

FINANCIAL REPORTING
STANDARD

IMPROVEMENTS
TO FINANCIAL REPORTING
STANDARDS
2010



ACCOUNTING
STANDARDS
BOARD

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INTRODUCTION

- 1 This Financial Reporting Standard (FRS) sets out amendments to existing FRS, including basis for conclusions and application guidance. The amendments set out in this document arise from the Financial Reporting Exposure Draft (FRED) issued by the Accounting Standards Board in June 2010.

**ADOPTION OF 'IMPROVEMENTS TO
FINANCIAL REPORTING STANDARDS
2010' BY THE ACCOUNTING
STANDARDS BOARD**

'Improvements to Financial Reporting Standards 2010' was issued for approval by the ten members of the Accounting Standards Board.

Members of the Accounting Standards Board:

Ian Mackintosh

David Loweth

Nick Anderson

Edward Beale

Marisa Cassoni

Peter Elwin

Ken Lever

Robert Overend

Andy Simmonds

Pauline Wallace

Chairman

Technical Director

IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS ARISING FROM ANNUAL IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *

Amendments to Financial Reporting Standard 29 (IFRS 7) ‘Financial Instruments: Disclosures’

The IASB amended IFRS 7 to address practical concerns, improve clarity and enhance consistency within the standard.

The ASB is amending FRS 29 as follows:

Paragraphs 32A and 44L are added. Paragraphs 34 and 36–38 are amended (IASB amended text is reproduced in Appendix A of this document) to read as follows:

- 32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity’s exposure to risks.

Quantitative disclosures

- 34 For each type of risk arising from financial instruments, an entity shall disclose:

* *Amendments to IFRS are set out in the IFRS ‘Improvements to IFRSs’, which the IASB issued in May 2010. Those annual improvements to IFRS that have given rise to improvements to Financial Reporting Standards are reproduced in Appendix A.*

- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in FRS 8, 'Related party disclosures' ~~IAS 24 *Related Party Disclosures*~~), for example the entity's board of directors or chief executive officer.
- (b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).
- (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

Credit risk

- 36 An entity shall disclose by class of financial instrument:
- (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with FRS 25 ~~IAS 32~~); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.
 - (b) a description of collateral held as security and of other credit enhancements, and their financial effect (eg a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).
 - (c) information about the credit quality of financial assets that are neither *past due* nor impaired.
 - (d) [deleted]

Financial assets that are either past due or impaired

- 37 An entity shall disclose by class of financial asset:
- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and
 - (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired.
 - (c) [deleted]

Collateral and other credit enhancements obtained

- 38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other FRS ~~IFRSs~~, an entity shall disclose for such assets held at the reporting date:
- (a) the nature and carrying amount of the assets; and
 - (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.
- 44L 'Improvements to Financial Reporting Standards 2010' ~~*Improvements to IFRSs*~~ issued in November ~~May~~ 2010 added paragraph 32A and amended paragraphs 34 and 36–38. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on Financial Reporting Standard 29 (IFRS 7) ‘Financial Instruments: Disclosures’

After paragraph BC42, a heading and paragraph BC42A are added. Paragraphs BC47A and BC49A are added. After paragraph BC54, a heading and paragraph BC54A are added. Paragraphs BC55A and BC56A are added.

Interaction between qualitative and quantitative disclosures (paragraph 32A)

- BC42A In *Improvements to IFRSs* issued in May 2010, the Board addressed a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments. The Board emphasised the interaction between qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments. This enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The Board concluded that an explicit emphasis on the interaction between qualitative and quantitative disclosures will contribute to disclosure of information in a way that better enables users to evaluate an entity’s exposure.
- BC47A In *Improvements to IFRSs* issued in May 2010, the Board removed the reference to materiality from paragraph 34(b) of IFRS 7. The Board noted that the reference could imply that disclosures in IFRS 7 are required even if those disclosures are not material, which was not the Board’s intention.
- BC49A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that the disclosure requirement in paragraph 36(a) applies only to

financial assets whose carrying amounts do not show the reporting entity's maximum exposure to credit risk. Such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.

Financial assets with renegotiated terms (paragraph 36(d))

BC54A In *Improvements to IFRSs* issued in May 2010, the Board addressed a practical concern relating to the disclosure requirements for renegotiated financial assets. The Board deleted the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the original requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered. Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired.

BC55A In *Improvements to IFRSs* issued in May 2010, the Board addressed a concern that the disclosure of the fair value of

collateral was potentially misleading. Within a class of assets some might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board removed from paragraph 37(c) the requirement to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board included in paragraph 36(b) a requirement to disclose a description of collateral held as security and of other credit enhancements and to disclose their financial effect.

BC56A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that paragraph 38 requires entities to disclose the amount of foreclosed collateral held at the reporting date. This is consistent with the objective in IFRS 7 to disclose information that enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

Amendment to guidance on implementing Financial Reporting Standard 29 (IFRS 7) ‘Financial Instruments: Disclosures’

A heading (‘Materiality’) and paragraph IG3 are deleted.

IG3 [deleted]

IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS ARISING FROM OTHER CHANGES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendment to Financial Reporting Standard 8 ‘Related Party Disclosures’

In November 2009, the IASB amended IAS 24 ‘Related Party Disclosures’ to simplify the definition of a related party and remove inconsistencies. As UK company law refers to the definition of a related party set out in ‘International Accounting Standards’ (IAS 24), the ASB is amending FRS 8 to ensure consistency between FRS 8 and company law.

The ASB is amending FRS 8 as follows:

Paragraphs b, c and d of the Summary for FRS 8 are deleted. Paragraphs 2.1, 2.5, 11, 12 and 13 of FRS 8 are amended (new text is underlined and deleted text is struck through), and paragraphs 2.4, 4 and 14 are deleted. The headings associated with paragraphs 11 to 14 are also deleted (deleted text is struck through). Paragraph 7C is added.

b [deleted]

c [deleted]

d [deleted]

2.1 *Close members of the family of a person -*

Close members of the family of a ~~person~~ an individual are those family members, ~~or members of the same household,~~ who may be expected to influence, or be influenced by, that person in their dealings with the ~~reporting~~ entity and include:-

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

2.4 [deleted]

2.5 *Related party*:*

~~A party is related to an entity if:~~

- (a) ~~directly, or indirectly through one or more intermediaries, the party:~~
 - (i) ~~controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);~~
 - (ii) ~~has an interest in the entity that gives it significant influence over the entity; or~~
 - (iii) ~~has joint control over the entity;~~
- (b) ~~the party is an associate (as defined in FRS 9, 'Associates and joint ventures') of the entity;~~
- (c) ~~the party is a joint venture in which the entity is a venturer (as defined in FRS 9, 'Associates and joint ventures');~~
- (d) ~~the party is a member of the key management personnel of the entity or its parent;~~

* In this Statement of Standard Accounting Practice references to 'related parties' are deemed to be synonymous with the definition of 'related party'.

- ~~(e) the party is a close member of the family of any individual referred to in subparagraph (a) or (d);~~
- ~~(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or (e); or~~
- ~~(g) the party is a retirement benefit scheme for the benefit of employees of the entity, or of any entity that is a related party of the entity.~~

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

- (a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity;
or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a

member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a retirement benefit scheme* for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a scheme, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4 [deleted]

Party

11 ~~The definition of a related party encompasses both an individual or an entity, such as a company or unincorporated business, and a group of individuals or entities acting in concert. Groups of individuals or entities are included in this definition because, although a single individual or entity (having, for example only a small shareholding) might not be able to divert a particular reporting entity from pursuing its~~

* LAS 24 refers to a 'post-employment benefit plan', but the term 'retirement benefit scheme' has been retained in FRS 8 so as to ensure consistency with other FRS.

~~own separate interests, this could be achieved by the individual or entity acting in concert with others.~~

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Relationship

- 12 ~~The definition is limited to parties having a relationship with a reporting entity that affects the pursuit of separate interests of either the reporting entity or the other party, since transactions with such parties could have a significant effect on the financial position and operating results of the reporting entity. Consequently, subsidiary undertakings and associates are related parties of the investor. The reporting entity and a major customer or supplier are not related parties by virtue of that connection alone because the reporting entity still retains the freedom to make decisions in its own separate interests.~~

In the context of this FRS, the following are not related parties:

- (a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- (b) two venturers simply because they share joint control over a joint venture.
- (c) (i) providers of finance,
 - (ii) trade unions,
 - (iii) public utilities, and
 - (iv) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity,

simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).

- (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

~~Common control~~

- 13 ~~Entities subject to common control are included in the definition of a related party because the controlling entity could cause such entities to transact or not to transact with one another or to transact on particular terms. The relationship could therefore have a material effect on the performance and financial position of the reporting entity. Common control is deemed to exist when both parties are subject to control from boards having a controlling nucleus of directors in common.~~

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

~~Common influence~~

- 14 ~~[deleted]~~
- 7C 'Improvements to Financial Reporting Standards 2010' issued in November 2010 amended paragraphs 2.1, 2.5, 11, 12 and 13, and it deleted paragraphs 2.4, 4 and 14. An entity shall apply this amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Amendment to Appendix I to Financial Reporting Standard 8 ‘Related Party Disclosures’

The table of corresponding legal references in the Republic of Ireland is amended (new text is underlined and deleted text is struck through) and the paragraph following the table is deleted. Only those rows of the table with amendments are shown.

United Kingdom	Republic of Ireland
<i>Large and Medium-sized Companies and Groups (Accounts and Reports) 2008 Regulations (SI 2008/410) *†</i>	
Regulation 4 (2) (b) <i>(Exemption for medium-sized companies from disclosing related party transactions)</i>	See note below on the implementation of Directive 2006/46/EC into Irish law <u>Exemption not taken up in European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450)</u>

* *There are no regulations in Ireland equivalent to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 – SI 2008/410. The corresponding financial reporting requirements are contained within the Companies Acts, as discussed above. In transposing the provisions of Directive 2006/46/EC (SI 2009/450) into Irish law, Ireland chose not to take up the Member State option to exempt small and medium sized companies from the related party disclosures required by the Directive. Thus the legal references included below apply to companies in Ireland regardless of size.*

† *In Ireland, there is an exemption from the preparation of group accounts for medium sized groups under the Group Accounts Regulations 1992. An Irish parent company within the scope of these Regulations is exempt from the requirement to prepare group accounts if it meets the size and other criteria set out in Regulation 7. The size criteria in summary require that the parent and subsidiaries together meet two of the following three conditions:*

- (i) balance sheet total does not exceed €7,618,428;*
- (ii) turnover does not exceed €15,236,858; and*
- (iii) average number of employees does not exceed 250.*

United Kingdom	Republic of Ireland
<p>Schedule 1 Part 3 Paragraph 72 <i>(Related party transactions)</i></p>	<p>See note below on the implementation of Directive 2006/46/EC into Irish law</p> <p><u>1986 Act:</u> <u>Paragraph 36B of Part IV of the Schedule (as inserted by Regulation 6 of the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450))</u></p>
<p>Schedule 2 (paragraph 92) and 3 (paragraph 90) <i>(Provisions relating to banking and insurance companies: disclosure in notes to accounts of related party transactions)</i></p>	<p>See note below on the implementation of Directive 2006/46/EC into Irish law</p> <p><u>Credit Institutions Regulations 1992:</u> <u>Paragraph 66B of Part I of the Schedule (as inserted by Regulation 18 of the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450))</u></p> <p><u>Insurance Undertakings Regulations 1996:</u> <u>Paragraph 19B of Part III of the Schedule (as inserted by Regulation 24 of the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450))</u></p>

United Kingdom	Republic of Ireland
<p>Schedule 6* (Companies Act group accounts) (paragraph 22) (Related party transactions)</p>	<p>See note below on the implementation of Directive 2006/46/EC into Irish law</p> <p><u>Group Accounts Regulations 1992:</u> <u>Regulation 15(1)</u></p> <p><u>Credit Institutions Regulations 1992:</u> <u>Paragraph 66B of Part I of the Schedule (as inserted by Regulation 18 of the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450))</u></p> <p><u>Insurance Undertakings Regulations 1996:</u> <u>Paragraph 19B of Part III of the Schedule (as inserted by Regulation 24 of the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450))</u></p>

~~The Department of Enterprise, Trade and Employment (DETE) has recently carried out a consultation process on the implementation of the provisions of Directive 2006/46/EC~~

* In Ireland, there is an exemption from the preparation of group accounts for medium sized groups under the Group Accounts Regulations 1992. An Irish parent company within the scope of these Regulations is exempt from the requirement to prepare group accounts if it meets the size and other criteria set out in Regulation 7. The size criteria in summary require that the parent and subsidiaries together meet two of the following three conditions:

- (i) balance sheet total does not exceed €7,618,428;
- (ii) turnover does not exceed €15,236,858; and
- (iii) average number of employees does not exceed 250.

~~into Irish law, with specific reference to the options contained in the Directive. DEFE is currently considering the responses to the consultation document in the context of drafting regulations to give effect to the Directive.~~

IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS – SPECIFIC UK AMENDMENTS

Amendment to Statement of Standard Accounting Practice 25 ‘Segmental Reporting’

As part of its annual review of FRS, the ASB is amending SSAP 25 to extend the existing exemption from making segmental disclosures to subsidiary undertakings whose parent undertaking provides segment information in accordance with IFRS. The ASB has also updated the references to company law in the amended paragraph.

Paragraph 4 is amended (new text is underlined and deleted text is struck through). Paragraphs 45A, 63A, 63B, 63C and 63D are added.

- 4 This accounting standard also contains provisions relating to the disclosure of inter-segment turnover, geographical segment result, segment net assets, origin of turnover, and segmental information about associated undertakings, which are not required by companies legislation. These provisions apply to any entity that:
- (a) is a public limited company or has a public limited company as a subsidiary; or
 - (b) is a banking or insurance company or group (as defined for the purposes of Part VII Sections 1164 and 1165 of the Companies Act ~~1985~~ 2006); or
 - (c) exceeds the criteria, multiplied in each case by 10, for defining a medium-sized company under Section ~~248~~ 465 of the Companies Act ~~1985~~ 2006, as amended from time to time by statutory instrument.

However, a subsidiary that is not a public limited company or a banking or insurance company need not comply with these provisions if its parent provides segmental information in compliance with this accounting standard or provides segment information in accordance with International Accounting Standards as defined by Section 474(1) of the Companies Act 2006 or International Financial Reporting Standards as issued by the International Accounting Standards Board.

- 45A 'Improvements to Financial Reporting Standards 2010' issued in November 2010 amended paragraph 4. An entity shall apply this amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.
- 63A Paragraph 4(b) makes reference to Section 1164 of the Companies Act 2006. In Irish law, the equivalent reference is to 'section 2(2) company', as defined in Regulation 2(1) of the European Communities (Credit Institutions: Accounts) Regulations, 1992 (SI 1992/294).
- 63B Paragraph 4(b) makes reference to Section 1165 of the Companies Act 2006. In Irish law, insurance companies are subject to the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 (SI 1996/23); see Regulation 3.
- 63C Paragraph 4(c) makes reference to Section 465 of the Companies Act 2006. For the Irish law equivalent, please refer to section 8 of the Companies (Amendment) Act, 1986 (as amended by Regulation 4 of the European Communities (Accounts) Regulations, 1993 (SI 1993/396), Regulation 5 of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (SI 2005/116) and Regulation 4 of the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 2009/450).

63D Paragraph 4 makes reference to Section 474(1) of the Companies Act 2006. In Irish law, the equivalent definition is provided in section 2(1) of the Companies Act, 1963 (No. 33 of 1963) as inserted by Regulation 9 and Schedule 1 to the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (SI 2005/116).

Amendment to the development of the FRS for Financial Reporting Standard 8 ‘Related Party Disclosures’

As part of its annual review of FRS, the ASB is clarifying paragraph 3(c) of FRS 8, as amended in December 2008.

Paragraph 38 is added.

- 38 The wording used in paragraph 3(c) of FRS 8, as amended in December 2008, was derived from the Regulations. The exemption set out in that paragraph should only be applied where all subsidiary undertakings which are a party to the transaction are wholly owned, directly or indirectly, by the ultimate controlling entity of the group.

APPENDIX A – ANNUAL IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT HAVE GIVEN RISE TO IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS

This appendix of the FRS sets out the IASB amendments to IFRS 7 ‘Financial Instruments: Disclosures’ to assist readers in understanding the amendments to FRS 29.

Amendments to IFRS 7 ‘Financial Instruments: Disclosures’

Paragraph 32A is added. Paragraphs 34 and 36–38 are amended (new text is underlined and deleted text is struck through). Paragraph 44L is added.

Nature and extent of risks arising from financial instruments

32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity’s exposure to risks.

Quantitative disclosures

- 34 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in

IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer.

- (b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a), ~~unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality).~~
- (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

Credit risk

36 An entity shall disclose by class of financial instrument:

- (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.;
- (b) ~~in respect of the amount disclosed in (a),~~ a description of collateral held as security and of other credit enhancements, and their financial effect (eg a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).;
- (c) information about the credit quality of financial assets that are neither *past due* nor impaired, ~~and~~
- (d) ~~[deleted] the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.~~

- 37 An entity shall disclose by class of financial asset:
- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and
 - (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; ~~and~~
 - (c) ~~[deleted] for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.~~

Collateral and other credit enhancements obtained

- 38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other IFRSs, an entity shall disclose for such assets held at the reporting date:
- (a) the nature and carrying amount of the assets ~~obtained~~; and
 - (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Effective date and transition

- 44L *Improvements to IFRSs* issued in May 2010 added paragraph 32A and amended paragraphs 34 and 36–38. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to Basis for Conclusions on IFRS 7 'Financial Instruments: Disclosures'

After paragraph BC42, a heading and paragraph BC42A are added. Paragraphs BC47A and BC49A are added. After paragraph BC54, a heading and paragraph BC54A are added. Paragraphs BC55A and BC56A are added.

Interaction between qualitative and quantitative disclosures (paragraph 32A)

- BC42A In *Improvements to IFRSs* issued in May 2010, the Board addressed a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments. The Board emphasised the interaction between qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments. This enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The Board concluded that an explicit emphasis on the interaction between qualitative and quantitative disclosures will contribute to disclosure of information in a way that better enables users to evaluate an entity's exposure.
- BC47A In *Improvements to IFRSs* issued in May 2010, the Board removed the reference to materiality from paragraph 34(b) of IFRS 7. The Board noted that the reference could imply that disclosures in IFRS 7 are required even if those disclosures are not material, which was not the Board's intention.
- BC49A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that the disclosure requirement in paragraph 36(a) applies only to financial assets whose carrying amounts do not show the

reporting entity's maximum exposure to credit risk. Such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.

**Financial assets with renegotiated terms
(paragraph 36(d))**

BC54A In *Improvements to IFRSs* issued in May 2010, the Board addressed a practical concern relating to the disclosure requirements for renegotiated financial assets. The Board deleted the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the original requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered. Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired.

BC55A In *Improvements to IFRSs* issued in May 2010, the Board addressed a concern that the disclosure of the fair value of collateral was potentially misleading. Within a class of

assets some might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board removed from paragraph 37(c) the requirement to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board included in paragraph 36(b) a requirement to disclose a description of collateral held as security and of other credit enhancements and to disclose their financial effect.

BC56A In *Improvements to IFRSs* issued in May 2010, the Board enhanced consistency within IFRS 7 by clarifying that paragraph 38 requires entities to disclose the amount of foreclosed collateral held at the reporting date. This is consistent with the objective in IFRS 7 to disclose information that enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

Amendment to guidance on implementing IFRS 7 'Financial instruments: Disclosures'

A heading and paragraphs IG3 and IG4 are deleted (new text is underlined and deleted text is struck through).

Introduction

Materiality

~~IG3-IG4~~ ~~[Deleted]~~ ~~IAS 1 Presentation of Financial Statements~~ notes that a specific disclosure requirement in an IFRS need not be satisfied if the information is not material. ~~IAS 1 defines materiality as follows:~~

~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~

~~IG4~~ ~~IAS 1 also explains that definition as follows:~~

~~Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~

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