



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 2

Part 1 of this article explained the disclosure of accounting policies and the impact of financial instruments on the statements of financial position and performance. This article explains the disclosure on the nature and extent of risks from financial instruments, as well as how the entity is managing those risks.

Entities should disclose all material information relating to financial instruments that are relevant to users' evaluation of an entity's financial instruments.

What is the nature and extent of risks arising from financial instruments?

Qualitative and quantitative disclosure

The nature and extent of risks arising from financial instruments that an entity is exposed to at the end of the reporting period are disclosed in the financial statements. Quantitative disclosures measure the entity's exposure to the material risks that existed throughout and at the end of the reporting period, based on what has been communicated internally to management. GRAP 104 further requires qualitative disclosures about the quantitative disclosures for each type of risk. The interaction between qualitative and quantitative disclosures ensures that users can evaluate an entity's exposure to risks, how they arise, how they are managed as well as the methods used to measure the risks.

Credit risk

Credit risk is the risk that an entity will lose money because the counterparty to the agreement is not paying or is paying later than when it is contractually required to pay. The objective of credit risk disclosures is to enable users to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

Credit risk disclosures provide insight into an entity's credit risk management practices, credit risk exposure and expected credit losses, including changes that occurred throughout the reporting period. For example, disclosures of receivables and lease receivables on which lifetime expected credit losses are recognised including the impact of modifications to the loss allowance, if assessed as material by the entity.

Liquidity risk

Liquidity risk is the risk that the entity will not have enough cash to pay its debts when they are due. The objective of liquidity risk disclosures is to inform users about how well an entity manages its funds and whether it has sufficient funds available to meet its obligations when they are due. For instance, disclosing a maturity analysis of financial assets which illustrates expected cash inflows to cover the cash outflows.

Market risk

Market risk is the risk that the entity's surplus or deficit will change because of changes in the market. The objective of market risk disclosures is to communicate to users how fluctuations in the market affect the entity's surplus or deficit. These changes might be due to interest rate changes, currency fluctuations, changes in commodity prices or equity prices. The entity prepares a sensitivity analysis for each significant type of market risk to which the entity is exposed at the end of the reporting period to show the impact on surplus or 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.