value of the embedded derivative either at initial recognition or during the life of the instrument, it measures the entire combined instrument at fair value. Where the fair value of the embedded derivative cannot be determined at subsequent reporting dates, this may require a reclassification of the host contract from amortised cost or cost to fair value (see paragraphs .51 to .54 on reclassifications).

Initial recognition

.23 An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument (see Appendix A paragraphs AG78. and AG79.).

.24 An entity recognises financial assets using trade date accounting.

Distinguishing liabilities and residual interests (see Appendix A paragraphs AG69. to AG71.)

.25 The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or residual interest in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and a residual interest.

.26 When an issuer applies the definitions in paragraph .13 to determine whether a financial instrument is a residual interest rather than a financial liability, the instrument is a residual interest if, and only if, the instrument includes no contractual obligation to:

(a) deliver cash or another financial asset to another entity; or

(b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

No contractual obligation to deliver cash or another financial asset

.27 A critical feature in differentiating a financial liability from a residual interest is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder), or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. Although the holder of a residual interest may be entitled to receive a pro rata share of any dividends or similar distributions, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.

.28 The substance of a financial instrument, rather than its legal form, governs its classification on the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of a residual interest but are liabilities in substance. Others may combine features associated with residual interests and features associated with financial liabilities. For example:

(a) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability;

(b) a financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability. This is so even when the amount of cash or other financial asset is determined on the basis of an index or other item that has the potential to increase or decrease, or when the legal form of the puttable instrument gives the holder a right to a residual interest in the assets of an issuer. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability. For example, preference shares that grant holders a right to redeem their interests in the issuer at any time for cash equal to their proportionate share of the asset value of the issuer; or

(c) a financial instrument that requires the issuer to settle an obligation in cash or another financial instrument only in the event of liquidation of the issuer, is a residual interest.

.29 If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. For example:

(a) a restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument; or

(b) a contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.

.30 A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example, a financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

Compound financial instruments (see Appendix A paragraphs AG72. to AG77.)

.31 The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and residual interest component. Such components shall be classified separately

as financial liabilities, financial assets or residual interests in accordance with paragraph .25.

.32 An entity recognises separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into a residual interest of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and a residual interest (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). Accordingly, in all cases, the entity presents the liability and residual interest components separately in its statement of financial position.

.33 Classification of the liability and residual interest components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity's contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument or some other transaction.

.34 This Standard deals with the measurement of financial assets and financial liabilities. Residual interests evidence an interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its residual interest and liability components, the residual interest component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount determined separately for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the residual interest component (such as an equity conversion option) is included in the liability component. The sum of the carrying amounts assigned to the liability and residual interest components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

.35 Under the approach described in paragraph .34, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated residual interest component. The carrying amount of the residual interest represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

Initial measurement of financial assets and financial liabilities

.36 ***When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (see Appendix A paragraphs AG80. to AG89.).***

Concessionary loans (see Appendix A paragraphs AG90. to AG96.)

.37 ***An entity first assesses whether the substance of a concessionary loan is in fact a loan by applying the principles in paragraphs .25 to .35. On initial recognition, an entity analyses a concessionary loan into its component parts and accounts for each component separately. An entity accounts for that part of a concessionary loan that is:***

(a) a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements[2], where it is the issuer of the loan; or

(b) non-exchange revenue, in accordance with GRAP 23, where it is the recipient of the loan.

.38 The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received.

.39 After initial recognition, an entity measures concessionary loans in accordance with paragraph .45.

Concessionary loans granted

.40 Concessionary loans may be granted to entities for a number of social or economic reasons. For example, the department of agriculture may grant loans to emerging farmers on flexible terms as a means of promoting economic growth. The terms of concessionary loans are not market related and may provide flexible repayment terms, may grant payment holidays, or may not require the repayment of part or all of the capital advanced.

.41 Where an entity grants concessionary loans it shall consider whether part of the consideration granted is a social benefit. Social benefits are defined broadly as cash transfers paid to individuals and households in a non-exchange transaction to

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

protect them against certain social risks.

.42 An entity accounts for the components of a concessionary loan granted separately. The loan is recognised as a financial asset, while any social benefit is accounted for in accordance with the *Framework for the Preparation and Presentation of Financial Statements*[2].

Concessionary loans received

.43 An entity may receive concessionary loans for a variety of reasons. For example, an entity may receive a concessionary loan as development assistance from a multi-lateral agency.

.44 An entity assesses on initial recognition whether part of the consideration received as a concessionary loan comprises non-exchange revenue. The entity accounts for the loan as a financial liability and non-exchange revenue in accordance with GRAP 23.

Subsequent measurement of financial assets and financial liabilities

.45 An entity shall measure all financial assets and financial liabilities after initial recognition using the following categories defined in paragraph .14:

(a) Financial instruments at fair value (see Appendix A paragraphs AG98. to AG112.).

(b) Financial instruments at amortised cost (see Appendix A paragraphs AG113. to AG114. and AG120. to AG129.).

(c) Financial instruments at cost.

.46 All financial assets measured at amortised cost, or cost, are subject to an impairment review in accordance with paragraphs .57 to .64.

.47 An entity subsequently measures financial assets and financial liabilities at fair value, amortised cost or cost. An entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of “financial instruments at fair value”, “financial instruments at amortised cost” or “financial instruments at cost” in paragraph .14.

Fair value measurement considerations

.48 In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard an entity shall apply Appendix A paragraphs AG98. to AG112.

.49 The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

.50 The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassifications **(see Appendix A paragraphs AG115. to AG118.)**

.51 An entity may not reclassify a financial instrument while it is issued or held unless it is:

(a) a combined instrument that is required to be measured at fair value in accordance with paragraphs .21, .22 and .52; or

(b) an investment in a residual interest that meets the requirements for reclassification in paragraphs .53 and .54.

Combined instruments

.52 Where an entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it is required by paragraph .21 to measure the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value. The difference between the carrying amount and fair value of the instrument is recognised in accordance with paragraph .55.

Investments in residual interests

.53 If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, an entity shall reclassify the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

.54 If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, an entity reclassifies the instrument from cost to fair value and recognises the difference between its carrying amount and fair value in accordance with paragraph .55.

Gains and losses (see Appendix A paragraph AG119.)

.55 ***A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value shall be recognised in surplus or deficit.***

.56 ***For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.***

Impairment and uncollectibility of financial assets

.57 ***An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss.***

.58 A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment, since it may have been the combined effect of several events that did so. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it is probable that the borrower will enter sequestration or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or

(ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, or adverse changes in market conditions that affect the borrowers in the group).

.59 The disappearance of an active market because an entity's financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment (for example, a decline in the fair value of an investment in a debt instrument that results from an increase in the risk-free interest rate).

.60 In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances, for example, when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, an entity uses its experienced judgement to estimate the amount of any impairment loss. Similarly an entity uses its experienced judgement to adjust observable data for a group of financial assets to reflect current circumstances (see Appendix A paragraph AG125.). The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Financial assets measured at amortised cost (see Appendix A paragraphs AG120. to AG129.)

.61 If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

.62 An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

.63 If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in surplus or deficit.

Financial assets measured at cost

.64 If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset (see Appendix A paragraphs AG110. and AG111.). Such impairment losses shall not be reversed.

Derecognition

Derecognition of financial assets (see Appendix A paragraphs AG130. to AG143.)

.65 An entity derecognises financial assets using trade date accounting.

.66 In consolidated financial statements, paragraphs .67 to .72 and Appendix A paragraphs AG130. to AG143. are applied at a consolidated level. Hence, an entity first consolidates all controlled entities in accordance with GRAP 35 and then applies paragraphs .67 to .72 and Appendix A paragraphs AG130. to AG143.

.67 Before evaluating whether, and to what extent, derecognition is appropriate under paragraphs .70 to .76, an entity determines whether those paragraphs should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in

its entirety, as follows:

(a) Paragraphs .68 to .72 are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions:

(i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument, paragraphs .68 to .72 are applied to the interest cash flows.

(ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90% share of all cash flows of a debt instrument, paragraphs .68 to .72 are applied to 90% of those cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows, provided that the transferring entity has a fully proportionate share.

(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90% share of interest cash flows from a financial asset, paragraphs .68 to .72 are applied to 90% of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows, provided that the transferring entity has a fully proportionate share.

(b) In all other cases, paragraphs .68 to .72 are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety). For example, when an entity transfers (i) the rights to the first or the last 90% of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to 90% of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8% of the principal amount of the receivables, paragraphs .68 to .72 are applied to the financial asset (or a group of similar financial assets) in its entirety.

In paragraphs .68 to .72, the term "financial asset" refers to either a part of a financial asset (or a group of similar financial assets) as identified in (a)

above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.

.68 An entity shall derecognise a financial asset only when:

(a) the contractual rights to the cash flows from the financial asset expire, are settled or waived;

(b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

(c) the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:

(i) derecognise the asset; and

(ii) recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in surplus or deficit in the period of the transfer.

Waiver of rights relating to financial assets (see Appendix A paragraphs AG131. to AG132.)

.69 An entity may waive the right to receive contractual receipts under the terms of an existing arrangement. For example, a municipality may waive amounts due on consumer accounts where those consumers become eligible to have their debts waived in accordance with the municipality's indigent policy. Where the waiver of rights results in the provision of a social benefit, it is accounted for in accordance with paragraph .37(a).

Assessing the transfer of risks and rewards, and control (see Appendix A paragraphs AG133. to AG138.)

.70 The transfer of risks and rewards (see paragraph .68) is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g. because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g. because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase).

.71 Often it will be obvious whether the entity has transferred or retained substantially all of the risks and rewards of ownership and there will be no need to perform any computations. In other cases, it will be necessary to compute and compare the entity's exposure to the variability in the present value of the future net cash flows before and after the transfer. The computation and comparison is made using as the discount rate an appropriate current market interest rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

.72 Whether the entity has transferred control of the asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.

Transfers that qualify for derecognition (see Appendix A paragraphs AG139. to AG140.)

.73 If an entity transfers a financial asset in a transfer that qualifies for derecognition (see paragraph .68) in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph .76.

.74 If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.

.75 On derecognition of a financial asset in its entirety, the difference between:

(a) the carrying amount; and

(b) the sum of the consideration received (including any new asset obtained less any new liability assumed)

shall be recognised in surplus or deficit.

.76 If the transferred asset is part of a larger financial asset (e.g. when an entity transfers interest cash flows that are part of a debt instrument) and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between:

(a) the carrying amount allocated to the part derecognised; and

(b) the sum of the consideration received for the part derecognised (including any new asset obtained less any new liability assumed)

shall be recognised in surplus or deficit.

.77 When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be determined. When the entity has a history of selling parts similar to the part that continues to be recognised or other market transactions exist for such parts, recent prices of actual transactions provide the best estimate of its fair value. When there are no price quotes or recent market transactions to support the fair value of the part that continues to be recognised, the best estimate of the fair value is the difference between the fair value of the larger financial asset as a whole and the consideration received from the transferee for the part that is derecognised.

Transfers that do not qualify for derecognition

.78 If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset and the associated liability nor the revenue and the associated expenses may be offset.

Non-cash collateral

.79 If a transferor provides non-cash collateral (such as debt instruments or a residual interest) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right

to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) if the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its statement of financial position (e.g. as a loaned asset, a pledged investment in a residual interest or repurchase receivable) separately from other assets;

(b) if the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;

(c) if the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral; and

(d) except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.

Derecognition of financial liabilities (see Appendix A paragraphs AG144. to AG150.)

.80 An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived (see also GRAP 23 for the waiver of debt as part of a non-exchange transaction).

.81 An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as having extinguished the original financial liability, and a new financial liability recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as having extinguished the original financial liability and having recognised a new financial liability.

.82 The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction, are accounted for in accordance with GRAP 23.

.83 If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in surplus or deficit.

Presentation

Interest, dividends or similar distributions, losses and gains (see Appendix A paragraph AG151.)

.84 ***Interest, dividends or similar distributions, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as revenue or expense in surplus or deficit. Distributions to holders of residual interests shall be recognised by the entity directly in net assets. Transaction costs incurred on residual interests shall be accounted for as a deduction from net assets.***

.85 Income tax (where applicable) relating to distributions to holders of residual interests and to transaction costs incurred on residual interests shall be accounted for in accordance with the IAS Standard on *Income Taxes* (IAS 12).

.86 The classification of a financial instrument as a financial liability or a residual interest determines whether interest, dividends or similar distributions, losses and gains relating to that instrument are recognised as revenue or expense in surplus or deficit. Thus, payments for dividends or similar distributions on instruments wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancing of financial liabilities are recognised in surplus or deficit, whereas redemptions or refinancing of residual interests are recognised as changes in net assets. Changes in the fair value of a residual interest are not recognised in the financial statements.

.87 An entity typically incurs various costs in issuing or acquiring its own residual interests. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. Any related transaction costs are accounted for as a deduction from net assets to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. The costs of such a transaction that is abandoned are recognised as an expense.

.88 Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and residual interest components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.

.89 The amount of transaction costs accounted for as a deduction from net assets in the period is disclosed separately in accordance with the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1).

.90 Dividends or similar distributions classified as an expense are presented in the statement of financial performance either with interest on other liabilities or as a separate item. In addition to the requirements of this paragraph and paragraph .116, disclosure of interest and dividends or similar distributions is subject to the requirements of GRAP 1. Disclosures of the tax effects (where applicable) are made in accordance with IAS 12.

.91 Gains and losses related to changes in the carrying amount of a financial liability are recognised as revenue or expenses in surplus or deficit even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph .28(b)). Under GRAP 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of financial performance when it is relevant in explaining the entity's performance.

Offsetting a financial asset and a financial liability (see Appendix A paragraphs AG152. to AG153.)

.92 A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

(a) currently has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see paragraph .78).

.93 This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity.

.94 Offsetting a recognised financial asset and a recognised financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognised item from the statement of financial position but also may result in recognition of a gain or loss.

.95 A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right the laws applicable to the relationships between the parties need to be considered.

.96 The existence of an enforceable right to set off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

.97 An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph .128.

.98 Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organised financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.

.99 The conditions set out in paragraph .92 are generally not satisfied and offsetting is usually inappropriate when:

(a) several different financial instruments are used to emulate the features of a single financial instrument (a "synthetic instrument");

(b) financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;

(c) financial or other assets are pledged as collateral for non-recourse financial liabilities;

(d) financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (for example, a sinking fund arrangement); or

(e) obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

.100 An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph .92 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph .128.

Disclosure (see Appendix A paragraphs AG154. to AG180.)

.101 The disclosures in paragraphs .103 to .133 enable users of the financial statements to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

.102 These disclosures apply to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities recognised in accordance with this Standard. Unrecognised financial instruments include some financial instruments that, although outside the recognition and measurement requirements of this Standard, require certain disclosures under this Standard (such as financial guarantee contracts and loan commitments).

Accounting policies (see Appendix A paragraph AG154.)

.103 In accordance with paragraph .127 of GRAP 1, an entity discloses its significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Classes of financial instruments and level of disclosure (see Appendix A paragraphs AG155. to AG157.)

.104 When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of financial instruments for financial position and performance

.105 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Statement of financial position

Categories of financial assets and financial liabilities

.106 The carrying amounts of each of the categories of financial instruments, as defined in paragraph .14, shall be disclosed in the notes:

(a) financial instruments at fair value, showing separately:

(i) financial assets designated at fair value; and

(ii) financial liabilities designated at fair value;

(b) financial instruments at amortised cost; and

(c) financial instruments at cost.

An entity may present financial assets and financial liabilities in separate line items under (a) or (b), for example, derivatives and instruments held-for-

trading where this disclosure is useful in understanding the significance of these instruments to an entity's financial position and performance.

Reclassification

.107 If the entity has reclassified a financial instrument:

(a) at cost, rather than fair value; or

(b) at fair value, rather than amortised cost or cost,

in accordance with paragraphs .51 to .54, it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

Derecognition

.108 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs .65 to .78). The entity shall disclose for each class of such financial assets:

(a) the nature of the assets;

(b) the nature of the risks and rewards of ownership to which the entity remains exposed; and

(c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities.

Collateral

.109 An entity shall disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph .79(a); and

(b) the terms and conditions relating to its pledge.

.110 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

(a) the fair value of any such collateral sold or repledged, whether the entity has an obligation to return it, and whether the collateral held is sufficient for the debts owing; and

(b) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

.111 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective

impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

.112 ***If an entity has issued an instrument that contains both a liability and a residual interest component (see paragraph .31) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.***

Concessionary loans

.113 ***If an entity has granted or received a concessionary loan, it shall disclose:***

(a) the existence of such loans;

(b) their significant terms and conditions; and

(c) the nominal value of the loan balances at year end.

Defaults and breaches

.114 ***For loans payable recognised at the end of the reporting period, an entity shall disclose:***

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

.115 ***If, during the period, there were breaches of loan agreement terms other than those described in paragraph .114 an entity shall disclose the same information as required by paragraph .114 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).***

Statement of financial performance

Items of revenue, expense, gains or losses

.116 ***An entity shall disclose the following items of revenue, expense, gains or losses either in the statement of financial performance or in the notes:***

(a) net gains or net losses on:

(i) financial instruments at fair value;

(ii) financial instruments at amortised cost; and

(iii) financial instruments at cost;

(b) total interest income and total interest expense (calculated using the effective interest method) for financial instruments at amortised cost;

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial instruments at amortised cost; and

(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

(d) interest income on impaired financial assets accrued in accordance with Appendix A paragraph AG129.; and

(e) the amount of any impairment loss for each class of financial asset.

Notes to the financial statements

Fair value disclosures

.117 The disclosure of the fair values of financial instruments measured at amortised cost is encouraged, but not required. Where an entity elects to disclose the fair values of financial instruments measured at amortised cost, it applies paragraph .118.

.118 An entity shall disclose for each class of instrument measured or disclosed at fair value, the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

.119 For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph .120.

.120 For fair value measurements recognised in the statement of financial position, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or

liabilities (Level 1);

- ***(b)*** ***inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and***
- ***(c)*** ***inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).***

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

.121 For fair value measurements recognised in the statement of financial position an entity is encouraged, but not required to disclose for each class of financial instruments:

(a) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities;

(b) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in surplus or deficit, and a description of where they are presented in the statement of financial performance;

(ii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iii) transfers into or out of Level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3;

(c) the amount of total gains or losses for the period in (b)(i), included in surplus or deficit, that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of financial performance;

and

(d) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

Other disclosures

.122 An entity may disclose the nominal values of financial assets and financial liabilities where this information is useful to the users of the financial statements.

Nature and extent of risks arising from financial instruments (see Appendix A paragraph AG158.)

.123 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

.124 The disclosures required by paragraphs .125 to .133 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

Qualitative disclosures

.125 For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

Quantitative disclosures (see Appendix A paragraphs AG159. to AG180.)

.126 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to management of the entity (as defined in the Standard of GRAP on Related Party Disclosures), for example the entity's board of directors, governing body or senior management;

(b) the disclosures required by paragraphs .128 to .133, to the extent not provided in (a), unless the risk is not material (see paragraphs .36 to .38 of GRAP 1 for a discussion of materiality); and

(c) concentrations of risk if not apparent from (a) and (b).

.127 If the quantitative data disclosed as at the end of the reporting period is unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk (see Appendix A paragraphs AG161. to AG162.)

.128 An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk (usually the carrying amounts of instruments) at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with paragraphs .92 to .100);

(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;

(c) information about the credit quality of financial assets that are neither past due nor impaired; and

(d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Financial assets that are either past due or impaired

.129 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;

(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and

(c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements.

Collateral and other credit enhancements obtained

.130 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk (see Appendix A paragraphs AG163. to AG170.)

.131 An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

Market risk (see Appendix A paragraphs AG171. to AG180.)

Sensitivity analysis

.132 An entity is encouraged to disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

If the quantitative data disclosed as at the end of the reporting period is unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

.133 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph .132. The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the data provided; and

(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Transitional provisions

Initial adoption of the Standards of GRAP

.134 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

Amendments to Standards of GRAP

.135 ***Paragraphs .84, .87 and .89 were amended and paragraph .85 was added by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply that amendment retrospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.135A ***Paragraph .14 was amended by the Improvements to the Standards of GRAP issued in April 2017, as a consequential amendment derived from the amendment to GRAP 106. An entity shall apply this amendment prospectively to transfer of functions between entities not under common control for which the acquisition date is on or after 1 April 2018. Earlier application is encouraged. If an entity elects to apply this amendment earlier, it shall disclose this fact.***

Effective date

Initial adoption of the Standards of GRAP

.136 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

.137 ***[Deleted].***

Entities already applying Standards of GRAP

.137A ***Paragraph .03 was amended by GRAP 32 issued in August 2013 and GRAP 108 issued September 2013. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before 1 April 2019, it shall disclose that fact.***

.137B ***Paragraphs .03, .07 and .66 were amended by GRAP 35 and GRAP 37 issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.137C Paragraphs .103 and AG154. were amended by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2018) issued in April 2019. These amendments are effective for annual periods beginning on or after 1 April 2023. Earlier application of these amendments is permitted.

.137D Paragraph .126(a) was amended by the Standard of GRAP on Employee Benefits issued April 2021. An entity shall apply this amendment retrospectively for annual financial periods beginning on or after 1 April 2023. If an entity elects to apply these amendments earlier, it shall disclose this fact.