



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.

GRAP 104 on *Financial Instruments* (revised) snapshot: Key disclosure requirements Part 1

The purpose of the financial statements is to furnish users with the information necessary to make informed decisions, evaluate the entity's financial health and hold management accountable. The disclosure requirements in the Standards of GRAP ensure relevant, useful and understandable financial reporting that meet users' information needs.

GRAP 104 requires entities to disclose pertinent information about financial instruments, the nature and extent of risks from these instruments, as well as how the entity is managing those risks. To provide the necessary context for users, the Standard requires the disclosure of accounting policies and the significance of financial instruments for an entity's statements of financial position and performance.

This article explains the disclosure of accounting policies and the impact of financial instruments on the statements of financial position and performance.

Why are accounting policies necessary and which policies must be disclosed?

Accounting policies are the specific principles, bases, conventions, rules and practices used by entities in preparing and presenting financial statements. Entities are required to disclose material accounting policies, for example, the subsequent measurement basis used for each type of financial instrument based on management's classification of instruments. The disclosure of the basis used is important as it affects users' analysis of how transactions, events and conditions are reflected in the financial statements.

How do entities determine the classes of financial instruments to disclose?

GRAP 104 requires entities to group financial instruments into classes according to the nature and characteristics of those financial instruments. This disclosure should provide users with sufficient information to reconcile to the line items presented in the statement of financial position.

What information should be disclosed so that users can evaluate the significance of financial instruments?

Statement of financial position

To ensure users understand the impact of financial instruments on the statement of financial position, an entity should disclose the carrying amount per category of financial instruments. Specific disclosures required include:

- The impact of **financial assets designated at fair value through surplus or deficit** is illustrated to users by disclosing information on the changes in fair value.

- For **financial liabilities designated at fair value through surplus or deficit**, all changes in fair value are not recognised in surplus or deficit. To prevent an entity recognising revenue from a negative change in its own credit risk rating, the fair value changes attributable to the change in credit risk is presented in the statement of changes in net assets and not in surplus or deficit.

There are specific disclosures required to explain this to users, including the method used to measure the changes in fair value due to credit risk. In certain circumstances the movement due to credit risk may still be recognised in surplus or deficit, such as when it would prevent an accounting mismatch. In that case, an entity further discloses the methodology used to determine whether presenting the changes in net assets would create or enlarge an accounting mismatch.

- There is an exception for **investments in residual interest** to be measured at cost in the rare circumstances when the fair value cannot be reliably measured. In this case, the reason/s why cost was used, and what inputs could not be estimated reliably to determine fair value should be communicated to users.
- **Other disclosures** include informing users of any reclassification in and out of each category of financial instruments, financial assets and financial liabilities subject to offsetting during the reporting period, financial assets transferred but not fully derecognised, financial assets pledged as collateral including the terms and conditions of the pledge, the existence of concessionary loans or investment received and details of defaults and breaches on loans payable during the reporting period.

Statement of financial performance

The impact of revenue, expenses, gains and losses items relating to financial instrument held by an entity during a reporting period is recognised in surplus and deficit. This provides insights into how well the entity manages its financial instruments and the impact on surplus and deficit.

Resources

For more information on how to apply the disclosure requirements of GRAP 104 (revised), access [Fact sheet 12 \(1 of 2\)](#) and [Fact sheet 12 \(2 of 2\)](#) on the ASB website.