

# Bulletin de nouvelles sur les IFRS

## La route vers la conversion

### *Les instruments financiers exposés – Exemples d'informations à fournir et directives explicatives sur l'IFRS 7*

**Novembre 2009**

Nous sommes heureux de joindre au présent bulletin le guide d'application intitulé *Financial Instruments on Display - Illustrative Disclosures and Guidance on IFRS 7*, réalisé par l'équipe IFRS de Grant Thornton International Ltd (Grant Thornton International).

La Norme internationale d'information financière IFRS 7, *Instruments financiers : Informations à fournir* (IFRS 7), n'est pas nouvelle – elle est entrée en vigueur pour les exercices ouverts à compter du 1<sup>er</sup> janvier 2007. Néanmoins, nous pensons que ce guide peut vous être très utile. L'expérience a montré que l'IFRS 7 présente certains défis, et deux années de pratique nous permettent de partager avec vous un aperçu des domaines les plus problématiques. Qui plus est, la crise financière mondiale a braqué les projecteurs sur la pertinence des informations à fournir, notamment sur le risque, en ce qui concerne les instruments financiers. Elle a également amené l'International Accounting Standards Board à ajouter quelques nouvelles

exigences importantes à l'IFRS 7 au cours des derniers mois. La publication reflète ces nouvelles exigences, lesquelles sont en vigueur depuis le 1<sup>er</sup> janvier 2009.

Il ne faudrait pas sous-estimer le temps nécessaire pour se conformer à l'IFRS 7. En effet, la liste des instruments financiers couverts est longue, allant des actifs et passifs financiers simples comme les comptes bancaires, les créances clients et les fournisseurs, aux instruments financiers plus complexes tels que les dérivés. En outre, l'IFRS 7 expose les principes à la base des informations à fournir et donne quelques directives détaillées. Mais l'application de ces principes exige le jugement important de la direction.. C'est à celle-ci qu'il revient de décider de la forme précise et du contenu des informations à fournir.

Les cabinets membres de Grant Thornton International – l'une des principales organisations mondiales de cabinets comptables et de consultation détenus et gérés de façon autonome – ont acquis une grande connaissance des principes qui sous-tendent les

informations à fournir sur les instruments financiers. Le guide est le reflet de l'expérience collective des membres de l'équipe IFRS de Grant Thornton International et des experts en IFRS des cabinets membres.

Pour les entités canadiennes qui adopteront les IFRS, l'IFRS 7 ne constituera pas un changement radical puisqu'elle est en grande partie semblable aux exigences du chapitre 3862, « Instruments financiers – informations à fournir », du *Manuel de l'Institut Canadien des Comptables Agréés*. Par conséquent, le guide peut être utile pour l'application du chapitre 3862 dans les états financiers des entités qui appliquent ce chapitre.

Pour le moment, le guide *Financial Instruments on Display - Illustrative Disclosures and Guidance on IFRS 7* n'est offert qu'en version anglaise.

Pour obtenir davantage de renseignements sur ce guide d'application ou sur les points qui y sont soulevés, veuillez communiquer avec votre conseiller chez Raymond Chabot Grant Thornton.

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# Financial Instruments on Display

Illustrative Disclosures and Guidance on IFRS 7  
September 2009



# Introduction

IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) is not new - it came into effect for annual periods beginning on or after 1 January 2007. Nonetheless we think this guide, *Financial Instruments on Display - Illustrative Disclosures and Guidance on IFRS 7*, is very topical. Experience has shown that IFRS 7 presents challenges, and two years of practical experience enables us to share our insights into the most problematic areas. Moreover, the global financial crisis has put the spotlight on the adequacy of risk and other disclosures concerning financial instruments. The crisis has also led the IASB to add some significant new requirements to IFRS 7 in recent months, and these come into effect from 1 January 2009 (see below).

Achieving compliance with IFRS 7 takes time and should not be under-estimated. The instruments covered are extensive, ranging from straightforward financial assets and liabilities such as bank accounts, trade receivables and trade payables to more complex financial instruments such as derivatives. Also, IFRS 7 sets out principles for disclosure - it includes some detailed guidance but application requires significant management judgement. It is for management to decide on the precise form and content of disclosure in order to best meet the objectives. Indeed, experience to date shows that disclosures vary considerably between entities.

The member firms of Grant Thornton International Ltd (Grant Thornton International) - one of the world's leading organisations of independently owned and managed accounting and consulting firms - have gained extensive insights into the principles for disclosures of financial instruments. Grant Thornton International, through its IFRS team, develops general guidance that supports its member firms' commitment to high quality, consistent application of IFRS. We are pleased to share these insights by publishing this guide. The guide reflects the collective experience of Grant Thornton International's IFRS team and member firm IFRS experts.

## **Recent amendments to IFRS 7**

Among the effects of the global financial crisis, many governments, regulators and financial statement users have questioned the adequacy of financial reporting disclosures about financial instruments and their associated risks. As part of a wider response to these concerns, the IASB has issued two 'fast track' amendments to IFRS 7 in recent months:

- amendments to IFRS 7 specifying the disclosures when an entity reclassifies financial assets in accordance with the amendments made to IAS 39 *Financial Instruments: Recognition and Measurement* (Reclassification of Financial Assets),
- improving the disclosures in relation to certain aspects of fair value measurement and liquidity risk.

Both amendments are effective for annual periods beginning on or after 1 January 2009. This guide includes references to these latest requirements.

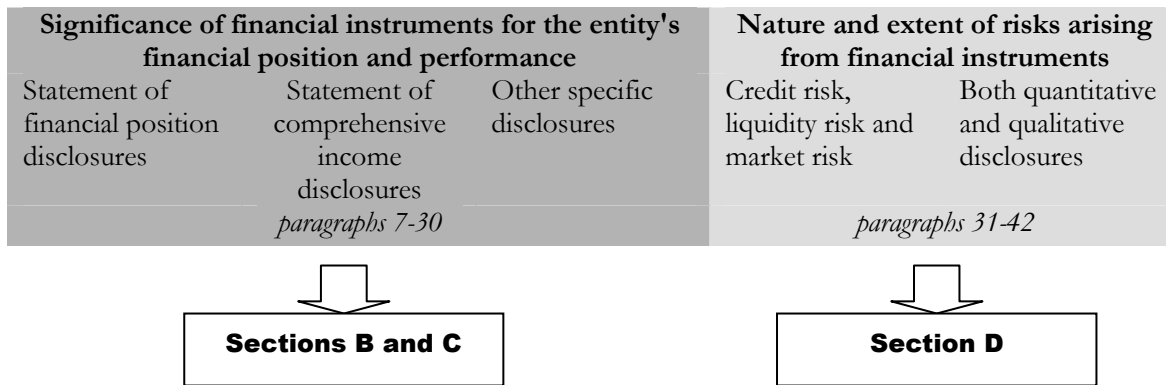
**Using this guide**

**Structure of the guide**

The guide starts with an at a glance summary of ten common 'pitfalls' in applying IFRS 7 (**section A**).

The main body of the guide is in **sections B to D**. These sections illustrate IFRS 7's requirements using financial statement extracts and footnote disclosures for a fictional (non-financial services) entity. The example disclosures are accompanied by references to IFRS 7 (or other IFRSs as applicable) and by various explanations, clarifications and other points to note.

Sections B to D reflect the structure of IFRS 7 and are organised as follows:



An illustrative accounting policy disclosure for financial instruments is set out in **section E**.

This guide also includes a discussion of the scope of IFRS 7. This is important as IFRS 7's scope is somewhat different to that of IAS 39 (**see Appendix**).

**Limitations of this guide**

This guide is intended to assist management in understanding IFRS 7 and the type of information it requires entities to disclose. The guide includes extensive example disclosures for a fictional (non-financial services) entity. These examples may not cover all the required disclosures for a real entity because this will vary from one entity to another depending on each entity's operations, transactions and policies. Accordingly, the guide should not be used as a checklist or a substitute for studying IFRS 7 itself. Further, the example disclosures are not the only way of presenting the required information. Management is responsible for the specific form and content of disclosure that will best achieve the objectives of IFRS 7 based on each entity's circumstances.

Grant Thornton International Ltd.

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## A. Ten common pitfalls

Applying IFRS 7 is challenging. The box below notes 10 common 'pitfalls' - requirements that in our experience take up management time and are sometimes misunderstood. Although these issues are often seen in practice the specific challenges will of course vary between entities.

### Ten common pitfalls

- IFRS 7 is detailed but still requires significant management judgement to decide, in the light of circumstances, how much information to provide and the format in which to present it (this guide gives one example but is not intended to be a 'template')
- IFRS 7's scope is wider than IAS 39. For example, obligations under finance leases are within scope along with some instruments that may be 'off balance sheet' (see Appendix).
- Disclosure of fair value is required for most financial instruments even if they are not measured at fair value in the statement of financial position (see section B.10)
- IFRS 7 now requires more comprehensive fair value disclosures for financial instruments measured at fair value, in particular a three-level 'fair value hierarchy' (see section B.10.2)
- Quantitative data about risk exposures should be sourced from information reported internally to key management. This management view' should then be benchmarked against the minimum quantitative data required (see section D.2)
- The requirements for liquidity risk disclosures have changed - management must now assess which derivative liabilities to include and whether to include financial assets based broadly on the relevance of the cash flows to the liquidity position (see section D.3.4)
- The maturity analyses required for liquidity risk shows gross, undiscounted cash flows and should be based on the remaining contractual maturities (including interest payments etc) The amounts will not therefore 'tie-in' to the primary statements (see section D.3.4)
- The disclosure for credit risk of financial assets is wide-ranging and goes well beyond trade receivables. Indeed credit risk can arise in some liabilities and some unrecognised instruments. Possible sources of credit risk include credit insurance, collateral, financial guarantees and loan commitments (see discussion in section D.3.3)
- Translation risk is not necessarily 'currency risk' for the purpose of the sensitivity analysis for currency risk. Currency risk arises only from financial instruments that are denominated in a different currency to each entity's functional currency (see section D.3.2.1)
- A default on payment or a breach of a loan agreement (such as a loan covenant) triggers additional disclosures under IFRS 7 - even if rectified by year-end (see section B.9.1)

## B. Illustrative disclosures and analysis: statement of financial position

### 1 Introduction

The following sections set out illustrative IFRS 7 disclosures for a fictional entity named 'the Group'. These disclosures are accompanied by analysis and discussion of the requirements (grey-shaded area), which is generally found on the facing pages to the disclosure.

We begin with the first of IFRS 7's disclosure objectives (paragraphs 7-30 of the IFRS). In the words of the standard the general principle of these disclosures is:

"An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance." (IFRS 7.7)

Accordingly, these disclosures focus on the significance of financial instruments for:

- the statement of financial position, and
- the statement of comprehensive income.

The disclosures for the statement of comprehensive income are presented in the following section of the guide (section C), while this section focuses on 'statement of financial position' disclosures.



## 2 The face of the statement of financial position

IAS 1.51(c)	<b>Assets</b>	Notes	2009	2008	2007
IAS 1.51(d-e)			CU000	CU000	CU000
IAS 1.60, IAS 1.66	<b>Non-current</b>				
IAS 1.54(a)	Property, plant and equipment	x	16,500	17,900	22,400
IAS 1.54(e), IAS 28.38	Equity accounted investments	x	1,250	1,100	1,000
IAS 1.54(d)	Other financial assets	4	13,240	13,924	14,983
IAS 1.54(b)	Investment property	x	12,525	12,175	12,000
IAS 1.60	Non-current assets		<u>43,515</u>	<u>45,099</u>	<u>50,383</u>
IAS 1.60, IAS 1.66	<b>Current</b>				
IAS 1.54(g)	Inventories	x	26,000	19,300	18,000
IAS 1.54(h)	Trade and other receivables	6	28,208	22,386	20,607
IAS 1.55	Derivative financial instruments	5	682	212	490
IAS 1.54(d)	Other financial assets	4	1,660	1,700	1,740
IAS 1.54(i)	Cash and cash equivalents	7	14,595	18,912	10,007
IAS 1.60	Current assets		<u>71,145</u>	<u>62,510</u>	<u>50,844</u>
IAS 1.55	<b>Total assets</b>		<u>114,660</u>	<u>107,609</u>	<u>101,227</u>
IAS 1.57	<b>Equity and liabilities</b>				
	<b>Equity</b>				
	Equity attributable to owners of the parent:				
IAS 1.54(r)	Share capital		12,000	12,000	12,000
IAS 1.55	Share premium		3,050	3,050	3,050
IAS 1.55	Available-for-sale reserve	4.2	190	109	21
	Cash-flow-hedge reserve	5	467	(160)	312
IAS 1.54(r)	Retained earnings		46,258	37,858	29,958
IAS 1.55	<b>Total equity</b>		<u>61,965</u>	<u>52,857</u>	<u>45,341</u>
IAS 1.60	<b>Liabilities</b>				
IAS 1.69	<b>Non-current</b>				
IAS 1.54(l)	Provisions	x	4,000	4,000	4,000
IAS 1.54(m)	Borrowings	9	22,329	24,814	27,281
IAS 1.54(o), 56	Deferred tax liabilities	x	5,500	4,600	3,000
IAS 1.54(k)	Trade and other payables	8	2,140	4,130	5,981
IAS 1.55	Non-current liabilities		<u>33,969</u>	<u>37,544</u>	<u>40,262</u>
IAS 1.69	<b>Current</b>				
IAS 1.54(n)	Current tax liabilities		1,100	1,600	300
IAS 1.54(k)	Trade and other payables	8	10,561	9,824	9,281
IAS 1.54(m)	Borrowings	9	7,065	5,624	6,043
IAS 1.54(m)	Derivative financial instruments	5	-	160	-
IAS 1.55	Current liabilities		<u>18,726</u>	<u>17,208</u>	<u>15,624</u>
IAS 1.55	<b>Total liabilities</b>		<u>52,695</u>	<u>54,752</u>	<u>55,886</u>
IAS 1.55	<b>Total equity and liabilities</b>		<u>114,660</u>	<u>107,609</u>	<u>101,227</u>

[For the purpose of this guide, financial instruments are highlighted in grey. A discussion of the statement of financial position follows on the following page.]

### The statement of financial position

IAS 1.54	<p>IAS 1 sets out the basic framework for the presentation of financial statements. IAS 1.54 requires specific minimum headings and line items to be presented in the statement of financial position. These include the following line items applicable to financial assets and liabilities:</p> <ul style="list-style-type: none"> <li>• investments accounted for using the equity method (IAS 1.54(e));</li> <li>• trade and other receivables (IAS 1.54(h));</li> <li>• cash and cash equivalents (IAS 1.54(i));</li> <li>• financial assets, excluding amounts shown under (e), (h) and (i) (IAS 1.54(d))</li> <li>• trade and other payables (IAS 1.54(k));</li> <li>• provisions (IAS 1.54(l));</li> <li>• financial liabilities, excluding amounts shown under (k) and (l) (IAS 1.54(m))</li> </ul>
IAS 1.57-59	<p>IAS 1 provides for some flexibility as to the descriptions used, ordering, aggregation and additional line items in order to achieve a presentation that is relevant to an entity's operations and transactions.</p>
IFRS 7.8	<p><b>IAS 39 measurement categories</b></p> <p>IFRS 7.8 requires entities to disclose the carrying amount of its financial instruments within each of the IAS 39 measurement categories. This is normally set out in the notes (which is the case in this example) but can be presented on the face of the statement of financial position. An entity that provides the analysis on the face of its statement of financial position must also comply with the line item requirements of IAS 1 (see above).</p>
IAS 1.60 IAS 1.66 IAS 1.69	<p><b>Current/non-current financial instruments</b></p> <p>Each asset and liability is presented as current or non-current in the statement of financial position, unless a presentation based on liquidity provides information that is reliable and more relevant (IAS 1.60). In summary, current classification is required for:</p> <ul style="list-style-type: none"> <li>• assets and liabilities that are held primarily for the purposes of being traded; or</li> <li>• assets that are: <ul style="list-style-type: none"> <li>– expected to be realised within 12 months after the reporting date; or</li> <li>– expected to be realised, sold or consumed in the entity's normal operating cycle;</li> <li>– cash or cash equivalents (unless restricted beyond 12 months)</li> </ul> </li> <li>• liabilities that: <ul style="list-style-type: none"> <li>– are due to be settled within 12 months after the reporting date; or</li> <li>– expected to be settled within the entity's normal operating cycle; or</li> <li>– with no unconditional right to defer settlement beyond 12 months from period end.</li> </ul> </li> </ul>
	<p>Some financial instruments have to be split into a current and non-current part.</p>
IAS 1.68 IAS 1.71	<p><b>Derivatives - current/non-current</b></p> <p>Derivatives are classified as held for trading in IAS 39.9 (if not designated in a hedging relationship). Improvements to IFRSs released in May 2008 clarified that current assets and liabilities include some financial assets or liabilities classified as held for trading in accordance with IAS 39 (but not necessarily all). Accordingly, financial instruments classified as held for trading are not automatically required to be presented as current. Instead IAS 1's normal classification principles should be applied.</p>

### 3 Financial instruments by category

The carrying amounts of financial assets presented in the statement of financial position relate to the following measurement categories as defined in IAS 39:

	Note	Loans and receivables CU000	At fair value through profit or loss (FVTPL)			Available-for-sale financial assets CU000	Derivatives designated as hedging instruments CU000	Other (non- IAS 39) CU000	Total for line item CU000
			Held-to-maturity investments CU000	Held for trading CU000	Designated at FVTPL CU000				
<b>2009</b>									
<b>Non-current:</b>									
Other financial assets	4	-	2,543	-	8,325	2,372	-	-	13,240
<b>Current:</b>									
Trade and other receivables	6	25,524	-	-	-	-	-	2,684	28,208
Derivative financial instruments	5	-	-	215	-	-	467	-	682
Other financial assets	4	-	400	-	1,260	-	-	-	1,660
Cash and cash equivalents	7	14,595	-	-	-	-	-	-	14,595
<b>Total for category</b>		<b>40,119</b>	<b>2,943</b>	<b>215</b>	<b>9,585</b>	<b>2,372</b>	<b>467</b>	<b>2,684</b>	<b>58,385</b>
<b>2008</b>									
<b>Non-current:</b>									
Other financial assets	4	-	2,848	-	8,775	2,301	-	-	13,924
<b>Current:</b>									
Trade and other receivables	6	20,199	-	-	-	-	-	2,187	22,386
Derivative financial instruments	5	-	-	212	-	-	-	-	212
Other financial assets	4	-	400	-	1,300	-	-	-	1,700
Cash and cash equivalents	7	18,912	-	-	-	-	-	-	18,912
<b>Total for category</b>		<b>39,111</b>	<b>3,248</b>	<b>212</b>	<b>10,075</b>	<b>2,301</b>	<b>-</b>	<b>2,187</b>	<b>57,134</b>
<b>2007</b>									
<b>Non-current:</b>									
Other financial assets	4	-	3,222	-	9,200	2,561	-	-	14,983
<b>Current:</b>									
Trade and other receivables	6	18,761	-	-	-	-	-	1,846	20,607
Derivative financial instruments	5	-	-	178	-	-	312	-	490
Other financial assets	4	-	400	-	1,340	-	-	-	1,740
Cash and cash equivalents	7	10,007	-	-	-	-	-	-	10,007
<b>Total for category</b>		<b>28,768</b>	<b>3,622</b>	<b>178</b>	<b>10,540</b>	<b>2,561</b>	<b>312</b>	<b>1,846</b>	<b>47,827</b>

Information about the fair value of each class of financial instruments is given in note 10 with a comparison to the carrying amounts in the financial statements.

**[continues on page 12]**

IFRS 7.8

**Categories of financial instruments**

IFRS 7.8 requires disclosure of the carrying amounts of each of the following IAS 39 measurement categories:

- financial assets at fair value through profit or loss, showing separately
  - those designated as such upon initial recognition, and
  - those classified as held for trading in accordance with IAS 39;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- financial liabilities at fair value through profit or loss, showing separately
  - those designated as such upon initial recognition and
  - those classified as held for trading in accordance with IAS 39;
- financial liabilities measured at amortised cost.

This may be presented either in the statement of financial position or in the notes (or by a combination of both). Most entities give the analysis in the notes. In the illustrative disclosure on the facing page, a 'matrix' form of presentation is shown. Other forms of presentation are possible.

The purpose of the disclosure is to assist users in understanding the extent to which accounting policies affect the amounts at which financial assets and financial liabilities are recognised (IFRS 7.BC14). The key point is that in order to compile this disclosure, entities must be able to identify their financial assets and liabilities based on the IAS 39 measurement categories. For example, IAS 39 category for an investment in a bond will differ depending on the circumstances, which in turn affects the amount recognised in the statement of financial position (eg whether the bond is measured at amortised cost or fair value). Accordingly, it is essential for users to understand which category is used for an entity's financial instruments.

The carrying amounts of financial liabilities presented in the statement of financial position relate to the following measurement categories as defined in IAS 39:

		Held for trading (at fair value through profit or loss)	Designated at fair value through profit or loss	Financial liabilities measured at amortised cost	Derivatives designated as hedging instruments	Other (non-IAS 39)	Total for line item
	Note	CU000	CU000	CU000	CU000	CU000	CU000
<b>2009</b>							
<b>Non-current:</b>							
Borrowings	9	-	7,040	15,289	-	-	22,329
Trade and other payables	8	-	-	-	-	2,140	2,140
<b>Current:</b>							
Trade and other payables	8	-	-	8,261	-	2,300	10,561
Borrowings	9	-	500	6,565	-	-	7,065
Derivative financial instruments	5	-	-	-	-	-	-
Total for category		-	7,540	30,115	-	4,440	42,095
<b>2008</b>							
<b>Non-current:</b>							
Borrowings	9	-	7,535	17,279	-	-	24,814
Trade and other payables	8	-	-	-	-	4,130	4,130
<b>Current:</b>							
Trade and other payables	8	-	-	7,524	-	2,300	9,824
Borrowings	9	-	500	5,124	-	-	5,624
Derivative financial instruments	5	-	-	-	160	-	160
Total for category		-	8,035	29,927	160	6,430	44,552
<b>2007</b>							
<b>Non-current:</b>							
Borrowings	9	-	8,015	19,266	-	-	27,281
Trade and other payables	8	-	-	-	-	5,981	5,981
<b>Current:</b>							
Trade and other payables	8	-	-	6,981	-	2,300	9,281
Borrowings	9	-	500	5,543	-	-	6,043
Derivative financial instruments	5	-	-	-	-	-	-
Total for category		-	8,515	31,790	-	8,281	48,586

**Categories and classes of financial instruments**

IAS 39 'categories' need to be distinguished from 'classes' of financial instruments. Classes of financial instruments are determined by management and are required for certain of IFRS 7's disclosures (IFRS 7.6). The disclosure on the facing page shows the amounts by category and also the line items in the statement of financial position in which the amounts are included. IFRS 7.6 requires the entity to provide sufficient information to reconcile the 'classes' to the line items in the statement of financial position.

It should also be noted that IFRS 7.8 requires separate disclosure of carrying amounts of financial assets and financial liabilities that are classified as held for trading and those designated upon initial recognition as financial assets and financial liabilities at fair value through profit or loss. This is useful because such designation is at the discretion of the entity. Disclosure therefore assists users in understanding the extent to which the chosen accounting policy affects the amounts of financial instruments (IFRS 7.BC15).

IFRS 7.8 does not require that derivatives designated in a hedging relationship are distinguished in the disclosures (it is not a measurement category in accordance with IAS 39). Entities should however consider showing derivatives designated as hedging instruments. We believe this is helpful, as it shows the extent to which management has applied the optional hedge accounting rules. The disclosures on the facing page include this additional 'category'.

**Other (non-IAS 39)**

The disclosure on the facing page includes a heading designated as 'Other (non-IAS 39)'. In order to facilitate the reconciliation to line items in the statement of financial position this column includes financial assets and financial liabilities not included in the IAS 39 measurement categories.

Although finance leases are within the scope of IFRS 7, they do not fall into any of the IAS 39 measurement categories. Accordingly they are included in this column. Other non-financial assets and non-financial liabilities would also be included in this column.

#### 4 Other financial assets

Other financial assets comprise the following investments:

		Current			Non-current		
		2009	2008	2007	2009	2008	2007
		CU000	CU000	CU000	CU000	CU000	CU000
IFRS 7.8(b)	Held-to-maturity investments:						
	Note						
IFRS 7.6	Zero coupon bonds	-	-	-	1,476	1,455	1,435
IFRS 7.6	US straight bonds	400	400	400	1,067	1,393	1,787
		400	400	400	2,543	2,848	3,222
IFRS 7.8(d)	Available-for-sale financial assets:						
	Note						
IFRS 7.6	Listed securities and debentures	-	-	-	562	495	478
IFRS 7.6	Unlisted equity investments	-	-	-	1,810	1,806	2,083
		-	-	-	2,372	2,301	2,561
IFRS 7.8(a)(i)	Financial assets designated at fair value through profit or loss:						
	Note						
IFRS 7.6	Eurozone bonds	1,260	1,300	1,340	8,325	8,775	9,200
		1,660	1,700	1,740	13,240	13,924	14,983

#### IFRS 7.8 4.1 Held-to-maturity investments

Held-to-maturity investments comprise listed bonds. The carrying amounts, measured at amortised cost are shown in the table above.

IFRS 7.25-30 The fair values and the methods used to calculate fair value are disclosed in note 10. All bonds are non-convertible and have the following terms:

#### Zero-coupon bonds and US straight bonds

IFRS 7.7 Zero-coupon bonds and US straight bonds are government bonds maturing between 2010 and  
IFRS 7.31 2013 with fixed interest rates between 6 and 7%. Zero-coupon bonds are denominated in CU, while the US straight bonds are denominated in USD.

IFRS 7.36(a),(c) The bonds are subject to credit risk. Information on the Group's exposure to credit risk is  
IFRS 7.IG23(a) described in note D.3.3.  
IFRS 7.20(e)

### Other financial assets

#### Terms of financial instruments

IFRS 7.7

In the illustrative example, some of the terms relating to the financial instruments are disclosed, such as for example the interest rates and maturities in relation to bonds. This is not an explicit requirement of IFRS 7, but in some circumstances may be necessary to satisfy the general principle in IFRS 7.7. Providing this information may also give users information about the quality of financial instruments in question. Entities may also be required to expand their disclosures in relation to other types of financial instruments, such as for example explaining key terms of their derivatives.

#### Financial assets designated at fair value through profit or loss

IFRS 7.9

In this example, no loans and receivables have been designated at fair value through profit or loss. This 'fair value option' is available subject to the conditions in IAS 39. If an entity has loans and receivables in this measurement category, additional requirements apply.

If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:

- the maximum exposure to credit risk (see IFRS 7.36(a)) of the loan or receivable (or group of loans or receivables) at the end of the reporting period.
- the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
- the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:
  - as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk ; or
  - using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

*(changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates)*

- the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

IFRS 7.11

The entity shall describe the methods used to comply with the third bullet-point above (ie IFRS 7.9(c)). If the entity believes that the disclosure it has given to comply with this requirement does not faithfully represent the change in the fair value of the financial asset attributable to changes in its credit risk, the entity should disclose the reasons for reaching this conclusion and the factors it believes are relevant.



## 4.2 Available-for-sale financial assets

### IFRS 7.6 **Listed securities and debentures**

		2009	2008	2007
		CU000	CU000	CU000
IFRS 7.7	Listed equity securities	409	343	330
IFRS 7.7	Listed debentures	153	152	148
	Carrying amount	562	495	478

IFRS 7.25 All the investments are measured at their fair value at the reporting date. See note 10 for fair value information. All securities and debentures are denominated in CU.

### IFRS 7.6 **Unlisted equity investments**

		2009	2008	2007
		CU000	CU000	CU000
IFRS 7.7	XY Ltd.	433	433	783
IFRS 7.7	Innovative-data Ltd.	1,377	1,373	1,300
	Carrying amount	1,810	1,806	2,083

IFRS 7.25 The investment in XY Ltd. is measured at cost less impairment charges. The investment in  
IFRS 7.8 Innovative-data Ltd. is carried at fair value. See note 10 for fair value information.

IFRS 7.30(a)-  
(d) XY Ltd., one of the Group's suppliers in the telecommunication business, is not a listed company. XY Ltd. is currently in its second year of a major restructuring process, which has triggered possible litigation by third parties. Due to numerous uncertainties regarding the future development of XY Ltd., the fair value of the Group's equity participation in this entity cannot be reliably measured. This investment has therefore been stated at cost less impairment charges. An impairment charge of CU 350,000 was recognised in 'finance costs' in 2008. The Group plans to continue to hold its 15% interest in XY Ltd. while it secures other supply lines.

IFRS 7.7 The Group owns a minority interest, currently 8.5%, of the equity instruments in Innovative-data Ltd. The Group collaborates with Innovative-data Ltd. on certain research and development programmes that are significant for the Group's research strategy. To support the investment in research the Group decided to purchase equity instruments in the company in 2007. The investment is measured at fair value.

IFRS 7.14 The Group has pledged its shares in Innovative-data Ltd. (carrying value as stated above) as collateral for its bank overdrafts (see note 9.1). If the Group breaches its obligations on its bank overdrafts, the bank is permitted to take possession of the shares and may utilise its right to sell them.

## 4.3 Financial assets designated at fair value through profit or loss

### IFRS 7.6 **Eurozone bonds**

IFRS 7.21 It is the Group's accounting policy to designate certain Eurozone bonds as at fair value through  
IAS 39.9 profit or loss on initial recognition (see section E). Fixed-rate EUR-denominated loans are likewise designated at fair value through profit or loss to significantly reduce recognition and measurement inconsistencies.

The Eurozone bonds carry a fixed interest rate of 6%. They mature in 2028. The bonds are government bonds issued by countries in the Eurozone. The fair value at the reporting date also reflects the CU/EUR exchange rate at the reporting dates.

**Other financial assets (continued)**

IAS 1.92 IAS 1.82(g)	<p><b>Available-for-sale financial assets</b></p> <p>Entities are required to present both current year gains or losses and reclassification adjustments in relation to available-for-sale financial assets. IAS 1.92 states that an entity shall disclose reclassification adjustments relating to components of other comprehensive income. Furthermore, an entity is required to present each component of other comprehensive income classified by nature (IAS 1.82(g)).</p> <p>The disclosures of reclassification adjustments are often presented in the statement of comprehensive income, but may also be presented in the notes (IAS 1.94).</p> <p>In this publication, both current year gains or losses and reclassification adjustments are presented on the face of the statement of comprehensive income (see section C.2). This section also discusses the requirements in respect of gains or losses on available-for-sale financial assets - both those specified by IFRS 7 and those specified by IAS 1.</p>
IAS 1.90	<p>Entities should also note that the amount of income tax relating to each component of other comprehensive income is required to be presented either in the statement of comprehensive income or in the notes.</p>
IFRS 7.14	<p><b>Collateral</b></p> <p>An entity shall disclose:</p> <ul style="list-style-type: none"> <li>• the carrying amount of financial assets it has <b>pledged</b> as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39; and</li> <li>• the terms and conditions relating to its pledge.</li> </ul>
IFRS 7.15, and IFRS 7.38	<p>Certain disclosures are also required when an entity <b>holds</b> collateral.</p>

## 5 Derivative financial instruments

IFRS 7.22(a)-(c) The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast sales in US dollars and other currencies. All US-dollar forward exchange contracts have been designated as hedging instruments in cash flow hedges in accordance with IAS 39. Other forward exchange contracts (not in US-dollar) are considered by management to be part of economic hedge arrangements but have not been formally designated. The fair values at the reporting date are as follows:

		2009	2008	2007
		CU000	CU000	CU000
IFRS 7.22(b)	Fair value:			
IFRS 7.6	US-dollar forward contracts - cash flow hedge	467	-	312
IFRS 7.6	Other forward exchange contracts - held-for-trading	215	212	178
	Derivative financial assets	<u>682</u>	<u>212</u>	<u>490</u>
IFRS 7.6	US-dollar forward contracts - cash flow hedge	-	(160)	-
	Derivative financial liabilities	<u>-</u>	<u>(160)</u>	<u>-</u>
	Net fair value of derivatives	<u>682</u>	<u>52</u>	<u>490</u>

IFRS 7.27(a) All derivatives are measured at fair value. The fair values for these contracts are measured as described in note 10.2.

### US-dollar forward contracts

IFRS 7.23(a),(b) The Group's US-dollar forward contracts relate to cash flows that are expected to occur and affect profit or loss in October - December 2010. All forecast transactions for which hedge accounting has been used are expected to occur.

IFRS 7.23(c) During 2009 a gain of CU 367,000 was recognised in other comprehensive income (2008: CU - 47,000). The cumulative amount recorded in equity amounts to CU 467,000 (2008: CU - 160,000; 2007: CU 312,000).

IFRS 7.23(d),(e) During 2009 a loss of CU 260,000 was reclassified from equity into profit or loss within 'revenue' (2008: a gain of CU 425,000). No gain or loss has been reclassified from equity into the cost of a non-financial asset or liability.

IFRS 7.24(b) The ineffectiveness of the cash flow hedge recognised in profit or loss for the period amount to CU 12 (2008: CU -1).

### Hedge accounting

IFRS 7.22-24 IFRS 7 specifies certain disclosures for entities that apply the hedge accounting rules in IAS 39. When an entity uses hedge accounting it changes the accounting compared to 'normal' IFRS rules. In general the disclosures aim to achieve clarity in respect of the hedging relationship and its effect on the financial statements.

IFRS 7.22(a)-(c)	<p><b>General disclosures for each type of hedge</b> Disclosure is required separately for each type of hedge described in IAS 39 (fair value hedges, cash flow hedges and hedges of net investments in foreign operations):</p> <ul style="list-style-type: none"> <li>• a description of each type of hedge;</li> <li>• a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and</li> <li>• the nature of the risks being hedged.</li> </ul> <p>In the illustrative example only cash flow hedges are presented because the entity has not designated any fair value or net investment in a foreign operation hedges.</p>
IFRS 7.23	<p><b>Cash flow hedges - specific disclosures</b> IFRS 7 requires disclosures for cash flow hedges as follows:</p>
IFRS 7.23(a)	<ul style="list-style-type: none"> <li>• the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;</li> </ul>
IFRS 7.23(b)	<ul style="list-style-type: none"> <li>• a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;</li> </ul>
IFRS 7.23(c)	<ul style="list-style-type: none"> <li>• the amount that was recognised in other comprehensive income during the period;</li> </ul>
IFRS 7.23(d)	<ul style="list-style-type: none"> <li>• the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and</li> </ul>
IFRS 7.23(e)	<ul style="list-style-type: none"> <li>• the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.</li> </ul>
IFRS 7.24(b)	<p>IFRS 7 also requires an entity to explain the extent to which cash flow hedges have been effective.</p>
	<p><b>Fair value hedges</b></p>
IFRS 7.24(a)	<p>IFRS 7 requires disclosure of gains or losses on:</p> <ul style="list-style-type: none"> <li>• the hedging instrument, and</li> <li>• on the hedged item attributable to the hedged risk.</li> </ul> <p>Since the gains or losses are recognised immediately in profit or loss in a fair value hedge, the net amount represents the ineffectiveness of the hedge.</p>
	<p><b>Hedge of net investment in foreign operations</b></p>
IFRS 7.24(c)	<p>IFRS 7 requires the entity to disclose the ineffectiveness recognised in profit or loss that arises from hedges of a net investment in foreign operations. Although the accounting for a hedge of a net investment in a foreign operation is similar (but not entirely the same) to cash flow hedges, the disclosures required by IFRS 7.23 do not apply to hedges of a net investment in a foreign operation.</p>

## 6 Trade and other receivables

IAS 1.77	2009	2008	2007
IAS 1.78(b)	CU000	CU000	CU000
Trade receivables, gross	25,956	20,759	18,873
Allowance for credit losses	(432)	(560)	(112)
IFRS 7.6	<u>25,524</u>	<u>20,199</u>	<u>18,761</u>
Financial assets	<u>25,524</u>	<u>20,199</u>	<u>18,761</u>
Social security and other taxes	1,012	898	998
Construction contracts	1,374	974	670
Prepayments	298	315	178
Non-financial assets	<u>2,684</u>	<u>2,187</u>	<u>1,846</u>
Trade and other receivables	<u>28,208</u>	<u>22,386</u>	<u>20,607</u>

IFRS 7.25 All amounts are short-term. The net carrying value of trade receivables is considered a  
IFRS 7.29(a) reasonable approximation of fair value (see note 10.1 for fair value information).

IFRS 7.37(b) All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired (individually and collectively) and an allowance for credit losses of CU 72,000 (2008: CU 514,000 ; 2007: CU Nil) has been recorded accordingly within 'other expenses' in profit or loss. The impaired trade receivables are mostly due from customers in the Group's business-to-business market that are experiencing financial difficulties.

IFRS 7.16 The movement in the allowance for credit losses can be reconciled as follows:

	Individual impairment CU000	Collective impairment CU000	Total CU000
Balance 1 January 2008	67	45	112
Amounts written off (uncollectable)	(40)	(26)	(66)
Impairment loss	308	206	514
Impairment loss reversed	-	-	-
Balance 31 December 2008	<u>335</u>	<u>225</u>	<u>560</u>
Amounts written off (uncollectable)	(120)	(80)	(200)
Impairment loss	43	29	72
Impairment loss reversed	-	-	-
Balance 31 December 2009	<u>258</u>	<u>174</u>	<u>432</u>

An analysis of the credit risk related to trade receivables is given in note D.3.3.

### Trade and other receivables

IAS 1.77 IAS 1.78	IAS 1 states that entities should present further sub-classifications of the line items presented in the statement of financial position, in a manner appropriate to the entity's operations. Such sub-classifications will depend on the requirements of IFRS, and on the size, nature and functions of the amounts involved.
IAS 1.78(b)	<p>For trade receivables, IAS 1.78(b) states that these may be disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts.</p> <p>Entities often present both non-financial assets and financial assets within trade and other receivables. As a result, it may be useful for the purpose of IFRS 7 to disaggregate the amounts into non-financial and financial assets (which is the case in the illustrative example on the facing page).</p>
IAS 7.16	<p><b>Allowance account</b></p> <p>When financial assets are impaired and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, this triggers additional disclosures in relation to the allowance account. This disclosure is not required when an allowance account is not used.</p> <p>An entity is required to present a reconciliation of changes in the account during the period. The reconciliation should be presented for each class of financial assets (eg separately for bonds and trade receivables, where these are distinct classes). The Basis for Conclusions states that entities are allowed some flexibility in determining the components of the reconciliation. An entity's policies for the use of the allowance account should be disclosed. In this example this is disclosed as part of the accounting policies (see section E).</p>
IFRS 7.6 IFRS 7.BC26 IFRS 7.B5(d)	<p>IFRS 7.6</p> <p>IFRS 7.BC26</p> <p>IFRS 7.B5(d)</p> <p>IFRS 7.7</p> <p>In some industries, such as banks and other financial institutions, the allowance account is often analysed further to facilitate a better understanding of the allowance for credit losses. This is an example of presenting additional disclosures when this is necessary for users to understand the impact (IFRS 7.7). For example, the allowance account may be broken down by industry, by impairment indicator (bankruptcy etc.) or by the location of the debtor (geographical analysis). In banks, this is particularly important because of the focus on impairment. The extent to which entities expand their disclosures will of course depend on the significance of the allowance account for the entity's financial position and performance (IFRS 7.7).</p>
IFRS 7.7	<p><b>Credit risk</b></p> <p>Many regard credit risk as the most important disclosure in relation to trade receivables. IFRS 7 specifies comprehensive disclosures in relation to credit risk of trade receivables and all other financial assets. The credit risk disclosures may be presented as part of a note for trade receivables or within the risk disclosures. This guide follows the latter approach (see section D.3.3).</p>

## 7 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2009	2008	2007
IAS 7.45	CU000	CU000	CU000
Cash at bank and in hand:			
Denominated in CU	3,320	15,542	7,026
Denominated in GBP	2,255	674	550
Denominated in USD	1,503	449	430
Short-term deposits (CU)	7,517	2,247	2,001
IFRS 7.6	<u>14,595</u>	<u>18,912</u>	<u>10,007</u>

## 8 Trade and other payables

Trade and other payables include the following components:

	2009	2008	2007
	CU000	CU000	CU000
Current			
IFRS 7.6			
Trade payables	8,261	7,524	6,981
IFRS 7.6			
Current part of finance lease liabilities	2,300	2,300	2,300
	<u>10,561</u>	<u>9,824</u>	<u>9,281</u>
Non-current			
IFRS 7.6			
Finance lease liabilities	2,140	4,130	5,981
	<u>12,701</u>	<u>13,954</u>	<u>15,262</u>

IFRS 7.25 With the exception of non-current finance lease liabilities, all amounts are short term. Fair  
 IFRS 7.27(a),(b) values are included in note 10.  
 IFRS 7.29

### **Cash and cash equivalents**

IAS 32.AG3 Cash is a financial asset because it represents the contractual right of the deposit holder to obtain cash from the bank (or similar institution). Accordingly, cash and cash equivalents are in the scope of IFRS 7. Importantly, this triggers additional disclosures to those otherwise required by IAS 1 and IAS 7.

For example, preparers should include cash and cash equivalents in the IFRS 7.8 disclosure of measurement categories in IAS 39. Normally, cash and cash equivalents are 'loans and receivables'.

Other IFRS 7 disclosures may also be relevant in the circumstances - for instance, it may be necessary to include cash and cash equivalents in some of the credit risk disclosures in IFRS 7 given that a bank deposit is exposed to some level of credit risk.

IAS 7.45 **IAS 7 Statement of Cash Flows**  
Entities may include in the 'Cash and cash equivalents' footnote some of the disclosures required by IAS 7. In other words, this note will often include both information required by IFRS 7 and IAS 7.

IAS 7.46 According to IAS 7 an entity must disclose the components of cash and cash equivalents, and the policies for determining cash and cash equivalents.

IAS 7 includes further disclosures, which are not described in this guide.

### **Trade and other payables**

Finance lease liabilities are within the scope of IFRS 7, even though the recognition and measurement principles are set out in IAS 17 *Leases* rather than IAS 39 (see discussion in Appendix).

This illustrative example does not include the various finance lease disclosures required by IAS 17.

Since finance lease liabilities are within the scope of IFRS 7, these liabilities also need to be taken into account in the entity's risk disclosures (such as liquidity risk), fair value disclosures etc.



## 9 Borrowings

	Note	Current			Non-current		
		2009	2008	2007	2009	2008	2007
		CU000	CU000	CU000	CU000	CU000	CU000
IFRS 7.8(e)(i)	Financial liabilities designated at fair value through profit or loss:						
IFRS 7.6	Euro loans	500	500	500	7,040	7,535	8,015
IFRS 7.8(f)	Financial liabilities measured at amortised cost:						
IFRS 7.6	Bank loan	2,000	2,000	2,000	1,989	3,979	5,966
IFRS 7.6	Bank overdrafts	4,565	3,124	3,543	-	-	-
IFRS 7.6	Non-convertible bond	-	-	-	8,300	8,300	8,300
IFRS 7.6	Subordinated shareholder loan	-	-	-	5,000	5,000	5,000
		<u>6,565</u>	<u>5,124</u>	<u>5,543</u>	<u>15,289</u>	<u>17,279</u>	<u>19,266</u>
	Total carrying amounts	<u>7,065</u>	<u>5,624</u>	<u>6,043</u>	<u>22,329</u>	<u>24,814</u>	<u>27,281</u>

### 9.1 Borrowings at amortised cost

IFRS 7.7 All borrowings measured at amortised cost are denominated in CU. Note 10 includes  
IFRS 7.25 information on their estimated fair value.

#### IFRS 7.7 **Bank loan**

IFRS 7.31 The loan carries a variable interest rate and is repayable in equal annual instalments. The  
IAS 16.74(a) variable interest is LIBOR +2.0%. The current interest rate is 7.0%. The loan matures in 2011. The loan is secured by land and buildings owned by the Group with a current carrying amount of CU 2,400,000 (2008: CU 2,400,000; 2007: CU 2,400,000).

#### IFRS 7.7 **Bank overdrafts**

IFRS 7.31 Current interest rates are variable and average 9.0% (2008: 8.9%; 2007: 9.0%). The group has  
IFRS 7.14 pledged its shares in Innovative-data Ltd. as collateral for its bank overdrafts. The carrying amount of this equity investment is CU 1,377,000 (2008: CU 1,373,000; 2007: CU 1,300,000) measured at fair value (see note 4.2). If the Group breaches its obligations on its bank overdrafts, the bank is permitted to take possession of the shares and may utilise its right to sell them.

#### IFRS 7.7 **Non-convertible bond**

IFRS 7.31 The Group's non-convertible bond has a fixed interest rate of 6% and will mature in 2011.

#### IFRS 7.7 **Subordinated shareholder loan**

IFRS 7.31 The subordinated shareholder loan is perpetual and carries a fixed coupon of 6.5%. It is  
IAS 24.17 repayable only upon liquidation of the parent company .

IFRS 7.18 There have been no defaults or breaches of loan agreements during the period in relation to the  
IFRS 7.19 Group's borrowings.

There are no loan covenants at the end of the reporting period.

### Borrowings

In this example, 'borrowings' include both financial liabilities measured at amortised cost and financial liabilities that have been designated at fair value through profit or loss, for which additional disclosures are required under IFRS 7.10 (see below).

IFRS 7.7  
IFRS 7.31  
IFRS 7.B3

#### Terms of financial liabilities

IFRS 7.7 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. There are no specific requirements to disclose the terms of an entity's financial liabilities (maturity, interest rate etc). However, an entity should decide in the light of its circumstances how much detail to provide (IFRS 7.B3). Accordingly, in some circumstances it may be regarded as necessary to disclose such information to enable users to understand the significance of an entity's financial liabilities and the risks associated with them.

In this example, the Group has provided information about the terms of its financial liabilities. In our experience, this is commonly seen in practice.

IFRS 7.14

#### Collateral

Certain disclosures are required when an entity pledges financial assets as security for financial liabilities (see discussion on page 17). When an entity pledges non-financial assets disclosures are also required by other standards, eg IAS 16.74(a).

IFRS 7.18  
IFRS 7.19

#### Defaults and breaches

Users of financial statements are generally interested in the entity's creditworthiness, ie its ability to obtain loans in the future. The failure to meet a payment or a breach of a loan agreement may be an indication of an entity's creditworthiness. Accordingly, IFRS 7 includes certain disclosures for defaults and breaches.

IFRS 7.18

For loans payable that are recognised at the end of the reporting period, an entity should disclose details of any defaults **during the period** (principal, interest, sinking fund or redemption terms) and the carrying amount of loans payable that are in default at the **end of** the reporting period. An entity should also disclose whether the default was remedied, or the terms of the loan were renegotiated, before the financial statements were authorised for issue. An important point to note is that even if the default was rectified at (or before) the end of the reporting period, this disclosure is still required.

IFRS 7.AppA

The disclosure is required for 'loans payable'. Short-term trade payables on normal credit terms are not loans payable. Facts and circumstances should be used to determine what constitutes normal credit terms (IFRS 7.Appendix A).

IFRS 7.19

If, during the period, there were breaches of loan agreement terms other than those described in IFRS 7.18, an entity shall disclose the same information as required by that paragraph if those breaches permitted the lender to demand accelerated repayment. Examples might be breaches of loan covenants.

If the breaches were remedied, or the terms of the loan were renegotiated on or before the end of the reporting period, this disclosure is not necessary. If a renegotiation was concluded only after the end of the reporting period but before the financial statements were authorised for issue, the disclosure is required.

## 9.2 Borrowings designated at fair value through profit or loss

IFRS 7.6

### Euro loans

Euro loans are designated at fair value through profit or loss to significantly reduce measurement inconsistencies (see section E). The loans fund investments in Eurozone bonds. The interest rate is fixed at 8%. Information concerning these loans is set out below:

	2009 CU000	2008 CU000	2007 CU000
Carrying amount 1 January	8,035	8,515	9,010
Repayments	(500)	(500)	(500)
New borrowings	-	-	-
Change in fair values:			
IFRS 7.10(a) - changes in credit risk	-	-	-
- other market factors	5	20	5
IFRS 7.25 Carrying amount 31 December	<u>7,540</u>	<u>8,035</u>	<u>8,515</u>
Current amount	500	500	500
Non current	7,040	7,535	8,015

IFRS 7.10(b)

The total undiscounted amount repayable at maturity in respect of the loan, converted at year-end exchange rates is CU 7,500,000 (2008: CU 8,000,000 ; 2007: CU 8,500,000 ), equivalent to a difference between the carrying amount and the amount repayable of CU 40,000 (2008: CU 35,000 ; 2007: CU 15,000 ).

IFRS 7.10(a)

IFRS 7.11(a)

The cumulative change since designation attributable to changes in credit risk is CU Nil (2008 and 2007: CU Nil). The Group estimates the credit-risk related change in fair value on a residual basis, as the difference between fair value-changes specifically attributable to interest rates and foreign exchange rates and the total change in fair value. At year-end the estimate shows an insignificant change attributable to credit risk.

**Financial liabilities designated at fair value through profit or loss**

IFRS 7.9-11	<p>When an entity uses the 'fair value option' and designates a financial liability as at fair value through profit or loss, additional disclosure requirements apply.</p> <p>The disclosures required are specified by a combination of IFRS 7.10-11 and IFRS 7.B4.</p>
IFRS 7.10	<p>IFRS 7.10 requires disclosure of:</p> <ul style="list-style-type: none"> <li>• the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either: <ul style="list-style-type: none"> <li>– as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or</li> <li>– using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.</li> </ul> </li> <li>• the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.</li> </ul> <p>The residual value approach specified in the first bullet point is further discussed in IFRS 7.B4 and IG7-IG11.</p> <p>Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.</p> <p>These disclosures might be regarded as commercially sensitive information, because the entity is required to comment at least indirectly on its own credit standing.</p>
IFRS 7.11	<p>The methods used to comply with the requirements in IFRS 7.10(a) shall be disclosed. If the entity believes that the disclosure it has given to comply with the requirements in IFRS 7.10(a) does not faithfully represent the change in the fair value of the financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant shall be disclosed.</p>

## 10 Fair value information

IFRS 7.25

The fair value of the Group's financial assets and liabilities compared to their carrying amounts are as follows:

	Note	2009		2008		2007	
		Fair value CU000	Carrying amount CU000	Fair value CU000	Carrying amount CU000	Fair value CU000	Carrying amount CU000
<b>Assets</b>							
Zero coupon bonds	4	1,450	1,476	1,410	1,455	1,390	1,435
US straight bonds	4	1,450	1,467	1,800	1,793	2,110	2,187
Listed securities and debentures	4	562	562	495	495	478	478
Unlisted equity investments (a)	4	1,377	1,377	1,373	1,373	1,300	1,300
Eurozone bonds	4	9,585	9,585	10,075	10,075	10,540	10,540
Trade receivables	6	25,524	25,524	20,199	20,199	18,761	18,761
US-dollar forward contracts - cash flow hedge	5	467	467	-	-	312	312
Other forward exchange contracts - held-for-trading	5	215	215	212	212	178	178
Cash and cash equivalents	7	14,595	14,595	18,912	18,912	10,007	10,007
<b>Liabilities</b>							
US-dollar forward contracts - cash flow hedge	5	-	-	160	160	-	-
Euro loans	9	7,540	7,540	8,035	8,035	8,515	8,515
Bank loan	9	3,983	3,989	5,952	5,979	7,950	7,966
Bank overdrafts	9	4,565	4,565	3,124	3,124	3,543	3,543
Non-convertible bond	9	8,259	8,300	8,383	8,300	8,466	8,300
Subordinated shareholder loan	9	4,975	5,000	5,050	5,000	5,060	5,000
Finance lease liabilities	8	4,489	4,440	6,501	6,430	8,372	8,281
Trade payables	8	8,261	8,261	7,524	7,524	6,981	6,981

(a) The Group's investment in XY Ltd., which is measured at cost in the financial statements, is not included because the fair value of the equity investment cannot be reliably measured.

IAS 39.48-49  
IAS 39.9

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where a quoted price in an active market is available, the fair value is based on the quoted price at the end of the reporting period. In the absence of a quoted price in an active market, the Group determines fair value using a valuation technique that makes maximum use of observable market inputs.

The methods and valuation techniques used for the purpose of measuring fair value are further considered in the following notes. Note 10.1 deals with financial instruments that are not measured at fair value in the statement of financial position, while note 10.2 deals with financial instruments that are measured at fair value.

**[Disclosures continue on the following pages]**

**Fair value of each class of financial assets and liabilities**

IFRS 7.25-26 IFRS 7 requires the disclosure of fair values for each class of financial instrument, regardless of whether they are carried at fair value in the statement of financial position. Exceptions to this basic principle are only available in very limited cases as follows:

- instruments whose carrying amount is a reasonable approximation of fair value;
- investments in equity instruments, or derivatives linked to such equity instruments that are carried at cost because fair value cannot be measured reliably; and
- contracts that contain a discretionary participation feature, the fair value of which cannot be measured reliably (IFRS 7.29).

In most cases, the fair value disclosures will be presented in the notes to the financial statements. The fair value disclosures should be given in a way that permits comparison with its carrying amount presented in the statement of financial position (IFRS 7.25).

In this example, fair value information is in a separate 'fair value table' footnote. Many entities take this approach although other approaches are permissible. For example, some entities present the fair value information for each class of financial instruments in separate notes relating to those classes.

IFRS 7.29  
IFRS 7.30 When an entity is exempted from disclosing fair values in accordance with IFRS 7.29 (as specified above) the entity is required to present further information. Other than when the carrying amount of a class of financial assets or liabilities is a reasonable approximation of fair value, the entity has to disclose further information about the financial assets or liabilities to help users make their own judgments about the extent of possible differences between carrying amount and fair value (IFRS 7.30), including:

- the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
- information about the market for the instruments;
- information about whether and how the entity intends to dispose of the financial instruments; and
- if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amounts at the time of derecognition, and the amount of gain or loss recognised.

IFRS 7.27

**10.1 Fair value measurement methods**

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period. Measurement methods for financial assets and liabilities accounted for at amortised cost are described below. Methods applied for items accounted for at fair value are described in note 10.2.

**Zero-coupon bonds and US straight bonds**

As these bonds are publicly traded, fair values have been determined by reference to their quoted bid prices at the reporting date. The fair value for US straight bonds also reflects the US-dollar spot rate at the reporting date.

**Trade receivables, cash and cash equivalents, trade payables and bank overdrafts**

The carrying amount is considered a reasonable approximation of fair value.

**Bank loan, non-convertible bonds and subordinated shareholder loan**

Fair values of have been estimated by calculating present values at the reporting date, using fixed effective market interest rates available to the Group (X.X %).

**Finance lease liabilities**

The fair value reflects present value and takes into account interest rates available to the Group (X.X %) on secured bank borrowings on similar terms.

**Fair value measurement methods**IFRS 7.27  
IFRS 7.28

In addition to the disclosure of fair values for each class of financial asset or liability, the entity also needs to explain how these fair values have been determined. These requirements are unchanged for those financial instruments that are not measured at fair value after the March 2009 Improvements to IFRS 7.

Methods of how to determine fair value are not discussed in this guide.

IFRS 7.27

IFRS 7.27 requires an entity to disclose for each class of financial instruments the methods and when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities.

For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

When an entity is exempted from disclosing fair values in accordance with IFRS 7.29 (as specified above) the entity is required to present further information (see IFRS 7.30). This is discussed on page 29.

IFRS 7.28 also requires certain disclosures in relation to 'day 1 gains or losses'.



## 10.2 Additional information on fair value measurements in the statement of financial position

### Fair value hierarchy

IFRS 7.27A

The Group adopted the amendments to IFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application, comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 December 2009 year end.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

IFRS 7.27B(a)	31 December 2009	Level 1	Level 2	Level 3	Total
	Note	CU000	CU000	CU000	CU000
<b>Assets</b>					
Listed securities and debentures	a)	562	-	-	562
Unlisted equity investments (i)	b)	-	-	1,377	1,377
Eurozone bonds	c)	9,585	-	-	9,585
US-dollar forward contracts - cash flow hedge	d)	-	467	-	467
Other forward exchange contracts - held-for-trading	d)	-	194	21	215
<b>Total</b>		<b>10,147</b>	<b>661</b>	<b>1,398</b>	<b>12,206</b>
<b>Liabilities</b>					
US-dollar forward contracts - cash flow hedge	d)	-	-	-	-
Euro loans	e)	-	(7,540)	-	(7,540)
<b>Total</b>		<b>-</b>	<b>(7,540)</b>	<b>-</b>	<b>(7,540)</b>
<b>Net fair value</b>		<b>10,147</b>	<b>(6,879)</b>	<b>1,398</b>	<b>4,666</b>

(i) For the purpose of this disclosure the Group's investment in XY Ltd., which is measured at cost less impairment charges because the fair value cannot be reliably measured, is not included. Accordingly, unlisted equity investments consists only of the Group's investment in Innovative-data Ltd.

IFRS 7.27B(b)

There have been no significant transfers between levels 1 and 2 in the reporting period.

**[Comparative information is required, however, in the first year of application, an entity need not provide comparative information. For the purpose of this guide, comparatives are not included].**

### Financial instruments that are measured at fair value

#### March 2009 amendments to IFRS 7

The required disclosures regarding fair value for financial instruments that are measured at fair value in the statement of financial position were expanded significantly in March 2009. The new requirements are mandatory for annual periods beginning on or after 1 January 2009, although in the first year of application an entity need not provide comparative information.

The amendments introduce a three-level fair value hierarchy, similar (but not identical) to that which is required under US GAAP. This hierarchy does not apply to financial instruments not measured at fair value in the statement of financial position, regardless of whether their fair values are required to be disclosed.

IFRS 7.27A	<p><b>Fair value hierarchy</b></p> <p>The fair value hierarchy consists of the following three levels that reflect the nature of the inputs used in the measurement:</p> <ul style="list-style-type: none"> <li>• Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities</li> <li>• Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)</li> <li>• Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).</li> </ul>
IFRS 7.27A	<p>The determination of which of the levels in the fair value hierarchy into which an asset or liability is categorised is based on the lowest level input that is significant to the fair value measurement of the instrument. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. When the measurement uses observable inputs that require significant adjustment based on unobservable inputs, that fair value measurement should be categorised in Level 3 of the hierarchy.</p> <p>Assessing whether a particular input to the fair value measurement is significant may require judgement.</p>
IFRS 7.27B	<p><b>Disclosures required by the fair value hierarchy</b></p> <p>An entity shall disclose the following for each class of financial instruments that are measured at fair value:</p> <ul style="list-style-type: none"> <li>• the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;</li> <li>• any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers;</li> <li>• for fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances. As well as highlighting purchases, sales, and gains and losses, this reconciliation will identify transfers into or out of Level 3 and the reasons for those transfers.</li> </ul> <p>The disclosures required for fair value measurements in Level 3 as required by IFRS 7.27B(c)-(e) are further discussed on page 37. The quantitative disclosures are to be provided in a tabular format unless another format is more appropriate. Examples have been added to the Implementation Guidance section of IFRS 7.</p>

**Fair value hierarchy (continued)**  
IFRS 7.27 The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

**a) Listed securities and debentures**

All the listed equity securities and debentures have been issued by publicly traded companies in CU land. Fair values for these securities have been determined by reference to their quoted bid prices at the reporting date.

**b) Unlisted equity investments**

IFRS 7.30(a)-(c) The fair value of the Group's investment in XY Ltd. cannot be reliably measured and is therefore excluded from this disclosure. For further information about this equity investment see note 4.2.

Unlisted equity investments consist of the Groups investment in Innovative-data Ltd. (ownership of 8.5%). The fair value has been determined using a valuation technique based on discounted cash flows. There is limited market activity and hence the valuation is not benchmarked against observed transaction prices; thus, the investment is classified within level 3 in the fair value hierarchy. The discount rate used was 15.0% based on management's current assessment of the risks in Innovative-data Ltd. Projected cash flows are based on approved budgets. No extrapolation using a growth rate was incorporated. Furthermore, no expected increase in gross margins is taken into account. The equity of Innovative-data Ltd amounts to CU X,XXX,XXX of which 8.5% amounts to CU X,XXX,XXX. Total profit or loss for the company was CU XXX,XXX of which 8.5% amounts to CU XX,XXX. The effects of reasonably possible alternative assumptions are discussed in the next section.

**c) Eurozone bonds**

The fair value of the Group's investments in Eurozone bonds have been determined by reference to their quoted bid prices at the reporting date. All Eurozone bonds are government bonds publicly traded on stock exchanges in Euroland.

**d) Derivatives**

Where derivatives are traded either on exchanges or liquid over-the-counter markets the Group uses the closing price at the reporting date.

Normally, the derivatives entered into by the Group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs, eg market exchange and interest rates (Level 2). Most derivatives entered into by the Group are included in Level 2 and consist of foreign currency forward contracts.

A few of the Group's derivative positions in foreign currency forward contracts are classified within Level 3. These primarily relate to positions in currencies, for which markets are less developed.

**e) Euro loans**

The fair value of the loan is estimated using a valuation technique. All significant inputs are based on observable market prices, eg market interest rates of similar loans with a similar risk. The interest rate used for this calculation is X.X %.

**Financial instruments that are measured at fair value**

IFRS 7.27	<p data-bbox="513 304 813 336"><b>Fair value measurements</b></p> <p data-bbox="513 336 1527 436">The requirements in IFRS 7.27 to disclose how fair value has been determined also apply to those financial instruments that are measured at fair value in the statement of financial position.</p> <p data-bbox="513 470 1527 571">IFRS 7.27 requires an entity to disclose for each class of financial instruments the methods and when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities.</p> <p data-bbox="513 604 1527 705">For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.</p> <p data-bbox="513 739 1527 810">If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.</p>
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IFRS 7.27B(c) **Fair value measurements in Level 3**

*[Comparative information is required, however, in the first year of application, an entity need not provide comparative information. For the purpose of this guide, comparatives are not included]*

The Group's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	<b>Available-for-sale financial assets</b>	<b>Financial assets or liabilities at fair value through profit or loss</b>	
	Unlisted equity investments	Other forward contracts	Total
	<b>CU000</b>	<b>CU000</b>	<b>CU000</b>
IFRS 7.27B(c) <b>31 December 2009</b>			
IFRS 7.27B(c) Opening balance	1,373	28	1,401
IFRS 7.27B(c) Gains or losses recognised in:			-
IFRS 7.27B(c)(i) Profit or loss (a)	-	23	23
IFRS 7.27B(c)(ii) Other comprehensive income	4	-	4
IFRS 7.27B(c)(iii) Purchases	-	-	-
IFRS 7.27B(c)(iii) Sales	-	-	-
IFRS 7.27B(c)(iii) Issues	-	-	-
IFRS 7.27B(c)(iii) Settlements	-	(30)	(30)
IFRS 7.27B(c)(iv) Transfers into level 3	-	-	-
IFRS 7.27B(c)(iv) Transfers out of level 3	-	-	-
IFRS 7.27B(c) Closing balance	<u>1,377</u>	<u>21</u>	<u>1,398</u>
IFRS 7.27B(c)(i) <i>(a) Gains and losses on other forward contracts are presented in 'finance income'</i>			

IFRS 7.27B(d) Gains or losses recognised in profit or loss for the period are presented in 'finance income' and can be attributed to assets held at the end of the reporting period as follows:

Assets held at the end of the reporting period	-	21	21
Assets not held at the end of the reporting period	-	2	2
Total gains or losses	<u>-</u>	<u>23</u>	<u>23</u>

IFRS 7.27B(c)(iv) There have been no transfers into or out of level 3 in the reporting periods under review.

IFRS 7.27B(e) The Group measures its investment in Innovative-data Ltd. using a discounted cash flow model. The Group has determined the applicable discount rate taking into account the risks associated with the investment. The discount rate has been benchmarked to unobservable discount rates for similar companies (see previous section).

Using alternative discount rates significantly changes the fair value of the investment. There are significant risks associated with the research and development programmes, in which Innovative-data Ltd. is engaged. Accordingly, the discount rate is subject to change should the projects prove to be less successful than expected. Reasonably possible alternatives have been calculated by benchmarking Innovative-data Ltd. against research and development companies in industries where the cost of equity is historically higher, such as Industry X (16.5%) and Industry Y (17.8%). The effect of a change in the discount rate is illustrated below.

Alternative discount rate	Fair value at 31 December	
	2009 CU000	Change in fair value CU000
16.5%	1,301	(76)
17.8%	1,150	(227)

The effect was calculated 'all other things being equal', ie based on projected cash flows for the company. Projected cash flows are based on approved budgets extrapolated by a growth rate of 0%. No expected increase in gross margins is taken into account.

### Level 3 disclosures

IFRS 7.BC39F	The amendments introduced additional disclosures for instruments with fair value measurements that are in Level 3 of the fair value hierarchy. These disclosures inform users of financial statements about the effects of those fair value measurements that use the most subjective inputs.
IFRS 7.27B(c)	<b>Reconciliation</b>
IFRS 7.IG13B	<p>For fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances is required, disclosing separately changes during the period attributable to the following:</p> <ul style="list-style-type: none"> <li>• total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);</li> <li>• total gains or losses recognised in other comprehensive income;</li> <li>• purchases, sales, issues and settlements (each type of movement disclosed separately); and</li> <li>• transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.</li> </ul> <p>A tabular format is required unless another format is more appropriate. Examples have been added to the Implementation Guidance (see IFRS 7.IG13B).</p>
IFRS 7.27B(d)	<p><b>Gains or losses recognised in profit or loss</b></p> <p>The amount of total gains or losses for the period in IFRS 7.27B(c)(i) included in profit or loss that are attributable to those assets and liabilities held at the end of the reporting period should be presented together with a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented). Examples have been added to the Implementation Guidance (see IFRS 7.IG13B).</p>
IFRS 7.27B(e)	<p><b>Impact of reasonably possible alternative assumptions</b></p> <p>If changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity is required to state that fact and disclose the effect of those changes.</p> <p>For this purpose, a significant change in fair value shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.</p> <p>The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated.</p>

## 11 Reclassification

[In the illustrative examples no reclassifications of financial assets were made. This note is intended to highlight the significant disclosures an entity is required to make, should an entity take up the option to reclassify financial assets. The example assumes reclassification of corporate bonds from available-for-sale to loans and receivables. Consequential changes may be needed to other notes.]

### IFRS 7.6 **Corporate bonds classified out of available-for-sale and into loans and receivables**

IFRS 7.7 On 1 January 2009 management decided to reclassify unlisted corporate bonds out of the available-for-sale category and into the loans and receivables category in accordance with *Reclassification of Financial Assets - Amendments to IAS 39 Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* issued on 13 October 2008. Due to deteriorations in the value of the bonds, the Group now intends to hold them for the foreseeable future and has the intention and ability to do so. The corporate bonds have a fixed maturity (20XX) and carry a fixed interest rate of 10% on the nominal amount of CU 1,200,000.

IFRS 7.12A(f) The Group expects to recover principal and interest cash flows from the investments in full. The effective interest rate at the date of reclassification was 11.80%.

IFRS 7.12A(a) The amount classified out of available-for-sale and into loans and receivables on 1 January  
IFRS 7.12A(b) 2009 was CU 1,148,000. The following table shows carrying amounts and fair values of the reclassified assets:

		Carrying amount	Fair value
		CU000	CU000
IFRS 7.12A(b)	31 December 2009	1,163	1,075
IFRS 7.12A(b)	31 December 2008	1,148	1,148
IFRS 7.12A(b)	31 December 2007	1,239	1,239

IFRS 7.12A(d) No fair value gain or loss has been recognised in profit or loss for 2009, as the corporate bonds were reclassified on 1 January 2009.

IFRS 7.12A(e) As a result of the reclassification, interest income of CU 135,000 has been recognised in profit or loss, together with amortisation of CU 20,000 of the fair value loss which had previously been recognised directly in other comprehensive income on the bonds. If the reclassification had not been made, interest income (calculated using the original effective interest rate) of CU 117,000 would have been recognised in profit or loss, and a decrease of CU 73,000 on the fair value of the bonds would have been recognised directly in other comprehensive income. *[Figures for previous reporting periods are not needed in the year of reclassification but will be needed in future periods]*

**Reclassification of financial assets**

In October 2008 the IASB released an Amendment to IAS 39 and IFRS 7 entitled *Reclassification of Financial Assets* permitting the reclassification of financial assets out of fair value through profit or loss or available-for-sale in certain circumstances.

At the same time, some additional requirements have been included in IFRS 7 to require disclosure when reclassifications of financial assets are made.

IFRS 7.12A

If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of IAS 39 or out of the available-for-sale category in accordance with paragraph 50E of IAS 39, it shall disclose:

- the amount reclassified into and out of each category;
- for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;
- if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;
- for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;
- for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and
- the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

IFRS 7.12

**'Old' reclassification disclosures**

If an entity reclassifies a financial asset in accordance with paragraphs 51-54 of IAS 39, the entity shall disclose the amount reclassified into and out of each category and the reason for that reclassification. These disclosures provide information about the 'old' reclassification rules in IAS 39, which are not discussed here.



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## C: Illustrative disclosures and analysis: Statement of comprehensive income

### **1 Introduction**

The disclosures for an entity's statement of comprehensive income are discussed in this section.

These disclosures result from the disclosure principle in IFRS 7.7 which requires entities to evaluate the significance of financial instruments for its financial performance. Satisfying this principle may require entities to expand on the level of detail required by the standard.

The specific disclosures relating to the statement of comprehensive income are located in IFRS 7.20. They focus on income, expenses, gains or losses arising from financial instruments.

In this guide we begin by examining a possible disclosure of a statement of comprehensive income followed by disclosures for finance income and finance costs.

## 2 The face of the statement of comprehensive income

IAS 1.51		Notes	2009	2008
IAS 1.51(c)			CU000	CU000
IAS 1.51(d-e)				
IAS 1.82(a)	Revenue		189,840	185,425
IAS 1.85	Other income		700	600
IAS 1.85	Changes in inventories		(5,300)	(5,000)
IAS 1.85	Costs of material		(41,700)	(40,600)
IAS 1.85	Employee benefits expense		(115,150)	(108,700)
IAS 1.85	Change in fair value of investment property		350	175
IAS 1.85	Depreciation, amortisation and impairment of non-financial assets		(4,900)	(4,500)
IAS 1.85	Other expenses		(11,575)	(15,273)
	<b>Operating profit</b>		<u>12,265</u>	<u>12,127</u>
IAS 1.82(c)	Share of profit from equity accounted investments		150	100
IAS 1.82(b)	Finance costs	3	(2,554)	(3,155)
IAS 1.85	Finance income	4	1,907	2,019
IAS 1.85	Other financial items	5	32	9
	<b>Profit before tax</b>		<u>11,800</u>	<u>11,100</u>
IAS 1.82(d)	Tax expense		(3,400)	(3,200)
	<b>Profit for the year from continuing operations</b>		<u>8,400</u>	<u>7,900</u>
IAS 1.82(f)	<b>Profit for the year</b>		<u>8,400</u>	<u>7,900</u>
IAS 1.82(g)	<b>Other comprehensive income:</b>			
	Cash flow hedging	B.5		
IFRS 7.23(c-d)	- current year gains (losses)		367	(47)
IAS 1.92	- reclassification to profit or loss		260	(425)
	Available-for-sale financial assets	B.4.2		
IFRS 7.20(a)(ii)	- current year gains (losses)		131	88
IAS 1.92	- reclassification to profit or loss		(50)	-
IAS 21.52(b)	Exchange differences on translating foreign operations		-	-
IAS 1.90	Income tax relating to components of other comprehensive income		-	-
	<b>Other comprehensive income for the year, net of tax</b>		<u>708</u>	<u>(384)</u>
IAS 1.82(i)	<b>Total comprehensive income for the year</b>		<u>9,108</u>	<u>7,516</u>
	Profit for the year attributable to:			
IAS 1.83(a)(i)	Non-controlling interest		100	100
IAS 1.83(a)(ii)	Owners of the parent		<u>8,300</u>	<u>7,800</u>
			<u>8,400</u>	<u>7,900</u>
	Total comprehensive income attributable to:			
IAS 1.83(b)(i)	Non-controlling interest		100	100
IAS 1.83(b)(ii)	Owners of the parent		<u>9,008</u>	<u>7,416</u>
			<u>9,108</u>	<u>7,516</u>

[For the purpose of this guide, accounts related to financial instruments are highlighted in grey]

### The statement of comprehensive income

IAS 1.81  
IAS 1.82

The statement of comprehensive income on the facing page complies with IAS 1 (revised 2007), the standard governing the presentation of financial statements. In this example the fictional entity presents a single statement of comprehensive income as permitted by IAS 1.81(a). Alternatively, a separate income statement displaying components of profit or loss immediately followed by a separate statement of comprehensive income may be presented (IAS 1.81(b)).

IAS 1.82 specifies the line items that are required to be presented in the statement of comprehensive income. IAS 1.82(b) requires that finance costs should be presented on the face of the statement of comprehensive income as a separate line item. The term 'finance costs' is not defined but is generally understood to include interest expense and certain other losses relating to financial instruments.

Since IAS 1.82 does not include a similar requirement to present finance income, a question arises as to whether it is possible to present 'net finance costs' on the face of the statement of comprehensive income. However, the IFRIC has indicated that this is unacceptable. At its October 2004 meeting the IFRIC noted that IAS 1 requires the face of the statement of comprehensive income to include line items that present amounts for revenue and finance costs separately. Together with the prohibition to offset items of income and expenses (IAS 1.32), it was concluded that IAS 1 does not allow 'net finance costs' (or a similar term) to be presented on the face of the income statement without showing the finance costs and finance revenue comprising it. However, this does not preclude presentation of finance revenue followed immediately by finance costs and a subtotal (eg 'net finance costs') on the face of the statement of comprehensive income. This treatment was confirmed in the *2008 Annual Improvements* which also removed an inconsistency in IFRS 7.IG13.

IAS 1.97

Generally, material items of income and expense should be disclosed separately either on the face of the statement of comprehensive income or in the notes (IAS 1.97). If material amounts of finance income and finance costs are presented on the face of the statement of comprehensive income in a combined manner, their nature and amount needs to be explained and disaggregated in the notes.

If relevant to understanding an entity's financial performance, finance income and finance costs should be disaggregated, by presenting additional line items. Additional line items might also be included to meet specific disclosure requirements (e.g. interest costs relating to defined benefit liabilities as required by IAS 19.120A(g)(ii)).

IAS 32.40

The term 'dividends' generally relates to the entity's distributions to holders of its issued equity instruments, and are deducted from equity. However, some payments with the legal form of dividends may relate to items presented as financial liabilities and therefore are recognised as an expense in profit or loss. If an entity pays dividends classified as an expense, it is considered desirable to disclose them separately in the income statement (IAS 32.40).

IAS 32.41

Gains and losses that result from changes of the carrying amount of a financial liability should be disclosed separately on the face of the income statement if relevant to explaining the entity's performance (IAS 32.41).

### 3 Finance costs

Finance costs may be analysed as follows for the reporting periods presented:

	2009	2008
	CU000	CU000
Interest expenses for finance lease arrangements	310	449
Borrowings at amortised cost:		
Subordinated shareholder loan	325	325
Other borrowings	1,274	1,331
IFRS 7.20(b) Interest expenses for borrowings at amortised cost	<u>1,599</u>	<u>1,656</u>
IFRS 7.20(b) Total interest expenses for financial liabilities not at fair value through profit or loss	<u>1,909</u>	<u>2,105</u>
Financial liabilities designated at fair value through profit or loss		
IFRS 7.20(a)(i) Fair value loss	5	20
Interest expenses	640	680
IFRS 7.20(a)(i) Fair value losses on forward exchange contracts held for trading	-	-
IFRS 7.20(a)(ii) Losses on available-for-sale financial assets reclassified from equity	-	-
IFRS 7.20(e) Impairment of unlisted equity investments (XY Ltd.)	-	350
Finance costs	<u>2,554</u>	<u>3,155</u>

IFRS 7.20(c) Impairment of trade receivables CU 72,000 (2008: CU514,000) has been included within other expenses in profit or loss. Impairment of financial assets and credit risk is further analysed in notes B.6 and D.3.3).

An impairment loss has been recognised in 2008 for the investment in XY Ltd., which is carried at cost less impairment charges as its fair value cannot be measured reliably (see note 4.2).

IFRS 7.B5(e) The loss on foreign currency financial liabilities designated at fair value does not take account of interest payments on these loans.

### 4 Finance income

Finance income may be analysed as follows for the reporting periods presented:

	2009	2008
	CU000	CU000
Interest income from cash and cash equivalents	465	478
Interest income on financial assets carried at amortised cost	280	310
IFRS 7.20(b) Interest income on available-for-sale financial assets	10	10
IFRS 7.20(b) Total interest income for financial assets not at fair value through profit or loss	<u>755</u>	<u>798</u>
IAS 18.35(b)(v) Dividend income from XY Ltd (available-for-sale)	40	-
IAS 18.35(b)(v) Dividend income from available-for-sale listed securities	22	21
IFRS 7.20(a)(i) Financial assets designated at fair value through profit or loss:		
Interest income	800	840
Fair value gains	10	35
IFRS 7.20(a)(i) Fair value gains on forward exchange contracts held for trading	230	325
IFRS 7.20(a)(ii) Gains on available-for-sale financial assets reclassified from equity	50	-
IFRS 7.20(a)(i) Gain on foreign currency financial liabilities designated at fair value through profit or loss	-	-
IFRS 7.20(d) Interest income on impaired financial assets	-	-
Finance income	<u>1,907</u>	<u>2,019</u>

**Items of income, expense, gains or losses**

IFRS 7.20	Certain items of income, expense and gains or losses require disclosure in accordance with IFRS 7. These items are specifically set out in IFRS 7.20. The disclosures may be presented either on the face of the statement of comprehensive income or in the notes.
IFRS 7.IG13	Finance income and finance costs do not necessarily include only income or expenses arising on financial assets or financial liabilities. These items might be combined with items of income and expense that result from non-financial assets or liabilities, such as the unwinding of a discount on a provision (IFRS 7.IG13).
IFRS 7.20(a)	<p><b>Net gains or losses per IAS 39 measurement category</b> IFRS 7.20(a) states that an entity should disclose net gains or net losses on:</p> <ul style="list-style-type: none"> <li>• financial assets or financial liabilities at fair value through profit or loss, showing separately those on: <ul style="list-style-type: none"> <li>– financial assets or financial liabilities that have been designated as such upon initial recognition; and</li> <li>– those held for trading (IFRS 7.20(a)(i));</li> </ul> </li> <li>• available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income and the amount reclassified from equity to profit or loss for the period (IFRS 7.20(a)(ii));</li> <li>• held-to-maturity investments (IFRS 7.20(a)(iii));</li> <li>• loans and receivables (IFRS 7.20(a)(iv));</li> <li>• financial liabilities measured at amortised cost (IFRS 7.20(a)(v)).</li> </ul>
IFRS 7.BC33	<p>The IFRS 7.20(a) disclosure of net gains or net losses by IAS 39 category is intended to assist users in understanding the effect of the different measurement bases in IAS 39. This complements the 'financial instruments by category' disclosure for the statement of financial position in IFRS 7.8. Although this latter disclosure is commonly presented in a separate note, the IFRS 7.20(a) requirements are often included as part of the note for finance income or finance costs. Alternatively, entities may present this information separately in a tabular format. Such an alternative method may be preferable under certain circumstances.</p> <p>If financial assets and/or financial liabilities are designated as at fair value through profit or loss, the net gain or net loss from these financial instruments needs to be presented separately from financial assets and/or financial liabilities that are held for trading. Derivatives that are designated for hedge accounting are not part of the IFRS 7.20(a) disclosures.</p> <p>A single instrument reported at fair value (e.g. a derivative) might give rise to both gains and losses in the reporting period as its value fluctuates. In our view, the net gain or loss on each instrument may be presented as income or expense respectively. Where a portfolio of similar instruments is held, IAS 1.35 requires separate presentation of gains and losses if material. Hence, in this example, the Group reports both income and expenses for some similar items (eg forward exchange contracts held for trading).</p>

**[continues on page 47]**

## 5 Other financial items

Other financial items includes the following:

		2009	2008
		CU000	CU000
IAS 19.120A(g)(ii)	Defined benefit obligation interest expenses	-	-
IAS 21.52(a)	Exchange differences		
IFRS 7.20(a)(iv)	Loans and receivables	(54)	137
IFRS 7.20(a)(iii)	Held-to-maturity investments	25	(50)
IFRS 7.20(a)(iv)	Financial liabilities measured at amortised cost	61	(78)
		<hr/>	<hr/>
	Other financial items	32	9
		<hr/>	<hr/>

IFRS 7.20(b-c)	<p><b>Other items of income, expense, gains or losses</b> IAS 7.20 also requires disclosure of the following:</p> <ul style="list-style-type: none"> <li>• total interest income calculated using the effective interest method for financial assets that are not measured at fair value through profit or loss (IFRS 7.20(b));</li> <li>• total interest expense calculated using the effective interest method for financial liabilities that are not measured at fair value through profit or loss (IFRS 7.20(b));</li> <li>• fee income and expense (other than amounts included in determining the effective interest rate) arising from: <ul style="list-style-type: none"> <li>– financial assets or financial liabilities that are not at fair value through profit or loss; and</li> <li>– trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. (IFRS 7.20(c), see also IFRS 7.BC35)</li> </ul> </li> <li>• interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39 (IFRS 7.20(d));</li> <li>• the amount of any impairment loss for each class of financial asset (IAS 7.20(e)).</li> </ul>
	<p>An entity may also be required by another standard or interpretation to disclose specific items of finance income or finance costs either on the face of the statement of comprehensive income or in the notes. Examples are:</p> <ul style="list-style-type: none"> <li>• total interest income (IAS 18.35(b)(iii));</li> <li>• dividend income (IAS 18.35(b)(v));</li> <li>• interest cost arising on defined employee benefit schemes (IAS 19.120A(g)(ii)).</li> </ul>
IFRS 7.20(e)	<p><b>Impairment losses by class</b> Disclosure is required of any impairment losses relating to financial assets. This disclosure has to be made separately for each class of financial assets. If the entity records losses in separate accounts such as an allowance account or similar, it also needs to disclose a reconciliation of changes in that account during the period for each class of financial assets (IFRS 7.16) (see note B.6).</p>



## D. Illustrative disclosures and analysis: Risk of financial instruments

### 1 Introduction

The second key objective of IFRS 7 is to enable users to evaluate the risks arising from financial instruments. IFRS 7.31 states:

"An entity shall disclose information that enables users of its financial statements 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."

We begin this section with describing certain general requirements for IFRS 7's risk disclosures (D.2). These set out principles which apply to all types of risks and accordingly these general points should be considered by all entities in all circumstances.

The illustrative disclosures and accompanying analysis for the fictional entity are set out from D.3.

### 2 General requirements

IFRS 7's risk disclosures aim to strike a balance between achieving consistent disclosures for all entities, and the fact that some entities are more exposed to risks from financial instruments than others. Accordingly, IFRS 7 sets out:

- principles and minimum requirements that are applicable to all entities; and
- specifies that the extent of disclosures depends on the extent of the entity's exposure to risks arising from financial instruments.

While entities with few financial instruments and related risks should provide at least the minimum disclosures, IFRS 7 requires entities with many financial instruments and related risks to expand on the minimum requirements to communicate those risks to users of financial statements. (IFRS 7.BC40-41)

The disclosures required by IFRS 7 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to: (IFRS 7.32)

- credit risk - risk that the entity will experience a financial loss due to a counterparty failing to discharge an obligation;
- liquidity risk - risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset; and
- market risk - risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market prices.

The disclosures required by paragraphs 31–42 shall be given either in the financial statements or

incorporated by cross-reference from some other statement, such as a management commentary or risk report. For the latter approach to be valid the other statement must be available to users of the financial statements on the same terms as the financial statements and at the same time (IFRS 7.B6).

IFRS 7 does not prescribe a format for financial risk disclosures and different approaches have developed in practice. However, to meet the requirements of IFRS 7 and to organise the necessary disclosures, it may be useful to note that each type of risk needs to be discussed differently. Credit risk needs to be discussed by class of financial instruments, whereas the maturity analysis required to explain liquidity risk exposures focuses on individual financial liabilities. Market risk exposures are usually explained by type of risk and illustrated using a sensitivity analysis. Alternatively (or additionally) an integrated sensitivity analysis may be presented to explain market risk exposures, if such an approach is used internally to manage financial risks.

IFRS 7 requires both qualitative and quantitative disclosures. These are discussed in the sections below.

## 2.1 Qualitative disclosures

IFRS 7 requires certain minimum qualitative disclosures. For each type of risk, an entity should disclose:

- the exposures to risk and how they arise;
- its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- any changes in the above from the previous period (IFRS 7.33).

These disclosures are required for each type of risk. The Implementation Guidance to IFRS 7 includes some guidelines to how an entity might satisfy paragraph 33. IG15-17 notes that the disclosures are narrative, and might include a description of the following:

- the entity's risk exposures might describe exposures both gross and net of risk transfer and other risk-mitigating transactions.
- the entity's policies and processes for accepting, measuring, monitoring and controlling risk, which might include:
  - the structure and organisation of the entity's risk management function(s), including a discussion of independence and accountability;
  - the scope and nature of the entity's risk reporting or measurement systems;
  - the entity's policies for hedging or mitigating risk, including its policies and procedures for taking collateral; and
  - the entity's processes for monitoring the continuing effectiveness of such hedges or mitigating devices.
- the entity's policies and procedures for avoiding excessive concentrations of risk.
- any relationship between financial instruments that can affect the amount, timing or uncertainty of future cash flows.

Entities are required to disclose and explain any changes in the qualitative information from the previous period (IFRS 7.IG17).

## 2.2 Quantitative disclosures

In addition to qualitative information, entities are required to provide certain quantitative disclosures about risk exposures. For each type of risk an entity shall disclose:

- 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;
- the disclosures required by paragraphs 36–42, to the extent not provided in the above bullet point, (unless the risk is not material);
- concentrations of risk if not apparent from the above two bullet points.

### Disclosures based on information reported internally (IFRS 7.34(a))

As noted in the first bullet point, entities are required to provide summary quantitative data about their risk exposures based on information reported internally to key management personnel (as defined by IAS 24). The use of internal information gives a useful 'management view' of each risk and an insight into how it is assessed within the business. Judgement may be needed to establish the relevant key management personnel for each risk and the information they use that is relevant to each risk.

### Minimum disclosures - credit, liquidity and market risk (IFRS 7.36-42)

Internal management information varies significantly between entities and accordingly it would be difficult to compare entities based only on this information. Entities must therefore present certain disclosures to the extent they are not already disclosed in the summary quantitative data referred to above. IFRS 7.36-42 set out these minimum disclosures in relation to each type of risk. These disclosures are required regardless of whether management uses this information. However, entities should not default to the minimum disclosures without going through the initial 'management view' step. The minimum disclosures are required if material to the entity (IAS 1.29-31 provides guidance on materiality).

### Concentrations of risk (IFRS 7.34(c))

The risk disclosures are also required to include information about concentrations of risk. This is also a minimum requirement for all entities. If the 'concentration of risk' disclosures have already been met in the IFRS 7.34(a) or (b) disclosures, entities are not required to provide the information again.

Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. IFRS 7.B8 includes the following mandatory disclosures about concentrations of risk:

- a description of how management determines concentrations of risk;
- a description of the shared characteristic that identifies each concentration of risk (eg counterparty, geographical area, currency or market); and
- the amount of the risk exposure associated with all financial instruments sharing that characteristic.

The Implementation Guidance to IFRS 7 includes further discussion of concentrations of risk (see IFRS 7.IG18-19). For example, a concentration of credit risk may arise from industry sectors, credit ratings, geographical concentration or a limited number of closely related counterparties. Similar principles are applied when identifying concentrations of risks in relation to other types of risks.

**'End of the reporting period' information (IFRS 7.35)**

The quantitative disclosures are generally required to be based on the exposures as at the end of the reporting period. However, such information may not be useful if an entity's exposures to risks at the end of the reporting period are not representative of the exposures during the period. Accordingly, IFRS 7.35 requires an entity to present additional information that is representative of the entity's risk exposure during the period, when the information at the end of the reporting period is not representative. In other words, an entity's exposures at the end of the reporting period are required in all cases but additional information is required only if that information is unrepresentative of an entity's risk exposure during the period.

To meet the requirement for additional information, an entity might disclose the highest, lowest and average amount of risk to which it was exposed during the period. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures (IFRS 7.IG20).

### 3 Illustrative disclosure: Financial instrument risks

#### 3.1 Risk management objectives and policies

IFRS 7.33 The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in note B.3. The main types of risks are market risk, credit risk and liquidity risk.

IFRS 7.IG15 The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

#### 3.2 Market risk

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks.

##### 3.2.1 Foreign currency sensitivity

IFRS 7.33(a) Most of the Group's transactions are carried out in CU. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US dollars (USD) and Pound Sterling (GBP). The Group also holds an investment in USD denominated bonds. Further, the Group has Euro loans designated at fair value through profit or loss, which have been used to fund the purchase of investments in Eurozone bonds.

IFRS 7.33(b)  
IFRS 7.IG15  
IFRS 7.33(c) To mitigate the Group's exposure to foreign currency risk, non-CU cash flows are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows (due after 6 months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions. The Group objectives and policies are unchanged in the reporting periods under review.

The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk on the Group's Euro loans used to fund the purchase of investments in Eurozone bonds. The loans are designated at fair value through profit and loss to significantly reduce measurement inconsistencies between Eurozone bonds and the related loans, ie a foreign currency loss on the Eurozone bonds is largely offset by a gain on the related loans. Therefore, the loan is not included in management's assessment of foreign currency exposure.

**Market risk**IFRS  
7.AppendixA

IFRS 7 distinguishes three types of market risk:

- currency exchange risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates;
- interest rate risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; and
- other price risk - the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices not related to interest rate risk or currency exchange risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

For each type of market risk, an entity shall disclose:

- the qualitative information required by IFRS 7.33; and
- the quantitative disclosures required by IFRS 7.34.

**Quantitative disclosures (IFRS 7.40-41)**

IFRS 7.40(a-c)

The sensitivity analysis specified by IFRS 7.40 shows how profit or loss and equity would have been affected if a reasonably possible change in the relevant risk variable had occurred. IFRS 7.B17-B19 provides further application guidance. Reasonably possible is not defined and professional judgement will be required in selecting the appropriate changes in conditions. The assumptions underlying the sensitivity analysis and how these were determined should be disclosed.

IFRS 7.41  
IFRS 7.B20

IFRS 7.41 permits an entity to disclose an integrated sensitivity analysis which is used internally to manage financial risks and that takes into account interdependencies of the relevant risk variables (such as value-at-risk). If an entity uses such an analysis it may show that in place of the analysis specified by IFRS 7.40.

Whichever method is selected, the methods and assumptions used should be disclosed.

IFRS 7.42  
IFRS 7.IG37-40

When the sensitivity analyses are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative. IFRS 7.IG37-40 gives further information on how these disclosures may be met.

IFRS 7.IG36

IFRS 7 does not specify whether the sensitivity figures should be presented before or after tax. Since the standard is not entirely clear, we consider that both approaches may be acceptable. However, since profit is generally referred to as an after-tax figure in IFRSs, our preferred view is to present the analysis using an after-tax figure. This is also the approach taken in IFRS 7.IG36.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into CU at the closing rate:

IFRS 7.34(a) IAS 1.51 IAS 7.34(c)		Short-term exposure			Long-term exposure		
		USD	GBP	Other	USD	GBP	Other
		CU000	CU000	CU000	CU000	CU000	CU000
	31 December 2009						
	Financial assets	6,266	4,012	255	1,592	-	-
	Financial liabilities	(1,239)	(826)	-	-	-	-
	Total exposure	5,027	3,186	255	1,592	-	-
	31 December 2008						
	Financial assets	6,127	3,911	202	2,100	-	-
	Financial liabilities	(1,129)	(752)	-	-	-	-
	Total exposure	4,998	3,159	202	2,100	-	-
	31 December 2007						
	Financial assets	4,587	2,877	188	2,632	-	-
	Financial liabilities	(1,047)	(698)	-	-	-	-
	Total exposure	3,540	2,179	188	2,632	-	-

Information on hedges of foreign currency is provided in note B.5.

IFRS  
7.40(a),(b),  
IFRS 7.IG36

The following table illustrates the sensitivity of profit for the year and equity in regards to the Group's financial assets and financial liabilities and the USD/CU exchange rate and GBP/CU exchange rate.

It assumes a +/- 15% change of the CU/USD exchange rate for the year ended at 31 December 2009 (2008 and 2007: 15%). A +/- 10% change is considered for the GBP/CU exchange rate (2008 and 2007: 10%). Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the CU had strengthened against the USD by 15% (2008 and 2007: 15%) and GBP by 10% (2008 and 2007: 10%) respectively then this would have had the following impact:

IAS 1.51(d) IAS 1.51(e)		Profit for the year			Other equity components		
		USD	GBP	Total	USD	GBP	Total
		CU000	CU000	CU000	CU000	CU000	CU000
	31 December 2009	469	120	589	(315)	-	(315)
	31 December 2008	490	118	608	(108)	-	(108)

If the CU had weakened against the USD by 15% (2008 and 2007: 15%) and GBP by 10% (2008 and 2007: 10%) respectively then this would have had the following impact:

IAS 1.51(d) IAS 1.51(e)		Profit for the year			Other equity components		
		USD	GBP	Total	USD	GBP	Total
		CU000	CU000	CU000	CU000	CU000	CU000
	31 December 2009	(469)	(120)	(589)	315	-	315
	31 December 2008	(490)	(118)	(608)	108	-	108

IFRS 7.42

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

**Currency risk**

IFRS 7.B24 When explaining an entity's exposure to currency risk, a sensitivity analysis should be disclosed for each currency to which an entity has significant exposure.

IFRS 7.B23 Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency - a currency other than the functional currency in which they are measured. Exposure to foreign currency risk for this purpose does not arise on non-monetary items or financial instruments denominated in the functional currency of an entity (IFRS 7.B23).

It is important to note that the impact is based on the exposure at the end of the reporting period exposure. For example, consider a CU functional currency entity with USD foreign currency risk. The impact on profit of a reasonably possible change in USD/CU exchange rate should be based on the USD denominated monetary financial assets and liabilities at the end of the reporting period (if this exposure is not representative additional disclosures are required in accordance with IFRS 7.42).

If there are foreign currency derivatives then the entity would need to consider the impact on their fair values if there are reasonably possible changes to the underlying. In the absence of hedge accounting, any changes to the fair value would have a direct impact on profits.

Even if hedge accounting is applied, profits might still be affected. For cash flow hedges and hedges of a net investment, equity would be affected via gains or losses brought to other comprehensive income.

**Translation risk**

IFRS 7.B23 Translation risk is ignored for the purpose of the sensitivity analysis (IFRS 7.B23). This is an important relaxation in IFRS 7 in the context of groups. For instance, say a group has a parent with CU as its functional currency and a US subsidiary with USD as its functional currency. The parent and the subsidiary has the following assets and liabilities:

- The parent has net monetary assets denominated in USD of 1 million and all other balances are denominated in CU.
- The USD subsidiary has:
  - no CU monetary assets or liabilities,
  - has USD 10 million net monetary assets, and
  - has EUR 5 million net monetary assets.

In the sensitivity analysis, when looking at the USD to CU sensitivity, the relevant exposure would exclude USD 10 million net monetary assets in the US subsidiary. This is because if the USD/CU rate changes then the group profit is not affected in respect of USD denominated balances in the US subsidiary. A natural thought process might lead you to conclude that equity is still affected (as the USD subsidiary is translated via the consolidation process at the year end rate under IAS 21 with differences included in equity), but this translation risk is not regarded as a market risk (IFRS 7.B23). Therefore in this example, the sensitivity analysis would be based on the reporting date exposure of USD 1 million (parent company's USD exposure) and EUR 5 million (US subsidiary's exposure to EUR).



### 3.2.2 Interest rate sensitivity

IFRS 7.33(a) The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing.  
 IFRS 7.33(b) Longer-term borrowings are therefore usually at fixed rates. The Group is exposed to changes  
 IFRS 7.33(c) in market interest rates (LIBOR) through bank borrowings at variable interest rates. Other borrowings are at fixed interest rates. The Group's investments in bonds all pay fixed interest rates. The exposures to interest rates for the Group's short-term deposits are considered immaterial. The Group's exposures and policies are unchanged in the reporting periods under review.

IFRS 7.34(c) The Group's interest rate exposures are concentrated in CU.

IFRS 7.34(a) The following table illustrates the sensitivity of profit and equity to a reasonably possible  
 IFRS 7.40(b) change in interest rates (LIBOR) of +/- 1% (2008 and 2007: +/- 1%). This sensitivity analysis  
 IFRS 7.IG36 is provided internally to key management personnel. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit for the year		Equity	
	CU000		CU000	
	+ 1%	- 1%	+ 1%	- 1%
IAS 1.51(d)				
IAS 1.51(e)				
IFRS 7.40(a)				
	31 December 2009	400 (400)	11 (11)	
	31 December 2008	451 (451)	11 (11)	
	31 December 2007	417 (417)	11 (11)	

**Interest rate risk**

IFRS 7.B22 Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position (eg borrowings and investments in debt instruments) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

IFRS 7.IG36 An entity's exposure to interest rate risk should, at a minimum, illustrate reasonably possible changes in profit or loss and equity. IFRS 7.IG36 sets out an example of how the minimum requirements may be met. However, more detailed disclosures should be considered depending on the complexity of the entity's interest-bearing financial instruments. For example, if changes in interest rates would affect different line items within profit or loss, further analysis of the resulting effect would clarify the nature of an entity's sensitivity to changes in interest rates. IFRS 7.IG32 - 40 sets out further possibilities of how exposure to market risk may be disclosed with a greater level of detail.

IFRS 7.IG34

For loans carried at amortised cost, if there are floating rate balances (such as some loans and overdrafts) then any change in interest rates will have a direct effect on profit. The sensitivity should be based on the exposure at the reporting date. If loans are fixed rate then any change to market interest rates will have no impact on profit when amortised cost measurement is applied.

In respect of interest rate swaps and other derivatives for which interest rates are an underlying, interest rate changes would normally change the fair values. In absence of hedge accounting, this would have a direct effect on profit. If hedge accounting is applied, profits might still be affected. In respect of a cash flow hedge, gains or losses reported initially in other comprehensive income will affect equity and are therefore within the scope of the sensitivity analysis.

### 3.2.3 Other price risk sensitivity

IFRS 7.33(a) The Group is exposed to equity price risk in respect of its listed equity securities and price risk  
IFRS 7.33(b) for listed debentures. The Group manages those risks by monitoring the markets closely.  
According to Group policies amounts invested in volatile assets such as shares and debentures are restricted by limits set by Group management.

IFRS 7.40(a) For the listed equity securities, an average annual volatility of 20% in the [stock index] has been  
IFRS 7.40(b) observed during 2009 (2008: 18%; 2007: 17%). This volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, other comprehensive income and equity would have changed by approximately CU 82,000 (2008: CU 62,000 ; 2007: CU 56,000 ). The listed securities are classified as available-for-sale, therefore no effect on profit or loss would have occurred (unless the assets are sold or impaired).

IFRS 7.40(a) The average volatility of the listed debentures was 15% in 2008 (2008: 13%; 2007: 9%). If the  
IFRS 7.40(b) market price had increased or decreased by this amount, other comprehensive income and equity would have increased/decreased by approximately CU 23,000 (2008: CU 20,000 ; 2007: CU 13,000 ). As none of the debentures classified as available-for-sale were sold during any of the periods under review, no effect on profit or loss would have occurred (unless any decline in fair value to below cost is considered to result from impairment of the asset).

**Other price risk**

IFRS 7.B25

Examples of other price risks include: equity price risks, commodity price risk, prepayment risk and residual value risk. To comply with IFRS 7.40 an entity might disclose the effect of decrease in a specified stock market index, commodity price index or other risk variable.

The disclosures required by IFRS 7 relate to financial instruments. Hence, whilst residual values of property, plant & equipment would affect depreciation charges, those effects are outside IFRS 7's scope. By contrast, an entity that writes guarantees of residual values would need to consider its sensitivity to this price risk.

IFRS 7.B26  
IFRS 7.B27

IFRS 7.B26 gives examples of equity price risk. In respect of equity price risk, management needs to consider which index to apply to the sensitivity analysis. For instance, if an entity has mainly blue chip equity investments then the stock index in which these investments are included might be appropriate. The key is to look to which indices are relevant to the entity's portfolio. The sensitivity of profit or loss is disclosed separately from the sensitivity of equity (for available-for-sale financial assets).

Commodity price risk is only relevant if the entity has instruments within the scope of IAS 39 relating to commodities. These may include contracts to buy or sell commodities to the extent they are not covered by IAS 39's "own use" exemption.

### 3.3 Credit risk

IFRS 7.33(a) Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc.

IFRS 7.33(b) The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

IFRS 7.36(a) The Group's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date excluding equities, as summarised below:

	2009	2008	2007
	CU000	CU000	CU000
IFRS 7.36(a) IFRS 7.34(a) Classes of financial assets			
Zero coupon bonds	1,476	1,455	1,435
US straight bonds	1,467	1,793	2,187
Listed debentures	153	152	148
Eurozone bonds	9,585	10,075	10,540
Trade receivables	25,524	20,199	18,761
US-dollar forward contracts - cash flow hedge	467	-	312
Other forward exchange contracts - held-for-trading	215	212	178
Cash and cash equivalents	14,595	18,912	10,007
Carrying amount	<u>53,482</u>	<u>52,798</u>	<u>43,568</u>

IFRS 7.36(b) None of the Group's financial assets are secured by collateral or other credit enhancements.

IFRS 7.36(c) The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. The credit risk for cash and cash equivalents, Eurozone bonds, debentures and derivative financial instruments is considered negligible, since the counterparties are reputable banks and governments with high quality external credit ratings.

IFRS 7.36(d) The carrying amount of financial assets whose terms have been renegotiated, that would otherwise be past due or impaired is CU Nil (2007 and 2006: CU Nil).

#### IFRS 7.36(c) **Trade receivables**

IFRS 7.IG23 In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consists of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

**[continues on page 62]**

**Credit risk**IFRS 7.33  
IFRS 7.34

For credit risk, an entity should comply with:

- the qualitative disclosures in IFRS 7.33; and
- the quantitative disclosures in IFRS 7.34

IFRS 7.36-38

The minimum quantitative disclosures for credit risk are set out in IFRS 7.36-38 (accompanied by mandatory Application Guidance and non-mandatory Implementation Guidance). This includes information on:

- the entity's maximum exposure to credit risk;
- financial assets that are neither past due nor impaired, including those that would be past due or impaired if their terms had not been renegotiated;
- financial assets that are past due but not impaired; and
- financial assets that have been individually determined to be impaired.

An entity needs to explain credit risk for each class of financial instruments. Credit risk disclosures can be given in a single, comprehensive note as illustrated here. An alternative approach is to include some or all of the information in the analysis of the line items in the statement of financial position.

IFRS 7.36(a)

**Maximum exposure to credit risk (IFRS 7.36(a))**

An entity shall disclose by class of financial instrument 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).

IFRS 7.36(b)

In respect of the amount of maximum exposure to credit risk, a description of collateral held as security and other credit enhancements shall also be disclosed (see IFRS 7.IG22 for further guidance)

IFRS 7.B9

In most cases, an entity's maximum exposure to credit risk is represented by the carrying amounts of non-equity financial assets recognised at the balance sheet date (IFRS 7.B9).

IFRS 7.B10

Some other financial instruments may also give rise to an exposure to credit risk. For example, the entity may have continuing involvement in transferred financial assets and credit risk exposure may exceed the carrying amount of the continuing involvement asset. Other possible sources of credit risk include credit insurance, collateral, financial guarantees, loan commitments or situations in which netting agreements reduce credit risk exposure of the entity. See IFRS 7.B10 for further guidance.

IFRS 7.36(c)  
IFRS 7.IG23  
IFRS 7.IG24  
IFRS 7.IG25**Credit quality of financial assets that are neither past due or impaired**

In our view, to qualitatively disclose the credit quality of financial assets that are neither past due nor impaired, an entity should at least disclose if and how credit quality is usually assessed. This can be done by disclosing whether external credit ratings are used or by explaining what groups of counterparties an entity distinguishes. Paragraphs IG23-IG25 of IFRS 7 set out which further specifications can be considered if a greater level of detail is considered necessary to explain the credit quality of an entity's financial instruments.

**[continues on page 63]**

**[credit risk continued]**

IFRS 7.37(a)  
IFRS 7.IG28

Some of the unimpaired trade receivables are past due as at the reporting date. No other financial assets are past due at the end of the reporting period. Trade receivables past due but not impaired can be shown as follows:

	2009	2008	2007
	CU000	CU000	CU000
Trade receivables			
Not more than 3 months	671	602	367
More than 3 months but not more than 6 months	90	88	41
More than 6 months but not more than 1 year	55	15	2
More than one year	2	1	1
Total	818	706	411

IFRS 7.37(b)  
IFRS 7.IG29

The carrying amount of trade receivables that are individually impaired is CU 450,000 (2008: CU 665,000; 2007: CU 225,000). Related impairment losses are disclosed in note B.6 and amounts to CU 72,000 (2008: CU 514,000; 2007: CU Nil). No collateral is available for individually impaired trade receivables. Determining impairment is based on an individual assessment of the customer, such as bankruptcy and the use of external credit ratings etc.

IFRS 7.36(a)  
IFRS 7.36(c)  
IFRS 7.IG23(a)  
IFRS 7.20(e)

**Bonds**

No impairment loss has been recorded in relation to the bonds (held-to-maturity investments, see note 14.2) which have been graded AA by Standard & Poors. No amounts in relation to the bonds are past due. The carrying amounts disclosed above are the Group's maximum possible credit risk exposure in relation to these instruments.

**Credit risk (continued)****Allowance accounts**

Additional information about credit quality and impairment losses is required if the entity uses allowance accounts to record credit losses (see discussion to note B.6).

**Financial assets that are past due but not impaired**

IFRS 7.37(a)  
IFRS 7.IG 26  
IFRS 7.IG28

The example discloses "past due" amounts for trade receivables. Where there are past due amounts for other classes of financial assets, then a similar analysis is required for those classes of financial assets (IFRS 7.37(a)). We consider that any amounts uncollected one day or more beyond their contractual due date are "past due" (IFRS 7.IG26). Management uses judgement to determine the time bands. IFRS 7.IG28 provides a non-mandatory example of those time bands. Where an ageing analysis is provided internally to key management personnel, it is appropriate to provide the information used internally. If an entity holds collateral IFRS 7.37(c) applies.

The objective of this disclosure is to give users information about those financial assets that are more likely to become impaired (IFRS 7.BC55(a)).

**Financial assets that are impaired**

IFRS 7.37(b)  
IFRS 7.IG29  
IFRS 7.BC55(b)

IFRS 7.37(b) requires an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors considered in determining the impairment. The analysis is required by class and is helpful to determine why the impairment occurred. The analysis might include:

- the carrying amount, before deducting any impairment loss;
- the amount of any related impairment loss; and
- the nature and fair value of collateral available and other credit enhancements obtained.

If an entity holds collateral IFRS 7.37(c) also applies.

**Collateral and other credit enhancements obtained/taken possession of**

IFRS 7.38

An entity is required to comply with IFRS 7.38 in certain circumstances when an entity takes possession of collateral it holds as security or calls on other credit enhancements (eg guarantees). The disclosures are only required when such assets meet the recognition criteria of other standards. There is an important distinction between this disclosure and the disclosures for collateral held (not taken possession of) in IFRS 7.36(b) and 37(c).



### 3.4 Liquidity risk

IFRS 7.33(a) Liquidity risk is the risk arising from the Group not being able to meet its obligations. The  
 IFRS 7.33(b) Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-  
 IFRS 7.33(c) term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.  
 IFRS 7.34(a) The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

IFRS 7.39(c) The Group's objective is to maintain cash and marketable securities to meet its liquidity  
 IFRS 7.B11F requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets. The Group does not have instruments that include accelerated repayment terms (for example in the event of a downgrade in credit rating).

#### Contractual maturity analysis - non-derivative financial liabilities

The Group's liabilities have remaining contractual maturities (including interest payments where applicable) as summarised below:

IFRS 7.39(a)  
IFRS 7.B11

	Current		Non-current	
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years
	CU000	CU000	CU000	CU000
<b>31 December 2009</b>				
Euro loans	-	1,100	4,000	7,200
Non-convertible bond	249	249	8,798	-
Bank loan	1,130	1,130	2,130	-
Bank overdrafts	4,565	-	-	-
Finance lease obligations	1,150	1,150	3,300	-
Trade and other payables	8,261	-	-	-
<b>Total</b>	<b>15,355</b>	<b>3,629</b>	<b>18,228</b>	<b>7,200</b>
<b>31 December 2008</b>				
Euro loans	-	1,140	4,160	8,140
Non-convertible bond	249	249	9,296	-
Bank loan	1,195	1,195	4,390	-
Bank overdrafts	3,124	-	-	-
Finance lease obligations	1,150	1,150	5,600	-
Trade and other payables	7,524	-	-	-
<b>Total</b>	<b>13,242</b>	<b>3,734</b>	<b>23,446</b>	<b>8,140</b>
<b>31 December 2007</b>				
Euro loans	-	1,180	4,320	9,120
Non-convertible bond	249	249	9,794	-
Bank loan	1,260	1,260	6,780	-
Bank overdrafts	3,543	-	-	-
Finance lease obligations	1,150	1,150	7,900	-
Trade and other payables	6,981	-	-	-
<b>Total</b>	<b>13,183</b>	<b>3,839</b>	<b>28,794</b>	<b>9,120</b>

The subordinated shareholder loan amounting to CU 5,000,000 throughout all reporting periods is not included as this is only repayable upon liquidation. Annual interest payments amounts to CU 325,000. The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

**[continues on page 66]**

<b>Liquidity risk</b>	
	<b>March 2009 Improvements</b>
IFRS 7.BC58A	<p>In March 2009 the IASB amended the disclosure requirements in IFRS 7 in relation to liquidity risk by:</p> <ul style="list-style-type: none"> <li>• amending the definition of liquidity risk to clarify that the disclosure requirements only apply to financial liabilities that result in the outflow of cash or another financial asset;</li> <li>• emphasising that an entity must provide summary quantitative data about its exposure to liquidity risk based on information provided internally to key management personnel;</li> <li>• amending the requirements of the contractual maturity analysis, mainly in regards to derivative financial instruments.</li> </ul>
IFRS 7.44G	<p>These changes become effective for annual periods beginning on or after 1 January 2009. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments (meaning that 'old' disclosures continue to require comparatives).</p> <p>The liquidity risk disclosures can be summarised as requiring the following:</p> <ul style="list-style-type: none"> <li>• necessary qualitative data in accordance with IFRS 7.33;</li> <li>• summary quantitative data based on internal management information (IFRS 7.34(a) and IFRS 7.B10A);</li> <li>• the minimum disclosures required by IFRS 7.39 (accompanied by mandatory application guidance in IFRS 7.Appendix B); and</li> <li>• concentrations of liquidity risk (IFRS 7.34(c)).</li> </ul> <p>It should be noted, that the March 2009 Improvements made significant amendments to the Application Guidance.</p>
IFRS 7.B10A IFRS 7.34(a)	<p><b>Liquidity risk on the basis of internal management information (IFRS 7.34(a))</b></p> <p>In accordance with IFRS 7.34(a) an entity is required to provide summary quantitative data about its exposure to liquidity risk on the basis of information provided internally to key management personnel (IFRS 7.B10A). This disclosure was emphasised by the IASB in the March 2009 amendments. Accordingly, an entity provides the disclosures required by IFRS 7.34(a) in addition to the minimum disclosures required by IFRS 7.39. An entity shall provide sufficient information to explain how the internal data are determined.</p> <p>If the outflows of cash (or another financial asset) included in those data could either:</p> <ul style="list-style-type: none"> <li>• occur significantly earlier than indicated in the data, or</li> <li>• be significantly different amounts from those indicated in the data,</li> </ul> <p>the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by IFRS 7.39(a) or (b).</p> <p style="text-align: center;"><b>[continues on page 67]</b></p>

**Contractual maturity analysis - derivative financial liabilities**

As at the reporting date, the Group's derivative financial liabilities for which contractual maturities are essential for the understanding of cash flows, have contractual maturities as follows:

IFRS 7.39(b)  
IFRS 7.B11

	<u>Current</u>		<u>Non-current</u>	
	<u>within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>	<u>later than 5 years</u>
	<u>CU000</u>	<u>CU000</u>	<u>CU000</u>	<u>CU000</u>
<b>31 December 2009</b>				
Gross-settled forward contracts				
Cash inflow	-	12,000	-	-
Cash outflow	-	(11,300)	-	-
Total	-	700	-	-
<b>31 December 2008</b>				
Gross-settled forward contracts				
Cash inflow	-	12,800	-	-
Cash outflow	-	(12,750)	-	-
Total	-	50	-	-
<b>31 December 2007</b>				
Gross-settled forward contracts				
Cash inflow	-	11,300	-	-
Cash outflow	-	(10,600)	-	-
Total	-	700	-	-

Derivative financial instruments reflect forward exchange contracts that will be settled on a gross basis.

**Financial assets used for managing liquidity risk**

IFRS 7.B11E

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables (see note 3) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

**Liquidity risk (continued)**

A question arises as to which information entities would be expected to disclose to comply with IFRS 7.34(a) and IFRS 7.B10A. In practice, entities have many different approaches to manage liquidity risk. Many companies use general cash flow forecasts, including cash flows both from financial instruments and for other operations (such as payroll and capital expenditure). We do not believe it is necessary for entities to disclose their general cash flow forecasts. However, to the extent this information explains the entity's exposure to liquidity risks then relevant summary data may be appropriate.

**Maturity analyses (IFRS 7.39)**

The March 2009 Improvements made certain enhancements to the IFRS 7.39 requirements for the maturity analyses.

IFRS 7.39

IFRS 7.39 now requires an entity to disclose:

- (a) a maturity analysis for **non-derivative financial liabilities** (including issued financial guarantee contracts) that shows the remaining contractual maturities;
- (b) a maturity analysis for **derivative financial liabilities**. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraphs B11B).
- (c) a description of how it **manages** the liquidity risk inherent in (a) and (b).

**Maturity analysis for non-derivative financial liabilities**

IFRS 7.39(a)

For non-derivative financial liabilities the requirement for a maturity analysis is substantially unchanged. The maturity analysis should be based on the remaining contractual maturities (see below). The March 2009 Improvements clarified that issued financial guarantee contracts should be included in the maturity analysis.

**Maturity analysis for derivative financial liabilities**

IFRS 7.39(b)

The March 2009 Improvements made substantial amendments to the requirement for derivative financial liabilities.

IFRS 7.B11B

Paragraph 39(b) now requires an entity to disclose a separate quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities. This maturity analysis should only include derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. The standard does not define 'essential', however, as a general note trading items would commonly be excluded as a result. As further guidance, the standard includes two examples of derivatives where the contractual maturities are essential. This would be the case for:

- an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.
- all loan commitments.

IFRS 7 does not specify how to treat derivative financial liabilities where the contractual maturities are not essential for an understanding of the timing of cash flows. However it is clear that they should be separated from the IFRS 7.39(b) disclosure. In our view, the existence of other derivatives should still be disclosed in some way. The standard seems to allow a certain flexibility as to how this is achieved.

IFRS 7.B11	<p><b>General requirements for the maturity analyses</b></p> <p>IFRS 7 does not mandate the time bands that should be featured in the maturity analysis. IFRS 7.B11 does suggest certain time bands. In our view, the entity should at least distinguish current and non-current obligations.</p>
IFRS 7.B11C	<p>The maturity analysis is required to be based on remaining contractual maturities. IFRS 7.B11C further states that:</p> <ul style="list-style-type: none"> <li>• Payments arising from financial liabilities should be allocated to the time band that includes the earliest date possible at which the entity may be required to pay. When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay.</li> <li>• for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.</li> </ul>
IFRS 7.B11D	<p>The maturity analysis shows gross and undiscounted cash flows. The amounts therefore usually differ from the carrying amounts in the statement of financial position. For example, the amounts disclosed should be:</p> <ul style="list-style-type: none"> <li>• gross finance lease obligations (before deducting finance charges);</li> <li>• prices specified in forward agreements to purchase financial assets for cash</li> <li>• net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;</li> <li>• contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; and</li> <li>• gross loan commitments.</li> </ul>

When the amount payable is not fixed, the amount disclosed should be based on the conditions existing at the end of the reporting period.

Other important issues to consider are:

- IFRS 7 has a wider scope than IAS 39. The maturity analysis therefore encompasses all financial liabilities within the scope of IAS 39, and certain other financial liabilities such as from lease arrangements and contracts to buy or sell a business at a future date. Non-financial instrument liabilities such as pension or tax liabilities are not covered by the maturity analysis;
- Embedded derivatives are not separated for the purpose of the maturity analysis. Instead, an entity includes the entire instrument in the maturity analysis for non-derivative financial liabilities (IFRS 7.B11A).
- Payable amounts that are not contractually fixed, but are yet to be determined (eg when a derivative is yet to become effective due to characteristics in its underlying) should be assigned to the time band they are most likely to fall into, based on the conditions existing at the reporting date;
- A similar maturity analysis of contractual cash flows is required by IAS 17 *Leases* in (IAS 17.31, 35, 47 and 56). It may be helpful to combine these disclosure requirements with the maturity analysis. IAS 17, however, sets out specific time bands for this purpose while IFRS 7 does not.
- Further information to analyse liquidity risk may be given in combination with the disclosures that explain the cash flow statement and liquid funds available. For example, IAS 7.50(a) encourages disclosure of available borrowing facilities.

	<b>Paragraph 39(c): How the entity manages liquidity risk</b>
IFRS 7.39(c) IFRS 7.B11E IFRS 7.B11F	IFRS 7.39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the maturity analyses under 39(a) and (b). Examples of disclosures are included in IFRS 7.B11F. It should be noted that this is in addition to the qualitative disclosures in IFRS 7.33.
IFRS 7.B11E	Furthermore, an entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The standard does not elaborate on the definition of 'necessary' in relation to this disclosure. Application will depend on specific facts and circumstances.

## E. Accounting policies

### **Change in accounting policies**

IAS 8.28 The Group has considered the amendment to IAS 39 entitled *Reclassification of Financial Assets* from its effective date, which permits reclassification of financial assets in certain circumstances. The Group has not used the amendment to reclassify financial assets, and has no current intention to do so in future periods. Accordingly this amendment has no effect on the financial statements.

IAS 8.28 The Group has implemented the improvements made to IFRS 7 in March 2009. The effective date of the amendments is 1 January 2009. The amendments extend and specify the disclosures for the fair value of financial instruments and liquidity risk, see notes B.10 and D.3.4. [The Group has applied the amendments retrospectively in accordance with the transition provisions. Accordingly, comparative amounts have been restated]

### **Financial instruments**

IFRS 7.21  
IAS 1.117(b) Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

IAS 1.117(b) Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

IAS 1.117(a) Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

IAS 1.117(a) **Financial assets**

For the purpose of subsequent measurement, financial assets other than those designated as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

IFRS 7.B5(f) All financial assets except for those at fair value through profit or loss are subject to review for

impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items', except for impairment of trade receivables which is presented within 'other expenses'.

- IAS 1.117(a)  
IAS 1.117(b) **Loans and receivables**  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.
- IFRS 7.B5(f) Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within 'other expenses'.
- IFRS 7.B5(d) The Group uses an allowance account to reduce the carrying amount of trade receivables that are considered to be impaired (or in the case of a reversal of a write-down, an increase), unless there is no reasonable possibility of recovering any cash from the debtor. In this case, the Group writes off the debtor directly (and transfers any impairment loss recognised in the allowance account directly to the debtor).
- IAS 1.117(a)  
IAS 1.117(b)  
Also:  
IFRS 7.B5(a) **Financial assets at fair value through profit or loss**  
Financial assets at fair value through profit or loss include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).
- IFRS 7.21  
IFRS 7.B5(a) The Group has designated some financial assets and financial liabilities at fair value through profit or loss to reduce significantly measurement and recognition inconsistencies that would otherwise arise between 'Eurozone bonds' and fixed-rate loans denominated in EUR.
- IFRS 7.b5(a)(i) The 'Eurozone bonds' designated at fair value through profit or loss are government bonds issued by countries in the Eurozone. The EUR-denominated loans pay a fixed interest rate and have similar maturities as the bonds.
- IFRS 7.B5(a)(ii) The EUR denominated fixed-rate loans and 'Eurozone bonds' share the risk of Eurozone interest rate changes, which gives rise to opposite changes in the fair value that tend to offset each other. It is therefore the Group's accounting policy to designate such 'Eurozone bonds' and fixed-rate loans denominated in EUR as at fair value through profit or loss to reduce significantly what would otherwise be an accounting mismatch. The Group only uses this designation when the government bonds and fixed-rate loans have substantially similar maturities, and it can demonstrate that fair value changes correlate significantly.
- IFRS 7.B5(a)(iii) If the entity had not used this designation, listed 'Eurozone bonds' would have been classified as available-for-sale with most changes in fair value recognised in other comprehensive income. Financial liabilities not so designated would otherwise be measured at amortised cost with changes in fair value not recognised.



IFRS 7.B5(c) Assets in this category are measured at fair value with gains or losses recognised in profit or loss. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists.

IAS 1.117(a) **Held-to-maturity investments**  
 IAS 1.117(b) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Group has the intention and ability to hold them until maturity. The Group currently holds listed bonds designated into this category.

IFRS 7.B5(f) Held-to-maturity investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

IAS 1.117(a) **Available-for-sale financial assets**  
 IAS 1.117(b) Available-for-sale financial assets are non-derivative financial assets that are either designated to  
 IFRS 7.B5(b) this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's available-for-sale financial assets include listed securities and debentures, and the equity investment in XY Ltd.

The equity investment in XY Ltd. is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

IAS 1.117(a) All other available-for-sale financial assets are measured at fair value. Gains and losses are  
 IAS 1.117(b) recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'. Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

IAS 1.117(b) **Financial liabilities**  
 The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

IAS 1.117(a) Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

IAS 1.117(a) The Group has designated some financial liabilities at fair value through profit or loss to reduce  
 IFRS 7.B5(a) significantly measurement inconsistencies between Eurozone bonds and fixed rate loans denominated in Euro (see further description above).

IAS 1.117(b) All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

**Derivative financial instruments**

- IAS 1.117(b) A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.
- IFRS 7.22(a)  
IFRS 7.22(c) For the reporting periods under review, the Group has designated certain forward currency contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate currency exchange risk arising from certain legally binding sales and purchase orders denominated in foreign currency.
- IAS 1.117(a) All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.
- IAS 1.117(b) To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

# Appendix - scope of IFRS 7

## What is the scope of IFRS 7?

IFRS 7 is applicable to:

- all entities reporting under IFRS;
- all types of financial instruments, except those explicitly scoped out (see below) (IFRS 7.3).

The definition of a financial instrument is broad. Accordingly, the instruments covered by IFRS 7 are extensive, ranging from straightforward instruments such as bank accounts and trade receivables to more complex financial instruments such as derivatives. Since the instruments covered by the standard are wide-ranging, this means that IFRS 7 is relevant to all entities in practice (as it is likely that all companies hold financial instruments).

It is important to note that the scope of IFRS 7 is not in all cases identical to those of IAS 39 and IAS 32. An instrument may be within the scope of IFRS 7 even if it is not within the scope of IAS 39 or IAS 32. For example, most loan commitments are outside the scope of IAS 39 and are not therefore recognised in the financial statements. However, loan commitments are in the scope of IFRS 7 (because they are financial instruments and are not explicitly scoped out).

Contracts to buy or sell a non-financial item are within the scope of IFRS 7 if they are within the scope of IAS 39.

## Scope outs

### A financial instrument classified as equity

If financial instruments are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32 they are not within the scope of IFRS 7 (IFRS 7.3(f)). Accordingly, the test set out in IAS 32 to determine whether a financial instrument is debt or equity, determines whether the instrument is within the scope of IFRS 7. For example, a preference share that provides for redemption on a specific date includes a financial liability. Accordingly, such a financial liability is within the scope of IFRS 7.

In our view, the liability component of a compound financial instrument is also within the scope of IFRS 7.

### Interests in subsidiaries, associates and joint ventures

Interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures* are not within the scope of IFRS 7.

The only exception is where an interest in a subsidiary, associate or joint venture is accounted for using IAS 39 as permitted by IAS 27, IAS 28 and IAS 31; in those cases, entities shall apply the disclosure requirements in IFRS 7 in addition to those in IAS 27, IAS 28 or IAS 31 (IFRS 7 (IFRS 7.3(a))).

The standard also makes clear that entities are required to apply IFRS 7 to all **derivatives linked to interests in subsidiaries, associates or joint ventures** unless the derivative meets the definition of an equity instrument in IAS 32 (IFRS 7.3(a)).

### Investments in joint ventures

IFRS 7 does not apply to investments in associates and joint ventures that are accounted for using the equity method as permitted in IAS 28 and IAS 31 (IFRS 7.3(a)). However, where an entity accounts for joint ventures using the proportionate consolidation method, a question arises as to whether the group's share of the financial instruments of the joint venture is within the scope of IFRS 7. The use of the proportionate consolidation method effectively means that the investor's share of the financial instruments of the joint venture becomes group assets. Accordingly, we believe it is acceptable that these financial instruments are subject to the requirements of IFRS 7.

### Insurance contracts

IFRS 7 does not apply to insurance contracts as defined in IFRS 4 *Insurance Contracts*. It should however be noted that IFRS 4 requires disclosures about financial risks in insurance contracts that are cross-referenced to IFRS 7. IFRS 7 applies to embedded derivatives in insurance contracts if IAS 39 requires them to be accounted for separately (IFRS 7.3(d)).

### Financial guarantee contracts

Financial guarantee contracts can have various forms. They are defined in IAS 39 as a contract that requires the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument (IAS 39.9).

Some financial guarantee contracts are scoped out of IAS 39 - they are instead within the scope of IFRS 4. If the financial guarantee contract is accounted for under IFRS 4 this has the effect that IFRS 7 is not applied. If, on the other hand, the financial guarantee contract is accounted for under IAS 39 (it may be unrecognised) the contract is subject to the disclosures in IFRS 7.

### Other scope-outs

Financial instruments, contracts and obligations under **share-based payment transactions** to which IFRS 2 *Share-based Payment* applies, are not within the scope of IFRS 7, except for contracts within the scope of paragraphs 5–7 of IAS 39 (contracts to buy or sell a non-financial item) (IFRS 7.3(e)).

Employers' rights and obligations arising from **employee benefit plans**, to which IAS 19 *Employee Benefits* applies are not within the scope of IFRS 7 (IFRS 7.3(b)).

### Other scope issues

#### Individual and separate financial statements

Entities might prepare individual financial statements in accordance with IFRS. For example, a wholly-owned subsidiary may prepare financial statements in accordance with IFRS. These entities are required to comply with IFRS 7 in the same way as all other entities. There is no exception for

individual financial statements of a subsidiary, even if IFRS 7 is applied in the consolidated financial statements in which the subsidiary is included (IFRS 7.BC11).

There is also no exception for the separate financial statements of a parent entity when such statements are prepared.

### **Financial instruments held for sale in accordance with IFRS 5**

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5) states that the presentation and classification requirements of IFRS 5 applies to all non-current assets held for sale and disposal groups of an entity. However, the measurement requirements of IFRS 5 do not apply to financial assets within the scope of IAS 39 (IFRS 5.5(c)).

A question arises as to whether financial instruments classified as held for sale or included within a disposal group are subject to the disclosure requirements of IFRS 7. This issue has recently been addressed by the IASB in *Annual Improvements 2009*, which are effective for annual reporting periods beginning on or after 1 January 2010, but may also be considered good practice before that date (and be early adopted). IFRS 5.5B now explicitly states that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs (such as IFRS 7) do not apply to such assets (or disposal groups) unless those other IFRSs require:

- specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
- disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and such disclosures are not already provided in the other notes to the financial statements.

IFRS 7 does not require specific disclosures about financial instruments classified as held for sale (or included in a disposal group) or discontinued operations. However, in our view, the second bullet point means that entities are required to provide 'measurement disclosures' in IFRS 7 because financial instruments are outside the measurement scope of IFRS 5. These would include IFRS 7's fair value disclosures (for example).

### **Finance leases**

A finance lease gives rise to a financial asset of the lessor and a financial liability of the lessee. These rights and obligations are financial instruments but are accounted for under IAS 17 *Leases* rather than IAS 39. However, these financial assets and financial liabilities are within the scope of IFRS 7 (in addition to the disclosure requirements in IAS 17).

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