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International
Accounting Standards
Board

Latest revision: March 2009

Improving Disclosures about Financial Instruments (amendments to IFRS 7 *Financial Instruments: Disclosures*)

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Introduction

This project report is structured as follows:

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Objective

1. The objective of this project is to improve IFRS 7 to enhance disclosures about valuations, methodologies and the uncertainty associated with fair value measurements. The amendments also clarify and enhance existing disclosure requirements about the nature and extent of liquidity risk.

Next steps

2. This project has been completed. In March 2009, the IASB issued *Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*.

Background

3. This project was undertaken partly as the IASB's standard review of IFRS 7 (issued in 2005). It was also undertaken as part of the IASB's response to the global financial crisis. The amendments to IFRS 7 enhanced and clarified disclosures about fair value measurements and liquidity risk arising from financial instruments.
4. The Board was informed by users of financial statements and others that enhanced disclosures about fair value measurements were required, especially in the light of the present market conditions.
5. The staff has undertaken the following steps: (a) consultation with preparers and users of IFRS-based financial statements, (b) an analysis of good disclosure practice observed in financial reports and (c) a review of good practice suggestions made by regulatory bodies.
6. At its meeting in September 2008 the IASB considered a comprehensive package of proposed amendments to IFRS 7 as part of its review of the standard. The package included disclosures related to off balance sheet risk, fair value measurement and financial instrument risk, including disclosures related to liquidity risk.

Project history

IASB September 2008

7. At the September 2008 meeting, the Board discussed possible changes to the liquidity risk disclosure requirements in IFRS 7. The Board tentatively decided that those requirements should apply to financial liabilities that are settled in cash or another financial asset. Furthermore, the Board tentatively decided on the following approach for liquidity risk disclosures:
 - For derivative financial liabilities, an entity should disclose a quantitative maturity analysis based on how the entity manages the liquidity risk associated with such instruments. Additional disclosures would be required for particular types of derivatives.
 - For non-derivative financial liabilities (including hybrid financial liabilities), an entity should disclose a quantitative maturity analysis based on the instruments' earliest contractual maturities. If the entity does not manage liquidity risk for some items based on those contractual maturities, the entity should also disclose a quantitative maturity analysis based on how it manages the liquidity risk for those items
8. At this meeting the Board also discussed the disclosures about the fair value of financial instruments. The Board tentatively decided to amend IFRS 7:
 - to require entities to classify and disclose fair value measurements using the following fair value hierarchy:
 - Level 1: fair values measured using quoted prices in an active market for identical assets or liabilities
 - Level 2: fair values measured using valuation techniques for which all inputs significant to the measurement are based on observable market data

- Level 3: fair values measured using valuation techniques for which any input significant to the measurement is not based on observable market data.
 - to require entities to present quantitative disclosures about fair value measurements in a tabular format unless another format is more appropriate to the circumstances.
 - for fair value measurement using significant unobservable inputs (Level 3), to require a reconciliation from period to period along with a narrative description about any transfers between levels of the hierarchy and the reasons for those transfers.
 - for fair values of financial instruments that are disclosed but not measured at fair value in the statement of financial position, to require an indication of the level of the hierarchy in which the instrument is classified.
9. Following this meeting the Board instructed the staff to draft an exposure draft of the proposed amendments.

IASB October 2008

10. At the October 2008 meeting the Board agreed that the proposed amendments be published as soon as possible, and separately from the proposals relating to off-balance sheet risk disclosures. The Board tentatively decided to allow a 60 day comment period for the exposure draft. The Board also tentatively decided to propose an effective date for annual periods beginning on or after 1 July 2009, with earlier application permitted.
11. On 15 October 2008 the Board approved for publication the exposure draft **Improving Disclosures about Financial Instruments (Proposed amendments to IFRS 7)**. The exposure draft is open for comment until 15 December 2008.
12. After the comment deadline, the IASB will consider an analysis on the comments received before deciding how to proceed.

IASB January 2009

13. At the January 2009 meeting, the Board discussed the responses to the exposure draft *Improving Disclosures about Financial Instruments* (ED), published in October 2008, and tentatively decided:
- as proposed in the ED, to require a three-level fair value disclosure hierarchy in IFRS 7.
 - to use the same hierarchy as in Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* issued by the US Financial Accounting Standards Board (FASB).
 - not to require disclosures about the fair value hierarchy for financial instruments that are not measured at fair value. Existing disclosure requirements for those instruments would still apply.
 - to emphasise the existing requirement to provide summary data about each type of risk arising from financial instruments based on information provided internally to key management personnel.
 - as proposed in the ED, to require disclosure of separate maturity analyses for derivative and non-derivative financial liabilities.

- to retain the existing minimum contractual liquidity risk disclosures for non-derivative financial liabilities.
 - not to require the existing minimum contractual liquidity risk disclosures for some types of derivative financial liabilities.
 - to require entities to apply the final amendments for annual periods beginning on or after 1 January 2009, with earlier application permitted and comparative disclosures not required on transition.
14. The Board directed the staff to draft the final amendments for written ballot.

Contact information

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