

IFRS 7 Financial instrument disclosures

CLASSIFICATION

July 2020

Despite being effective since 2007, entities often misinterpret the most basic requirements of IFRS 7.

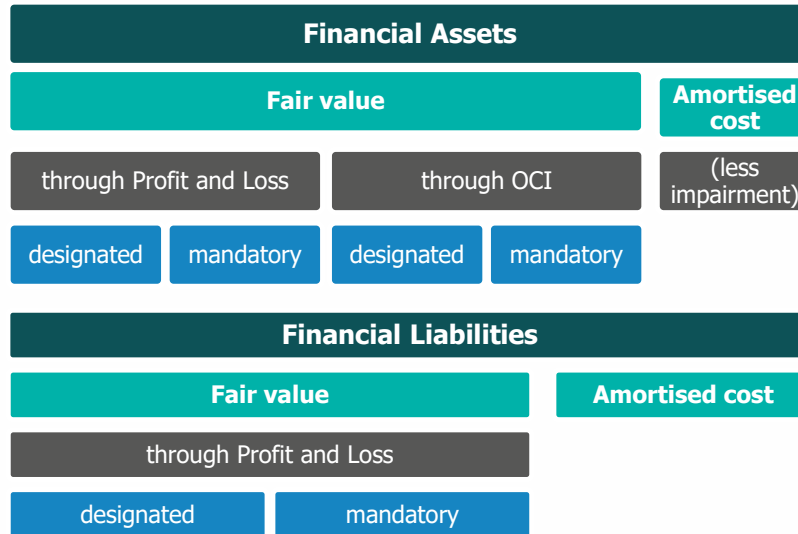
This tip deals with what's "HOT" and what's "NOT" when it comes to disclosure of the significance of financial instrument for an entity's financial position and performance.

The objective of IFRS 7 disclosures is to ensure entities provide disclosures in their financial statements that will enable users of those financial statements to evaluate:

1. the **significance of financial instruments** for the entity's financial position and performance; and
2. the **nature and extent of risks** arising from financial instruments to which the entity is exposed to during and at the end of the reporting period, and how the entity manages those risks.

When disclosing the **significance of financial instruments in the statement of financial position**, an entity is required to disclose either on the face or in the notes the **carrying amounts** for **each category** of financial instrument.

These categories are illustrated below:



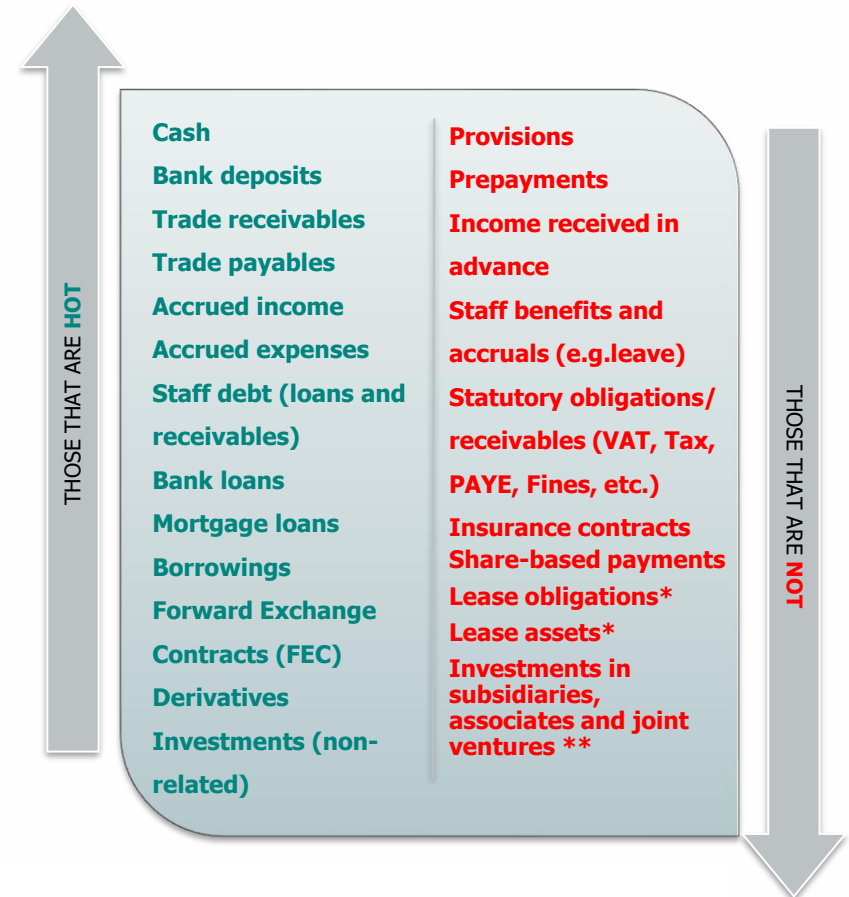
In providing the disclosures as above, entities very often make the following mistakes:

- Include items that **ARE NOT** financial instruments within the scope of IFRS 7
- **DO NOT** include the measurement basis of the financial instruments as per the above categories and totals per measurement basis
- In disclosing the required information in the notes, **DO NOT** include adequate cross-referencing to the line items or notes where these items were included in the financial statements

Some notes include a **combination of financial and non-financial instruments**, for example:

Trade and other payables may include amounts due to employees as part of their services, value-added tax (VAT) and other contract liabilities. Where this is the case, an entity may want to distinguish between financial and non-financial instruments in the specific note and summarise this information with cross-referencing to a note called "financial instruments".

The illustration below provides examples of **line items that are usually financial instruments in IFRS 9** and those that are **not financial instruments and therefore should not be included** when disclosing the carrying amounts in accordance with IFRS 7 par 8. (Refer to IFRS 7 par 3 and the scope of IFRS 9 when assessing specific items)



*Some financial assets and liabilities are outside the scope of IFRS 9 but are still subject to other disclosure requirements, such as credit and liquidity risk disclosures

**Except those that are measured in accordance with IFRS 9