

The Impact of
IFRS
on Industry

Mohan R. Lavi

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PREFACE

During the course of my lectures across India and abroad on International Financial Reporting Standards (IFRS) and other accounting related topics, I was always fascinated by the questions that the participants put forward. Each session was different and so was each question. There were, of course, questions that were not in any way related to accounting or standards but that is to be expected anywhere. Probably what fascinated me more was that accountants were able to pose questions on how, for instance, a refractor should be accounted considering its use, or whether an internally generated brand qualifies for recognition as an intangible asset when the brand has been hypothecated to a bank and funds obtained. Most of my employment was with companies that were based in the United States and hence I had exposure to the industry-specific provisions of US GAAP. As IFRS grew in importance, my mind was filled with thoughts as to how different industries would be impacted if they transitioned to IFRS. Those thoughts are set out in this book.

Having worked in different industries, I have extrapolated an IFRS-implementation scenario in these industries to ascertain the impact. For other industries, I have researched the annual reports of large companies operating in these industries and asked questions of friends and associates working in these industries. As always, the internet threw up way too much information – I have digested this information and present only the relevant parts of which I am absolutely sure, and which are supported by other tangible evidence.

This book is primarily intended for entities that are yet to transition to IFRS and are considering an impact assessment. Entities that have already moved over to IFRS could find the book useful in the impact of revised IFRS Standards that are to come out in the future or the impact that annual impairment tests or fair valuation would have. Others who are interested in IFRS as academics or students could find the book useful for their areas of work.

The book is divided into six chapters. Chapter 1 discusses the origin of accounting standards and how they appear to be moving to an industry-based era. Chapter 2 summarizes all the disclosure requirements of IFRS. Chapter 3 details the impact that IFRS Standards would have on all industries while Chapter 4 discusses this impact for specific industries. Chapter 5 discusses the collateral impact of IFRS while Chapter 6 concludes with a discussion on how future IFRS Standards could impact specific industries. The book concludes with an appendix that contains a tabular summary of the impact discussed.

Readers are encouraged to read the book in any order they prefer.

I do hope readers enjoy this book.

Bangalore
January 31, 2016

ACKNOWLEDGEMENTS

The easy part of writing this book was to complete the chapters on industries in which I have worked – software, retail and industries where property, plant and equipment constitute a significant component of the balance sheet. The not-so-tough part was writing the chapters on industries whose business model everyone is familiar with – airlines, for instance. The tough parts were the chapters on industries which were highly technical in nature – pharmaceutical and the oil and gas industries are examples.

As in other things, the internet has a lot of information on the impact of IFRS on industry – sometimes there is too much information. Deloitte, KPMG, EY, PWC, GT, BDO and other large accounting firms have a number of publications on how IFRS would impact certain industries. There are quite a few research publications written by researchers at different universities that analyse issues with regard to IFRS. Many regulators across the world have published their impact analysis of IFRS in their area of regulation.

This book would have remained only an idea if not for the support received from the entire team at John Wiley and Sons. It commenced with a person (I am not sure who) @ Wiley responding and forwarding my Twitter message on July 10, 2014 to the right people very fast. Then, Steven Mullaly, Executive Commissioning Editor and Gemma Valler, Commissioning Editor, interacted with me and have been very supportive throughout this project that has taken about a year to finish. They have been extremely patient with me though I delayed sending them this book by quite a bit. In IFRS-speak, their patience was not impaired and they dealt with my delays at fair value. All credit for this book being published should go to them.

A word of immense thanks is also due to John Duggan who patiently proofread the book, identified and corrected the many errors I had made in the book. Thanks, John.

My parents, R R T Lavi and Vasanta Lavi, wife Rekha K R and daughter Brinda have been a source of amazing encouragement to me throughout. They have endured a lot with me and dedicating this book to them is one small though insufficient way of thanking each one of them.

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Bangalore, India

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1 INTRODUCTION: THE BACKGROUND AND EVOLUTION OF IFRS, AND A DISCUSSION ON WHY IFRS WOULD HAVE AN IMPACT ON INDUSTRY

At first blush, it would appear that a book on the impact that IFRS would have on industry is needless and unnecessary as all IFRS Standards are principle-based and, irrespective of the nature and peculiarities of a particular industry, the same principles would apply. However, accounting history has shown us that a general principle cannot take into account the accounting nuances of each and every industry. There could be interpretational issues when applying the same principles across all industries. As an illustration, let us take the principle of transfer of risks and rewards required in IAS 18 *Revenue* to recognise revenue on sale of goods. The transfer of risks and rewards could occur at different times for a software product company that sells its goods on the internet and a machinery manufacturer which transports its machinery to the customer's premises at its own risk. In the latter case, the transfer of risks would occur at a different time if the customer bore the risk of transporting the goods to his premises. Since IAS 18 only lays down a principle, determining the timing of transfer of risks and rewards is not very clear from the accounting standard. This gap in IAS 18 would however appear to have been rectified by its successor IFRS 15.

1.1 RULE-BASED VS. PRINCIPLE-BASED STANDARDS

Readers are probably aware that it was an Italian mathematician named Luca Pacioli who invented the double entry system of accounting. Being a mathematician, he was most likely content if the debit mathematically matched the credit. In those days transactions were simple, and cost would have been the basis of most accounting. However, as business flourished, accounting issues did too.

It would appear that actual pressures on the accounting profession to establish uniform accounting standards began to surface after the stock market crash of 1929 in the United States. Some feel that insufficient and misleading financial statement information led to inflated stock prices and that this contributed to the stock market crash and the subsequent depression. The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence. The 1933 act sets forth accounting and disclosure requirements for initial offerings of securities, stocks and bonds. The Financial Accounting Standards Board (FASB) was formed in the United States to develop accounting standards. It was in 1938 that the Committee on Accounting Procedures was formed – this committee issued what would be probably

the first set of accounting standards – and issued 51 Accounting Research Bulletins on an eclectic variety of topics including business combinations. Though accountants had something to refer to, with the passage of time, these bulletins attracted a lot of criticism for giving too many options and not dealing with complicated situations and transactions. In June 1973, the International Accounting Standards Committee (IASC) was formed to develop international accounting standards. There seemed to be an unwritten rule that the FASB would formulate accounting standards that would apply only in the United States – a rule that applies even now to a limited extent. Over the years, both the accounting bodies issued numerous accounting standards. In doing so, and maybe unwittingly, they developed standards based on totally different concepts – the FASB developed Standards based on rules while the IASC developed Standards based on principles. As subsequent events would prove, there is a world of difference between these two concepts. Rule-based standards suggest that the quantity of standards is due more to the fact that rules have to be established for different industries, while principle-based standards appear much simpler – just lay down the principle and leave the rest to the user of the standard.

The debate on whether principle-based standards score over rule-based standards has been going on for some time now and will probably continue in the future too. Purely on the basis of historical experience, it can be stated with some authority that both approaches have their pros and cons.

Principles-based standards require more judgment that firms could exploit opportunistically. In 2002, the FASB observed that a principles-based approach could lead to abuse, whereby the principles in accounting standards are not applied in good faith consistent with the intent and spirit of the standards. Ironically, the Enron episode occurred a few months later. Critics were quick to point out that aggressive accounting is likely to be easier to justify (or detect by auditors) under rules-based standards because detailed guidance or thresholds are explicitly stated. It was also felt that principles-based standards might lead to more informative earnings since they allow greater flexibility for firms to choose accounting methods that better reflect their economic realities. Following this reasoning, the SEC and FASB have both indicated a preference for principles-based standards because they allow accounting professionals to operationalise accounting treatments in a manner that best fulfils the objective of each standard and thereby best captures the underlying economic reality. On the other hand, from the perspective of statement preparers and auditors, the principles-based accounting system presents higher uncertainty due to lack of detailed guidance. The risk of being perceived as out of compliance may cause preparers to stray from the desired accounting treatment due to the increased risk of second-guessing.

Prior research that directly tests the effect of principles-based versus rules-based accounting standards on accounting quality has been conducted mostly in experimental settings. Evidence from these experimental studies generally supports the notion that principles-based standards improve accounting quality over rules-based standards. For example, in their experiments Agoglia, Douppnik, and Tsakumis (2011) find that CFOs are less likely to report aggressively under a principles-based standard than a rules-based standard.

The end of Enron signalled the beginning of a period in which the world started looking differently at the entire circle of accounting – accounting standards, accounting regulators and auditors. It was felt that having a single set of accounting standards would be the way to go forward – however idealistic that may sound. Both the International Accounting Standards Board (IASB, which succeeded the IASC) and the FASB decided to do something about it.

1.2 THE NORWALK AGREEMENT

Memorandum of Understanding

THE NORWALK AGREEMENT

At their joint meeting in Norwalk, Connecticut, USA on September 18, 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as practicable, and (b) to coordinate their future work programmes to ensure that once achieved, compatibility was maintained.

To achieve compatibility, the FASB and IASB (together, the “Boards”) agree, as a matter of high priority, to:

- (a) undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and International Financial Reporting Standards (IFRSs, which include International Accounting Standards, IASs);
- (b) remove other differences between IFRSs and U.S. GAAP that will remain at January 1, 2005, through coordination of their future work programmes; that is, through the mutual undertaking of discrete, substantial projects which both Boards would address concurrently;
- (c) continue progress on the joint projects that they are currently undertaking; and,
- (d) encourage their respective interpretative bodies to coordinate their activities.

One of the defining features of rule-based standards is that they prescribe rules depending on the peculiarities of the industry. US GAAP has a bunch of standards that are specific to certain industries. The codification of US GAAP has the following under the heading “Industry.”

<i>Topic</i>	<i>Industry</i>
905	Agriculture
908	Airlines
910	Contractors

915	Development Stage Entities
920	Entertainment
930	Extractive Activities
940	Financial Services
952	Franchisors
954	Health Care Entities
958	Not-for-Profit Entities
960	Plan Accounting
970	Real Estate
980	Regulated Operations
985	Software
995	US Steamship entities

Subsequent to the Norwalk Agreement, with all accounting standards issued by both the IASB and the FASB, there has been an attempt to develop them based on common principles. There are, however, still some differences between the standards pronounced by both the regulators. This is to be expected as it would be well nigh impossible to expect one-size-fits-all accounting standards due to the fact that local accounting regulations, practices and cultures differ from country to country. As long as the overall principles between the two sets of standards are not radically different, we can acknowledge that some semblance of uniformity has been achieved.

However, this does not resolve the rule-based vs. principle-based debate since all rule-based standards issued by the FASB are still being used. As in all things where there are two diametrically opposite views, it would appear that the ideal solution would be an equal balance between the two – the mid-path so to speak.

The IASB seems to have found that balance. After IFRS 3, the following standards were issued by the IASB:

- IFRS 4 *Insurance Contracts*
- IFRS 5 *Non-current assets held for sale*
- IFRS 6 *Exploration and Evaluation of Mineral Resources*
- IFRS 7 *Financial Instruments – Disclosures*
- IFRS 8 *Operating Segments*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IFRS 14 *Rate Regulated Entities*
- IFRS 15 *Revenue from Contracts with Customers*

It would appear that the IASB too is moving towards industry specific standards in cases where it is felt that the existing accounting standards are not elaborate enough to meet the requirements of the Framework to International Accounting Standards. IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration and Evaluation of Mineral Resources* are industry specific. IFRS 14 focuses only on regulatory deferral accounts.

The saying “the only constant is change” is probably as old as change itself. Technology has filtered into everyone’s lives and changed the way they live. A decade ago, buying a bestselling book involved going to your nearest bookstore. Often times, the book was not available and the storekeeper was told to inform you when it arrived. These days, you can order a bestseller online even before it is released to the public. You get it at your doorstep immediately after it is released. You can pay cash after ensuring it has been delivered intact (the only thing you probably can’t do is to read it and return it!). From vegetables, electronic gadgets to matrimonial alliances, everything is done at the click of a button. With the rapid changes in technology, it was only a matter of time before bricks-and-mortar companies started to provide an online offering, thereby ensuring parity with the competition.

Accounting standards needed to keep pace with these developments. Both the FASB and the IASB have been quick to issue clarifications whenever any issues are raised on their existing accounting standards. In many ways, it is considered that the five-step approach envisaged by IFRS 15 is not only bringing the revenue recognition standard on par with Chapter 606 of US GAAP but also takes into account the changing revenue recognition landscape in different industries. Many of the 64 illustrative examples in IFRS 15 show the principles of revenue recognition in different industries.

Apart from the new generation industries, such as e-commerce, the traditional manufacturing industries also seem to be changing. Entities are hiving off divisions which they cannot manage profitably – bringing into play IFRS 3 *Business Combinations* – or are outsourcing segments of their manufacturing process that are provided more cheaply by third parties. This would bring into play questions of revenue recognition and in some instances, determining who owns and controls the property, plant and equipment to recognise it under IAS 16.

Entities that engage with the government in public private partnerships invariably enter into service concession arrangements with the government. The erstwhile International Accounting Standards provided limited guidance on how to recognise revenue in such arrangements or whether the right to charge an amount for utilising that public service gave rise to any intangible assets. IFRIC 12 *Service Concession Arrangements* fixes this conundrum.

All IFRS Standards go through a very detailed process before being published. Despite this, a Standard may not be able to provide solutions to specific situations experienced in particular industries. A recent discussion in the IASB focused on whether telecommunication towers owned by tower companies should be reflected as investment property under IAS 40 or property, plant and equipment under IAS 16. The IASB brought out International Financial Reporting Standards Interpretations (IFRIC) and Standard Interpretations Committee (SIC) to resolve such specific issues. In a limited way, IFRIC and SIC are looking at industry-specific issues.

The focus of IFRS on industry-specific standards appears to be further confirmed if one looks at the major projects of the IASB for the future. Re-deliberation is planned on IFRS 4 in Q1 of 2015, and the all-new IAS 17 *Leases* is expected to be issued at the latest by the end of 2015. That apart, a further public consultation on rate regulation is expected to be commenced in Q1 2015.

The twin factors of IFRS evolving, and dynamic changes in the way business is conducted and industries are aligned, will ensure that there will more industry-specific standards that will come out in the future from the IASB.

Some experts aver that IFRS is all about fair value and disclosures. They opine that the extensive disclosures mandated by every IFRS Standard provide ready-made information to competitor to know everything that a competitor needs to know about an entity – the fair value of its assets and liabilities, as well as a detailed breakdown of the amounts paid in a business combination. This is a spin-off effect that IFRS has had on industry – the availability of too much information about an entity. While using these vast amounts of disclosure data can do no harm, misuse of this data can create issues between entities and their competitors. However, it should be stated here that all the accounting accidents that happened over the last decade and more – be it an Enron, WorldCom, Parmalat, Lehmann Brothers or Satyam – suffered from a common shortcoming: the lack of detailed disclosures in the areas of accounting where they deviated from the norms. Accounting regulators feel – and rightly so – that it is better to disclose more rather than less, or only what is deemed essential. In the IFRS era, entities operating in different industries should learn the art of disclosing both good and not-so-good information.

We can reasonably conclude from the above discussion that, irrespective of the basis on which accounting standards have been developed, they will have an impact on specific industries. During the course of writing this book, I found to my pleasant surprise that the industry most impacted by IFRS was the airline industry. They have different types of leases, componentisation of PPE, borrowing costs, impairment, intangible assets such as airport landing rights, revenue recognition dilemmas (customer loyalty programmes) and financial instruments. It would probably not be an exaggeration to state that apart from the industry specific Standards such as IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* most of the other Standards would apply in some way or the other to the airline industry. This conclusion sets the tone for the remaining chapters of the book.

2 SUMMARY OF DISCLOSURES UNDER IFRS STANDARDS

To many, IFRS is all about disclosures. The insertion of the words “financial reporting” in place of “accounting” in the erstwhile International Accounting Standards was intended to send out a message that accounting is *passé*, financial reporting is in. Financial reporting in essence means disclosures. The disclosure requirements in IFRS are, to say the least, intense. Apart from the disclosure requirements mentioned in most Standards, IFRS has Standards exclusively for disclosures: IAS 24 *Related Party Transactions*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 8 *Operating Segments* and IFRS 11 *Disclosure of Interests in Other Entities* are examples. However, it has to be mentioned that the disclosure requirements in other Standards are equally intense: IAS 36 requires extensive disclosures to be made when an asset tests positive for impairment. In stark contrast, the disclosure requirements required by IAS 23 *Borrowing Costs* are mentioned only in about four paragraphs. The mantra for an entity moving over to an IFRS world will be “just disclose it.”

A summary of the disclosure requirements in major IFRS Standards is provided here. A disclaimer has to be made here – the list is by no means exhaustive since some paragraphs in IFRS Standards draw references to other IFRS Standards. An entity doing IFRS for the first time would do well to develop a detailed checklist for disclosures. There are quite a few available online but it would be ideal to get one done internally because it just seems like the right thing to do.

2.1 IFRS 3 BUSINESS COMBINATIONS

The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:

- (a) during the current reporting period; or
- (b) after the end of the reporting period but before the financial statements are authorised for issue.

The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

2.2 IFRS 4 INSURANCE CONTRACTS

An entity need not apply the disclosure requirements in this IFRS to comparative information that relates to annual periods beginning before 1 January 2005, except for

the disclosures about accounting policies, and recognised assets, liabilities, income and expense (and cash flows if the direct method is used).

If it is impracticable to apply a particular requirement to comparative information that relates to annual periods beginning before 1 January 2005, an entity shall disclose that fact. Applying the liability adequacy test to such comparative information might sometimes be impracticable, but it is highly unlikely to be impracticable to apply other requirements to such comparative information. IAS 8 explains the term “impracticable.”

An entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies this IFRS. Furthermore, if it is impracticable, when an entity first applies this IFRS, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information that complies with this IFRS, the entity shall disclose that fact.

2.3 IFRS 5 NON-CURRENT ASSETS HELD FOR SALE

An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

- (a) a description of the non-current asset (or disposal group);
- (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
- (c) the gain or loss recognised and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss;
- (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating Segments*.

If applicable, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

2.4 IFRS 6 EVALUATION AND EXPLORATION OF MINERAL RESOURCES

An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

An entity shall disclose:

- (a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets;
- (b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.

2.5 IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

The two main categories of disclosures required by IFRS 7 are:

1. information about the significance of financial instruments; and
2. information about the nature and extent of risks arising from financial instruments.

2.5.1 Information about the significance of financial instruments

2.5.1.1 Statement of financial position

Disclose the significance of financial instruments for an entity's financial position and performance. This includes disclosures for each of the following categories:

- financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale assets;
- financial liabilities at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition; and
- financial liabilities measured at amortised cost.

Other balance sheet-related disclosures

- Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit and loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.
- Reclassifications of financial instruments from one category to another (e.g. from fair value to amortised cost or vice versa).
- Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.
- Reconciliation of the allowance account for credit losses (bad debts) by class of financial assets.
- Information about compound financial instruments with multiple embedded derivatives.
- Breaches of terms of loan agreements.

2.5.1.2 Statement of comprehensive income

- Items of income, expense, gains, and losses, with separate disclosure of gains and losses from:
 - financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition,
 - held-to-maturity investments,

- loans and receivables,
- available-for-sale assets,
- financial liabilities measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition,
- financial liabilities measured at amortised cost.

Other income statement-related disclosures

- Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.
- Fee income and expense.
- Amount of impairment losses by class of financial assets.
- Interest income on impaired financial assets.

2.5.1.3 Other disclosures

- Accounting policies for financial instruments.
- Information about hedge accounting, including:
 - description of each hedge, hedging instrument, and fair values of those instruments, and nature of risks being hedged,
 - for cash flow hedges, the periods in which the cash flows are expected to occur, when they are expected to enter into the determination of profit or loss, and a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur.
- If a gain or loss on a hedging instrument in a cash flow hedge has been recognised in other comprehensive income, an entity should disclose the following:
 - the amount that was so recognised in other comprehensive income during the period,
 - the amount that was removed from equity and included in profit or loss for the period,
 - the amount that was removed from equity during the period and included in the initial measurement of the acquisition cost or other carrying amount of a non-financial asset or non-financial liability in a hedged highly probable forecast transaction.
- For fair value hedges, information about the fair value changes of the hedging instrument and the hedged item.
- Hedge ineffectiveness recognised in profit and loss (separately for cash flow hedges and hedges of a net investment in a foreign operation).
- Information about the fair values of each class of financial asset and financial liability, along with:
 - comparable carrying amounts,
 - description of how fair value was determined,
 - the level of inputs used in determining fair value,
 - reconciliations of movements between levels of fair value measurement hierarchy additional disclosures for financial instruments whose fair value is determined using level 3 inputs including impacts on profit and loss, other comprehensive income and sensitivity analysis,
 - information if fair value cannot be reliably measured.

- The fair value hierarchy introduces three levels of inputs based on the lowest level of input significant to the overall fair value:
 - Level 1 – quoted prices for similar instruments,
 - Level 2 – directly observable market inputs other than Level 1 inputs,
 - Level 3 – inputs not based on observable market data,
- Disclosure of fair values is not required when the carrying amount is a reasonable approximation of fair value, such as short-term trade receivables and payables, or for instruments whose fair value cannot be measured reliably.

2.5.2 Nature and extent of exposure to risks arising from financial instruments

2.5.2.1 Qualitative disclosures

The qualitative disclosures describe:

- risk exposures for each type of financial instrument;
- management's objectives, policies, and processes for managing those risks; and
- changes from the prior period.

2.5.2.2 Quantitative disclosures

The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. These disclosures include:

- summary quantitative data about exposure to each risk at the reporting date
- disclosures about credit risk, liquidity risk, and market risk and how these risks are managed as further described below
- concentrations of risk.

2.5.2.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

Disclosures about credit risk include:

- maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired, and information about credit quality of financial assets whose terms have been renegotiated
- for financial assets that are past due or impaired, analytical disclosures are required
- information about collateral or other credit enhancements obtained or called.

2.5.2.4 Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.

Disclosures about liquidity risk include:

- a maturity analysis of financial liabilities
- description of approach to risk management.