GRAP 104 Reference Group

Disclosures

20 September 2023

ACCOUNTING STANDARDS BOARD

Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Acronyms and abbreviations

Acronyms and abbreviations	Description
ECL	Expected credit loss
FVTSD	Fair value through surplus or deficit

Overview of today's session

- Purpose of disclosures
- What is new under the section: Significance of financial instruments for financial position and performance
- What is new under the section: The nature and extent of risks arising from financial instruments
- Transitional provisions

The final output of the discussions will be a fact sheet. These discussions are the starting point.

Purpose of disclosures

Purpose

The purpose is to inform the users of:

- What is the magnitude of the financial instruments for the entity
  - What financial instruments exist
  - How are they measured
- What types of risks exist because of financial instruments
  - Credit, liquidity, market risk
- Quantify the risks
  - What is the entity's exposure
- How does the entity manage these risks
  - How are the risks identified and mitigated

Purpose

Consider the following when disclosing information

- Only disclosures that are relevant to the entity
- Disclosure requirements are not a checklist to see if you disclosed everything listed in the Standard
- Only material information
- Make it entity-specific – no “boilerplate” disclosures
- Do not duplicate disclosures – cross reference between notes

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Applicable to?

- The disclosures apply to these instruments:

<table>
<tr><th>Recognised financial instruments</th><th>Unrecognised financial instruments</th></tr>
<tr><td>It is those within the scope of GRAP 104</td><td>It is those outside the recognition and measurement scope of GRAP 104, but the disclosure requirements apply</td></tr>
<tr><td rowspan="5">For example:
• Cash and cash equivalents
• Trade receivables and payables
• Loans receivable and payable</td><td>• Finance lease payable recognised by a lessee</td></tr>
<tr><td>• Lease receivable recognised by a lessor</td></tr>
<tr><td>• Financial instruments within IFRS 4</td></tr>
<tr><td>• Loan commitments</td></tr>
<tr><td>• Financial guarantee contracts</td></tr>
</table>

Significance of financial instruments for financial position and performance

Statement of financial position

What is new?

- Financial assets designated as FVTSD
  - Quantify the credit risk
  - Provide the amount that reduces the risk
  - Quantify the change in the carrying amount because of the instrument's credit risk
- Financial liabilities designated at FVTSD
  - Quantify the change in the carrying amount because of the instrument's credit risk
  - Difference between carrying value and the contractually payable amount
- Qualitative information about why they were designated

Statement of financial position

What is new?

- Investment measured at cost
  - Why is it measured at cost
  - What inputs could not be estimated reliably
- Offsetting (present in a tabular format)
  - Quantity: The gross and net amounts. The amount for enforceable master netting arrangements, not off-set
  - Quality: Why can the entity offset? Description and nature of the rights
- Concessionary loans
  - Reconciliation between opening and closing balance with detail
  - What led to recognising a purchase / originated credit-impaired loan

Statement of financial performance

What is new?

- More detailed split of gains and losses
  - Instruments designated and those mandatory at FVTSD
  - Recognised in surplus or deficit and those in net assets
- Interest revenue and expense of financial liabilities not measured at FVTSD
- Impairment losses
  - No longer required to disclose it per class of financial instrument

Notes to the financial statements

What is new?

- Fair value disclosures (tabular format)
  - No change
  - Encouraged to disclose the fair value of amortised cost instruments
  - Fair value hierarchy levels and allocation to these levels
  - Methods, valuation techniques and assumptions

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Nature and extent of risks arising from financial instruments

Credit risk

- Big changes
- Removed
  - Financial assets past due or impaired disclosures
- Scope
  - Credit risk disclosures are applicable to all instruments to which the impairment requirements apply
  - However, there are two exceptions to the rule
- Objective
  - Show what effect credit risk has on future cash flows
  - The amount, timing and uncertainty of those cash flows

Credit risk

Credit risk management

- Explain credit risk management practices – how they link to the ECL
  - Significant increase in credit risk, grouping, default, when it is credit-impaired, write-off policy,
- Method, assumptions and techniques used to determine the loss allowance
  - How was forward-looking information incorporated
  - **M**ethod, **A**ssumption and **D**ata – measure credit loss, if there is a significant increase in credit risk, if the instrument is credit-impaired

Credit risk

Amounts arising from ECL

- Explain changes in loss allowance and the reasons
  - Per class of instrument
  - Reconciliation between opening and closing balance
  - Show movement for
    - 12-month ECL
    - Purchase or originated credit-impaired financial asset
    - Those for which credit risk has significantly increased
    - Those that are credit impaired at the reporting date
    - Receivable or lease receivables (simplified approach)
  - Show how the changes in the gross carrying amount contributed to the changes in loss allowance

Credit risk

Amounts arising from ECL

- Modifications that did not result in a derecognition
  - If loss allowance was measured at lifetime ECL
    - Amortised cost before modification
    - Modification gain or loss

  (Receivables and lease receivables modified when more than 30 days past due)
  - If loss allowance has changed from lifetime to 12-month ECL
    - The gross carrying amount at the reporting date

  (Not applicable to lease receivables)

Credit risk

Amounts arising from ECL

- Impact of collateral on ECL
  - Maximum exposure to credit risk without taking collateral into account
  - Quantitative info about collateral held as security for credit-impaired financial asset
  - Description and nature of collateral
  - Explain the significant changes in the quality of the collateral
  - Information about instruments the entity did not recognise loss allowance because of the collateral
- Write-offs
  - Contractual amount due, if subject to enforcement activity

Credit risk

Risk exposure

- Show where the risk is concentrated
- Exposure to credit risk by credit risk rating grades
- Splitting it between
  - 12-month ECL
  - Purchase or originated credit-impaired financial asset
  - Those for which credit risk has significantly increased
  - Those that are credit impaired at the reporting date
  - Receivable or lease receivables (simplified approach)

Liquidity risk

What is new?

- No change
- Maturity analysis
  - Remaining **contractual undiscounted** cash flows
  - Time bands are a matter of judgement
- How liquidity risk is managed
  - Consider maturity analysis of financial assets used to manage cash flows
  - Committed borrowings or other lines of credit available to access cash
  - Instruments with master netting arrangements
  - Significant concentration of liquidity risk

Market risk

What is new?

- Sensitivity analysis
  - It is now **compulsory**
  - For each market risk
  - For risk changes that were reasonably possible
  - Possible effect on surplus or deficit
- Take note
  - For fixed-rate instruments, it is not reasonably possible that the rate would have changed. It is fixed
  - If you don’t have the risk, don’t disclose it

Transitional provisions

Transitional provisions

- Can be found in the relevant Directives
- It is the same in all the Directives
- Retrospective application per GRAP 3 with some relief

Get ready for the transition
Start to accumulate information

- Effective date:
  - Financial years starting on or after 1 April 2025
- Some additional disclosures

Transitional provisions

- Quantitative disclosure in a table format
  - Previous classification, current classification and carrying amounts for both classifications
  - Fair value of instruments reclassified to amortised cost
- Reconcile previous measurement categories and asset classes with new categories and asset classes
- Additional disclosures for classification out of fair value to amortised cost
  - Effective interest rate on adoption date and interest recognised
- Qualitative disclosures of classification criteria applied and designation or re-designation of instruments

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