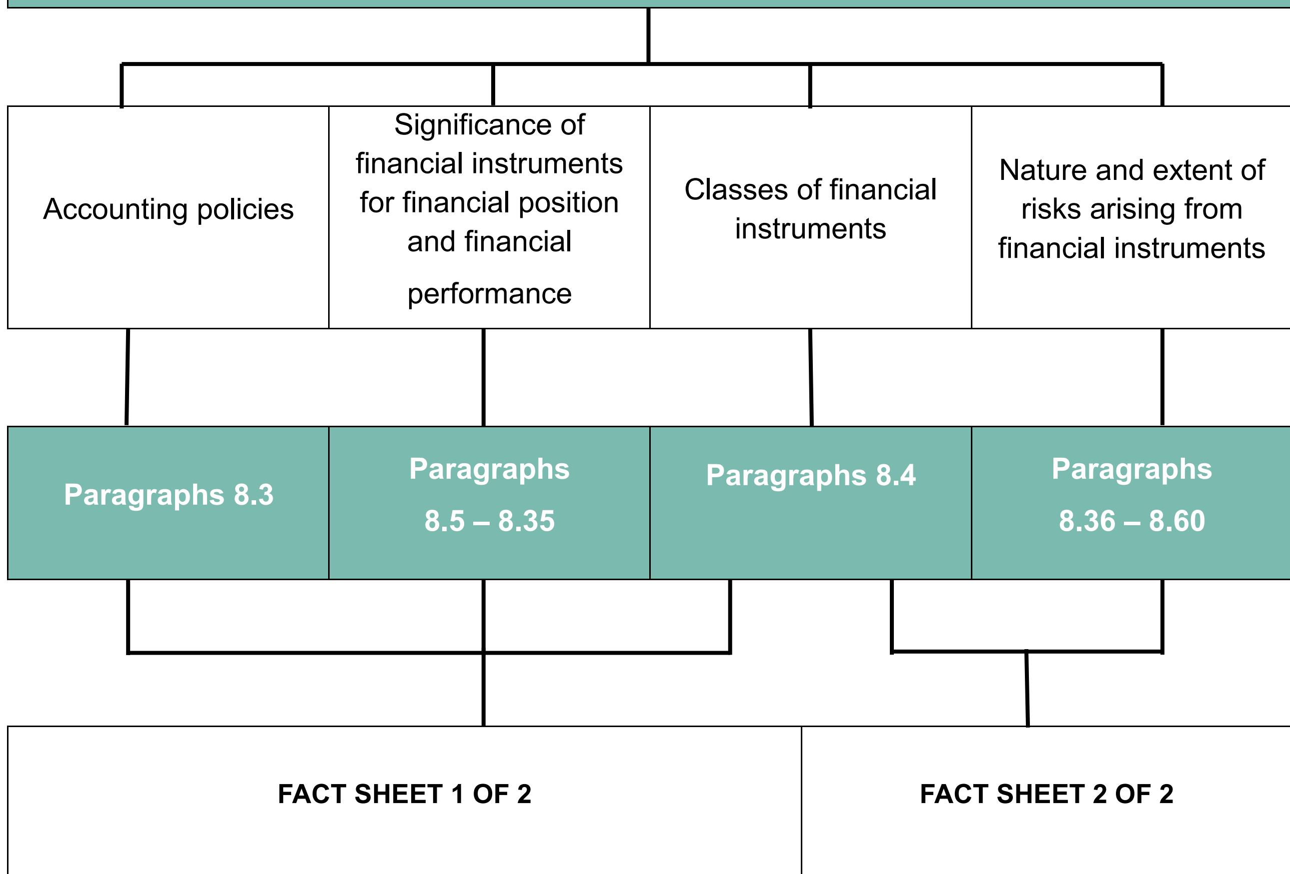
STRUCTURE OF FINANCIAL INSTRUMENT DISCLOSURE FACT SHEETS



This Fact Sheet explains the Secretariat's views on the disclosure in GRAP 104 on Financial Instruments (revised in 2019). This Fact Sheet accompanies, and is not a replacement for, the complete text of GRAP 104 Financial Instruments. The Fact Sheet outlines the most common disclosures. The disclosure may differ depending on the facts and circumstances of individual arrangements. This Fact Sheet has not been reviewed, approved or otherwise acted on by the ASB.

OBJECTIVE OF THE FACT SHEET		
Objective of fact sheets	The purpose of the financial instrument disclosure fact sheets is to describe the disclosure requirements of GRAP 104 on *Financial Instruments*.	
	This fact sheet focusses on the disclosures of the nature and extent of risks arising from financial instruments.	
CLASSES OF FINANCIAL INSTRUMENTS		
Classes of financial instruments	To determine the classes of financial instruments, an entity considers the nature and the characteristics of the financial instruments for which the disclosure is required. There should be enough information to enable the users to reconcile the classes of financial instruments to the line items in the statement of financial position.	Paragraph 8.4
NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS		
Objective of qualitative disclosures	The objective of qualitative disclosures is to inform the users of • **material** risks (credit, liquidity, and market risks) the entity is exposed to, • explain how these risks occur, why they exist, • describe what does the entity do to reduce these risks, and • how does the entity measure these risks.	Paragraph 8.39
Objective of quantitative disclosures	The objective of quantitative disclosures is to quantify the entity's exposure to the **material risks** that **existed** during and at the end of the reporting period.	Paragraphs 8.40 – 8.41
	the quantitative disclosures must be based on information provided internally to management.	
CREDIT RISK		
Objective of credit risk disclosures	The objective of credit risk disclosures is to enable the users to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. An entity need not duplicate information that is already presented elsewhere. The information must be incorporated by cross-reference.	Paragraph 8.43 – 8.46
Definition	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 due.	Paragraph 2.1
	Credit risk rating grades are the ratings given to an instrument based on its risk of default occurring (e.g. high, medium, low, AA+, AB, etc.).	
Maximum exposure to credit risk	This is typically the gross carrying amount, net of • any amounts offset and • any loss allowance recognised.	Paragraph AG8.18

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<table>
<tr><td>Expected Credit Losses Group (for purpose of this document)</td><td>Financial instruments:
measured at 12-month expected credit losses (ECL),
measured at lifetime ECL for which credit risk has significantly increased,
measured at lifetime ECL that are credit-impaired,
measured at lifetime ECL for which the simplified approach is used,
that are purchased or originated credit impaired.</td><td></td></tr>
<tr><td rowspan="2">Credit risk management practices</td><td>The purpose of the disclosure is to explain the entity's credit risk management practices and how it is used to recognise and measure the ECL (e.g. define default, credit-impaired, when is there a significant increase in credit risk, etc.).</td><td>Paragraph 8.47</td></tr>
<tr><td>The disclosure aims to explain to the user, practically, the data being used, the assumptions made, and the technique used to implement the policy to recognise and measure the ECL.</td><td>Paragraph 8.48</td></tr>
<tr><td rowspan="4">Quantitative and qualitative information about amounts arising from ECL</td><td>The purpose of this disclosure is for the users to understand:
How changes in the credit risk of financial instruments change the loss allowance during the year.
What significant changes in the gross carrying amounts of the instrument contribute to the changes in the loss allowance.
How modifications (not resulting in derecognition) impact the loss allowance.
What impact collateral and other credit enhancements have on the loss allowance.</td><td rowspan="4">Paragraphs 8.49 – 8.52 and AG8.11 – AG8.14</td></tr>
<tr><td>To achieve this objective, the entity should disclose, per class of financial instrument, a reconciliation between the opening and closing balance of the loss allowance, showing the movement per ECL group separately.</td></tr>
<tr><td>An entity should indicate, per ECL group, which increases or decreases in the loss allowance is the result of which changes (e.g. modifications, acquisitions, derecognitions, change from 12-month to lifetime ECL, etc.) in the gross carrying amount of the instrument.</td></tr>
<tr><td>For modified instruments that were modified but not derecognised, an entity should disclose the following:
The gross carrying amount at the reporting date of modified instruments where the loss allowance changed during the reporting period from lifetime to 12-month ECL.
For instruments modified during the reporting period while the loss allowance was measured at lifetime ECL, disclose the amortised cost</td></tr>
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<tr><td rowspan="2"></td><td>before the modification and the modification gain or loss recognised.</td><td rowspan="2"></td></tr>
<tr><td>The impact of collateral and other credit enhancements on the loss allowance is illustrated with the following disclosures:
The amount that represents the maximum exposure to credit risk (without taking collateral into account),
Describing the nature and quality of the collateral held.
Explaining the changes in the quality of the collateral because of changes in the entity’s policy.
Information on financial instruments for which a loss allowance was not recognised because of collateral.
The amount to which the collateral reduces the exposure to credit risk for credit-impaired financial assets.</td></tr>
<tr><td>Write-offs</td><td>Where the entity has written off debt during the reporting period and it may still legally collect the debit, it should inform the users of the contractual amounts which it may still collect.</td><td>Paragraph 8.53</td></tr>
<tr><td rowspan="4">Credit risk exposure</td><td>The purpose of the disclosure is for a user to understand:
The entity’s credit risk exposure.
The entity’s highest credit risk.</td><td rowspan="4">Paragraphs 8.54 – 8.56 and AG8.15 – AG8.19</td></tr>
<tr><td>For users to understand what the entity’s credit risk exposure is and where it is the highest, the entity should disclose information for two groups.
Group 1 is the instruments for which the entity must calculate a loss allowance.
Group 2 is the instrument for which the impairment requirements are not applied.</td></tr>
<tr><td>For group 1 credit risk exposure is illustrated by disclosing the gross carrying amount of the instruments, per credit risk rating grade, and per ECL group.</td></tr>
<tr><td>For group 2, the credit risk exposure is illustrated by disclosing the following:
The amount that represents the maximum exposure to credit risk (not taking collateral into account).
A description of any collateral which reduces the credit risk.
The amount to which the collateral reduces the exposure to credit risk.</td></tr>
<tr><td colspan="3">LIQUIDITY RISK</td></tr>
<tr><td>Definition</td><td>Liquidity risk is the risk that the entity will not have enough cash to pay its debts when it is due.</td><td>Paragraph 2.1</td></tr>
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Maturity analysis	**Objective**	A maturity analysis will help the users to understand: • when cash is required: and • how much cash is required in each of these periods.	Paragraph 8.58, AG8.20 – AG8.27
		An entity should disclose information which explains how it ensures that it has sufficient funds to make payments when they are due. (for example, disclosing a maturity analysis of financial assets which illustrates expected cash inflows to cover the cash outflows.)	
	Time bands	The time bands used to disclose the maturities are a matter of judgement. (e.g. 1 year, 1-2 years, 2-3year, or 30days, 31-120days, etc.) The payments are allocated to the earliest time band when the counterparty can require an entity to make payment. Allocation of when payments are due, is thus based on the contractual terms.	Paragraph AG8.24
	Contractual amounts	Contractual amounts should be disclosed. This represents the undiscounted cash flows. (e.g. the gross finance lease payments – before deducting finance charges). When the amount payable is not fixed (e.g. dependent on an index), the amount disclosed must be based on the conditions at the reporting date.	Paragraph AG8.25
MARKET RISK			
Definition		Market risk is the risk that the entity's surplus or deficit will change because of changes in the market. These changes in the market could be due to changes in interest rates, currency fluctuations, commodity prices or equity prices.	Paragraph 2.1
Sensitivity analysis	**Objective**	A sensitivity analysis informs users of the effect on surplus or deficit due to changes in interest rates, exchange rates, commodity prices or equity prices.	Paragraph 8.59, AG8.28 – AG8.37
		To meet this objective the entity should disclose: • The amount with which the surplus or deficit would have been affected due to changes in interest rates, exchange rates, commodity prices or equity prices. • The assumptions and methods used in the calculations for the users to understand how the amounts were determined. • Instances where assumptions or methods are different from the prior year for users to understand how one year is different from the next.	
	Impact on surplus or deficit	• To illustrate the impact on surplus or deficit an entity should disclose the effect on the surplus or deficit (e.g. increase by R100 and decrease by R80), not what the surplus or deficit would have been (e.g. 1% increase would have	Paragraph AG8.29 – AG8.30

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		resulted in the total surplus for the period being R700).	
	Application	Interest rate risk applies to interest-bearing financial instruments. Both those recognised (e.g. loans and receivables) and not recognised (e.g. some loan commitments).	Paragraph AG8.32
		Currency risk applies to instruments expressed in a currency other than the Rand.	Paragraph AG8.33
		Equity price risk applies to investments held in the equity of another entity.	Paragraph AG8.35 – AG3.37
		Commodity price risk applies to instruments where commodity prices impact the prices of the instrument. (e.g. gold or diamond price).	

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