GRAP 104 on *Financial Instruments* (Revised)

Your guide to understanding and applying the revised Standard

This article is part of a series of articles that discuss the key amendments to GRAP 104 (revised). GRAP 104 is the authoritative source. Other supplementary resources are intended to be read alongside GRAP 104 and do not replace or override its guidance. The article has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved, or otherwise acted on by the Board.

Demystifying GRAP 104 on *Financial Instruments:* Scope and Definitions

Scope

GRAP 104 (revised 2019) applies to all instruments that meet the definition of financial instruments as outlined in the Standard unless another Standard applies to the instrument. The specific financial instruments excluded from and included in the scope of GRAP 104 are detailed below.

Exclusions from scope	Specific inclusions in scope
• Interests in controlled entities, associates or joint ventures that are accounted for in the Standards of GRAP on *Consolidated Financial Statements* (GRAP 35) and *Investments in Associates and Joint Ventures* (GRAP 36). • Forward contracts to buy or sell an acquiree not under common control. • Contractual rights and obligations arising from non-exchange revenue transactions to which GRAP 23 on *Revenue from Non-Exchange Transactions* applies. • Statutory receivables as defined in GRAP 108 on *Statutory Receivables*. • Rights and obligations to which GRAP 32 on *Service Concession Arrangements: Grantor* applies.	No specific inclusions relating to these instruments.
Rights and obligations arising under **insurance contracts** within the scope of the IFRS Accounting Standard(s) on insurance (other than those listed in the specific inclusions).	Issuer's rights and obligations arising under an **insurance contract** that meets the definition of a financial guarantee contract.
Loan commitments (other than those listed in the specific inclusions).	**Loan commitments:** • Designated as financial liabilities at fair value through surplus or deficit.

Exclusions from scope	Specific inclusions in scope
	• Settled net in cash or by delivering or issuing another financial instrument. • To provide a loan at a below market interest rate, including concessionary loans.
Rights and obligations under **leases** (see GRAP 13 on *Leases*) (other than those listed in the specific inclusions).	• Impairment, derecognition, presentation and disclosure of: - **Lease receivables** recognised by a lessor. - **Finance lease payables** recognised by a lessee. - **Derivatives** that are embedded in leases and presentation and disclosure of embedded derivatives separated from a lease.

A notable change in scope from the previous version of the Standard is the specific inclusion of financial guarantee contracts and certain loan commitments previously included in GRAP 19 Provisions, Contingent Liabilities and Contingent Assets.

Definitions

Definition		Interpretation
	A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity. **Contracts** are evidenced by the following three criteria: a) contracts involve willing parties entering into an arrangement; b) the terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and c) performance and remedy for non-performance are enforceable by law.	The characteristics that are important for assessing whether an instrument is a financial instrument or not are as follows: • The arrangement is contractual rather than a statutory arrangement (i.e. those that arise from legislation, regulation or equivalent). • One party to the transaction has a financial asset, and the other party to the transaction has either a financial liability or a residual interest ("equity").

	A **financial asset** 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.	Some aspects to consider include: • Cash – “cash” may take many forms, such as in an entity’s bank or similar investment account, monetary instruments (e.g. cheques, postal orders) and physical cash (notes and coins). • For an asset to be a financial asset, the transaction must be settled through the receipt of cash or another financial asset and not through the receipt of goods or services.
	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 with another entity under conditions that are potentially unfavourable to the entity.	For a liability to be a financial liability, the transaction must be settled through the payment of cash or another financial asset and not through the provision of goods or services.

The ASB published a Fact Sheet on *Applying the Definition of Financial Instruments*. Take a moment to read this Fact Sheet for a better understanding of how to apply the definition.