Chapter 10

HKFRS 7 "Financial Instruments: Disclosures"

¶10-100 Introduction

In recent years, the techniques used by entities for measuring and managing exposure to risks arising from financial instruments have evolved and new risk management concepts and approaches have gained acceptance. It is generally believed that users of financial statements need information about an entity's exposure to risks and how those risks are managed.

The objective of HKFRS 7 "Financial Instruments: Disclosures" is to require entities to provide disclosures in their financial statements that enable users to evaluate (para 1):

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

HKFRS 7 shall be applied by all entities to all types of financial instruments, except for (para 3):

(a) those interests in subsidiaries, associates, or joint ventures that are accounted for under HKFRS 10 "Consolidated Financial Statements", HKAS 27 "Separate Financial Statements", or HKAS 28 "Investments in Associates and Joint Ventures". However, in some cases, HKFRS 10, HKAS 27 or HKAS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture using HKFRS 9; in those cases, entities shall apply the requirements of HKFRS 7 and, for those measured at fair value, the requirements of HKFRS 13 "Fair Value Measurement". HKFRS 7 also applies to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in HKAS 32 "Financial Instruments: Presentation";

(b) employers' rights and obligations under employee benefit plans, to which HKAS 19 "Employee Benefits" applies;

(c) [deleted]

(d) insurance contracts as defined in HKFRS 17 "Insurance Contracts" or investment contracts with discretionary participation features within the scope of HKFRS 17 (see *Note* below). However, HKFRS 7 applies to:

   (i) derivatives that are embedded in contracts within the scope of HKFRS 17, if HKFRS 9 requires the entity to account for them separately.

   (ii) investment components that are separated from contracts within the scope of HKFRS 17, if HKFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.

   (iii) an issuer's rights and obligations arising under insurance contracts that meet the definition of financial guarantee contracts, if the issuer applies HKFRS 9 in recognising and measuring the contracts. However, the issuer shall apply HKFRS 17 if the issuer elects, in accordance with para 7(e) of HKFRS 17, to apply HKFRS 17 in recognising and measuring the contracts.

   (iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies HKFRS 9 to those rights and obligations in accordance with para 7(h) of HKFRS 17 and para 2.1(e)(iv) of HKFRS 9.

   (v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with para 8A of HKFRS 17, to apply HKFRS 9 instead of HKFRS 17 to such contracts.

Moreover, an issuer shall apply this HKFRS to financial guarantee contracts if the issuer applies HKFRS 9 in recognising and measuring the contracts, but shall apply HKFRS 17 if the issuer elects, in accordance with para 7(e) of HKFRS 17, to apply HKFRS 17 in recognising and measuring them.

(e) financial instruments, contracts and obligations under share-based payment transactions covered under HKFRS 2 "Share-based Payment", except that HKFRS 7 applies to contracts within the scope of HKFRS 9; and

(f) instruments that are required to be classified as equity instruments in accordance with paras 16A and 16B or paras 16C and 16D of HKAS 32 "Financial Instruments: Presentation".

(*Note*: HKFRS 17 "Insurance Contracts" will become effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.)

HKFRS 7 shall also be applied to those contracts to buy or sell a non-financial item that are within the scope of HKFRS 9 (para 5).

The credit risk disclosure requirements in paras 35A–35N apply to those rights that HKFRS 15 "Revenue from Contracts with Customers" are accounted for in accordance with HKFRS 9 for the purposes of recognising impairment gains or loss. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified (para 5A).

The disclosures required by HKFRS 7 may be categorised into:

(a) accounting disclosures (see 10-300); and

(b) risk disclosures (see 10-340).

"Interest Rate Benchmark Reform – Phase 2 (Amendments to HKFRS 7, HKFRS 9 and HKFRS 16)" address issues that might affect financial reporting when an entity replaces an existing interest rate benchmark with an alternative benchmark interest rate as a result of the interest rate benchmark reform. See ¶10-330 for detail.

¶10-200 Classes of financial instruments and level of disclosure

When HKFRS 7 requires disclosures by class of financial instrument, an entity is required to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments (para 6). Sufficient information should be provided to permit reconciliation to the line items presented in the statement of financial position (para 6).

The classes determined by the entity are, thus, distinct from the categories of financial instruments specified in HKFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised (para B1 of Application Guidance). At a minimum, an entity shall (para B2 of Application Guidance):

(a) distinguish between those financial instruments that are measured at amortised cost and those that are measured at fair value.

(b) treat as a separate class or classes those financial instruments that are outside the scope of HKFRS 7 (if the entity provides disclosures regarding such financial instruments in addition to the requirements of HKFRS 7).

It is management's judgement to decide how much detail of information to provide. An entity, however, must strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation (para B3 of Application Guidance).

¶10-300 Accounting disclosures

HKFRS 7 requires an entity to disclose such accounting information so as to enable users of its financial statements to evaluate the significance of financial instruments for its financial position and performance (para 7).

Such accounting information shall be disclosed either in the statement of financial position, statement of profit or loss and other comprehensive income or the notes.

¶10-310 Statement of financial position disclosures

HKFRS 7 requires the following information in relation to statement of financial position items to be disclosed.

Categories of financial assets and financial liabilities

The carrying amounts of each of the following categories, as specified in HKFRS 9, shall be disclosed either in the statement of financial position or in the notes (para 8):

(a) financial assets measured at fair value through profit or loss, showing separately:

  (i) those designated as such upon initial recognition or where a credit exposure is subsequently measured at fair value through profit or loss in accordance with para 6.7.1 of HKFRS 9; and

  (ii) those mandatorily measured at fair value through profit or loss in accordance with HKFRS 9 (e.g. financial assets that meet the definition of held for trading in HKFRS 9).

(b)-(d) [deleted]

(e) financial liabilities at fair value through profit or loss, showing separately:

(i) those designated as such upon initial recognition or where a credit exposure is subsequently measured at fair value through profit or loss in accordance with para 6.7.1 of HKFRS 9; and

(ii) those that meet the definition of held for trading in HKFRS 9.

(f) financial assets measured at amortised cost.

(g) financial liabilities measured at amortised cost.

(h) financial assets measured at fair value through other comprehensive income, showing separately:

(i) financial assets that are measured at fair value through other comprehensive income in accordance with para 4.1.2A of HKFRS 9 (e.g. debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets — see ¶12-300); and

(ii) investments in equity instruments designated as such upon initial recognition in accordance with para 5.7.5 of HKFRS 9.

These disclosures would assist users in understanding the extent to which accounting policies affect the amounts at which financial assets and financial liabilities are recognised (para BC14 of Basis for Conclusions).

Financial assets at fair value through profit or loss

If the entity has designated a financial asset (or group of financial assets) as measured at fair value through profit or loss that would otherwise be measured at fair value through other comprehensive income or amortised cost, HKFRS 7 requires it to disclose (para 9):

(a) the maximum exposure to *credit risk* of the financial asset (or group of financial assets) at the end of the reporting period;

(b) the amount by which any related credited derivatives or similar instruments mitigate that maximum exposure to credit risk;

(c) the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:

(i) 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

(ii) using an alternative method that the entity believes to more faithfully represent the amount of change in its fair value attributable to changes in the credit risk of the asset; and

(d) 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 financial asset was designated.

Additionally, HKFRS 7 requires the entity to disclose (para 11):

(a) a detailed description of the methods used to comply with the requirements in para 9(c), above; and

(b) if the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in para 9(c) does not faithfully represent the change in the fair value of the financial asset attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Financial liabilities at fair value through profit or loss

If the entity has designated a financial liability as at fair value through profit or loss in accordance with para 4.2.2 of HKFRS 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see para 5.7.7 of HKFRS 9), HKFRS 7 requires it to disclose (para 10):

(a) the cumulative change in the fair value of the financial liability that is attributable to changes in credit risk of that liability.

(b) 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.

(c) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

(d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

If the entity has designated a financial liability as at fair value through profit or loss in accordance with para 4.2.2 of HKFRS 9, and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss (see para 5.7.7 and 5.7.8 of HKFRS 9), HKFRS 7 requires it to disclose (para 10A):

(a) the amount of the change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in credit risk of that liability; and

(b) 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.

Additionally, HKFRS 7 requires the entity to disclose (para 11):

(a) a detailed description of the methods used to comply with the requirements in para 10(a) and 10A(a) and para 5.7.7(a) of HKFRS 9, including an explanation of why the method is appropriate;

(b) if the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in para 10(a) and 10A(a) and para 5.7.7(a) of HKFRS 9 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; and

(c) a detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Investments in equity instruments designated at fair value through other comprehensive income

If the entity has chosen to designate investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by para 5.7.5 of HKFRS 9, HKFRS 7 requires it to disclose (para 11A):

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value of *each* such investment at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers. For example, an entity may transfer the amounts accumulated in other comprehensive income to another component of equity upon derecognition of equity instruments.

Additionally, in the reporting period in which the investments in equity instruments are derecognised, HKFRS 7 requires the entity to disclose (para 11B):

(a) the reasons for disposing of the investments.

(b) the fair value of the investments at the date of derecognition.

(c) the cumulative gain or loss on disposal.

Reclassification

When an entity has reclassified any financial assets in the current or previous reporting periods, the entity is required, for each such event, to disclose the following (para 12B):

(a) the date of reclassification.

(b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.

(c) the amount reclassified into and out of each category.

For each reporting period following reclassification until derecognition, an entity is required to disclose for financial assets reclassified out of fair value through profit or loss to amortised cost or fair value through other comprehensive income (para 12C):

(a) the effective interest rate determined on the date of reclassification; and

(b) the interest revenue recognised.

If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through other comprehensive income to amortised cost or out of the fair value through profit or loss to amortised cost or fair value through other comprehensive income, it shall disclose (para 12D):

(a) the fair value of the financial assets at the end of the reporting period; and

(b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets had not been reclassified.

Offsetting financial assets and financial liabilities

Para 13B–13F provide the disclosures required for all recognised financial instruments that are set off in accordance with the offsetting criteria of HKAS 32 "Financial Instruments: Presentation" and those that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with the offsetting criteria (para 13A).

(A "master netting agreement" provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.)

Specifically, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities in a tabular format (unless another format is more appropriate) (para 13C):

(a) the gross amounts of those recognised financial assets and recognised financial liabilities under an enforceable master netting agreement or similar agreement;

(b) the amounts that are set off in accordance with HKAS 32 when determining the net amounts;

(c) the net amounts presented in the statement of financial position;

(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not included in para 13C(b); and

(e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

The total amount that is disclosed in accordance with para 13C(d) for an instrument is limited to the amount in para 13C(c) for that instrument (para 13D).

An entity shall also include a description in the disclosures of the rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with para 13C(d), including the nature of those rights (para 13E).

If the information required by para 13B–13E is disclosed in more than one note, an entity shall cross-refer between those notes (para 13F).

Collateral

If there is any collateral, HKFRS 7 requires an entity to disclose (para 14):

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with para 3.2.23(a) of HKFRS 9; and

(b) the terms and conditions relating to its pledge.

Additionally, when an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose (para 15):

(a) the fair value of the collateral held;

(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with para 4.1.2A of HKFRS 9 is not reduced by a loss allowance. An entity shall not present the loss allowance separately as a reduction of the carrying amount of the financial asset; instead, it shall disclose the loss allowance in the notes (para 16A).

Compound financial instruments with multiple embedded derivatives

If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), HKFRS 7 requires the entity to disclose the existence of those features (para 17).

Defaults and breaches

For loans payable recognised at the end of the reporting period, HKFRS 7 requires disclosure of (para 18):

(a) details of any defaults during the period of principal, interest, sinking fund or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

If, during the period, there were breaches of loan agreement terms other than those described in para 18 above, HKFRS 7 requires disclosure of the same information as required by para 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period) (para 19).

¶10-320 Statement of profit or loss and other comprehensive income disclosures

HKFRS 7 requires disclosure of the following items of income, expense, gains or losses either in the statement of profit or loss and other comprehensive income or in the notes (para 20):

(a) net gains or net losses on:

(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with para 6.7.1 of HKFRS 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with HKFRS 9 (e.g. financial liabilities that meet the definition of held for trading in HKFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss;

(ii)-(iv) [deleted]

(v) financial liabilities measured at amortised cost;

(vi) financial assets measured at amortised cost;

(vii) investments in equity instruments designated at fair value through other comprehensive income in accordance with para 5.7.7 of HKFRS 9; and

(viii) financial assets measured at fair value through other comprehensive income in accordance with para 4.1.2A of HKFRS 9, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

(b) total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss;

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets and financial liabilities that are not measured at fair value through profit or loss; and

(ii) 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.

Further, HKFRS 7 requires an entity to disclose an analysis of the gain or loss recognised in the statement of profit or loss and other comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets (para 20A).

¶10-330 Other disclosures

HKFRS 7 requires the following additional disclosures:

Accounting policies

HKFRS 7 requires disclosure, its significant accounting policies, comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements (para 21).

The disclosures required under para 21 may include (para B5 of Application Guidance):

(a) for financial liabilities designated as at fair value through profit or loss:

 (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss;

 (ii) the criteria for such designation on initial recognition; and

 (iii) how the entity has satisfied the conditions in para 4.2.2 of HKFRS 9 for such designation.

(aa) for financial assets designated as measured at fair value through profit or loss:

 (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and

 (ii) how the entity has satisfied the criteria in para 4.1.5 of HKFRS 9 for such designation.

(b) [deleted]

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or settlement date (see para 3.1.2 of HKFRS 9).

(d) how net gains or net losses on each category of financial instrument are determined (see para 20(a) in ¶10-320). For example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.

Hedge accounting

HKFRS 7 requires that hedge accounting disclosures shall provide information about (para 21A):

(a) an entity's risk management strategy and how it is applied to manage risk;

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) the effect that hedge accounting has had on the entity's statement of financial position, statement of profit or loss and other comprehensive income and statement of changes in equity.

An entity shall present the required disclosures in a single note or separate section in its financial statements (para 21B).

Where HKFRS 7 requires an entity to separate the information disclosed by risk category, an entity shall determine each risk category on the basis of the risk exposure it decides to hedge and for which hedge accounting is to be applied. An entity shall determine risk categories consistently for all hedge accounting disclosures (para 21C).

To meet the objectives in para 21A, an entity shall (except as specified otherwise by HKFRS 7) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation and disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity must use the same level of aggregation or disaggregation it uses for hedge accounting disclosures under HKFRS 7 and related information disclosed under HKFRS 13 (para 21D).

The risk management strategy

HKFRS 7 requires additional information to be disclosed when hedge accounting is used.

Specifically, HKFRS 7 provides that an entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example) (para 22A):

(a) how each risk arises;

(b) how the entity manages each risk. This includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why; and

(c) the extent of risk exposures that the entity manages.

To meet para 22A requirements, the information should include (but is not limited to) a description of (para 22B):

(a) the hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

The amount, timing and uncertainty of future cash flows

An entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity (para 23A).

To meet the above requirement, an entity shall provide a breakdown that discloses (para 23B):

(a) a profile of the timing of the nominal amount of the hedging instrument; and

(b) if applicable, the average price or rate (for example, strike or forward prices etc.) of the hedging instrument.

An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term (para 23D).

The effects of hedge accounting on financial position and performance

In respect of the effects of hedge accounting on financial position and performance, HKFRS 7 requires an entity to disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation) (para 24A):

(a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);

(b) the line item in the statement of financial position that includes the hedging instrument;

(c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and

(d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

HKFRS 7 further provides that an entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows (para 24B):

(a) for fair value hedges:

  (i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

  (ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

  (iii) the line item in the statement of financial position that includes the hedged item;

  (iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

  (v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with para 6.5.10 of HKFRS 9.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

  (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period;

  (ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with para 6.5.11 and 6.5.13(a) of HKFRS 9; and

  (iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

Furthermore, HKFRS 7 requires disclosure of the following amounts separately by risk category for the types of hedges, in a tabular format, as follows (para 24C):

(a) for fair value hedges:

  (i) hedge ineffectiveness, i.e. the difference between the hedging gains or losses of the hedging instrument and the hedged item, recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with para 5.7.5 of HKFRS 9); and

  (ii) the line item in the statement of profit or loss and other comprehensive income that includes the recognised hedge ineffectiveness.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

  (i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;

  (ii) hedge ineffectiveness recognised in profit or loss;

  (iii) the line item in the statement of profit or loss and other comprehensive income that includes the recognised hedge ineffectiveness;

  (iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see HKAS 1 "Presentation of Financial Statements");

  (v) the line item in the statement of profit or loss and other comprehensive income that includes the reclassification adjustment (see HKAS 1); and

  (vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of profit or loss and other comprehensive income (see para 6.6.4 of HKFRS 9).

When the volume of hedging relationships to which the exemption in para 23C applies is unrepresentative of normal volumes during the period (i.e. the volume on the reporting date does not reflect the volumes during the period), an entity shall disclose that fact and the reason it believes the volumes are unrepresentative (para 24D).

An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income separated by risk category for the items that relates to hedge accounting information The reconciliation shall (para 24E):

(a) differentiate, at a minimum, between the amounts that relate to the disclosures in paras 24C(b)(i) and (b)(iv), as well as the amounts accounted for in accordance with paras 6.5.11(d)(i) and (d)(iii) of HKFRS 9;

(b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when the entity accounts for the time value of an option in accordance with para 6.5.15 of HKFRS 9; and

(c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction-related hedged items, and the amounts associated with the forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time period-related hedged items when an entity accounts for those amounts in accordance with para 6.5.16 of HKFRS 9.

An entity shall disclose the information required in para 24E separately by risk category. This aggregation by risk may be provided in the notes to the financial statements (para 24F).

Additional disclosures related to interest rate benchmark reform

"Interest Rate Benchmark Reform – Phase 2 (Amendments to HKFRS 7, HKFRS 9 and HKFRS 16)" address issues that might affect financial reporting when an entity replaces an existing interest rate benchmark with an alternative benchmark interest rate as a result of the interest rate benchmark reform. The amendments require an entity to disclose information that enable users of financial statements to understand the nature and extent of risks to which the entity is exposed from financial instruments subject to interest rate benchmark reform, how the entity manages those risks, its progress in completing the transition to alternative benchmark interest rates, and how it manages the transition (para 24I).

Fair value

Except for what set out in para 29, for each class of financial assets and financial liabilities, HKFRS 7 requires an entity to disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount (para 25).

HKFRS 13 "Fair Value Measurement" requires enhanced disclosures about fair value measurements. (See the Chapter for HKFRS 13 for further detail.)

Disclosures of fair value, however, are not required (para 29):

(a) when the carrying amount is a reasonable approximation of fair value; for example, short-term trade receivables and payables; or

(b) [deleted]

(c) for a contract containing a discretionary participation feature (as described in HKFRS 17) if the fair value of that feature cannot be measured reliably; or

(d) for lease liabilities.

In disclosing fair values, HKFRS 7 requires an entity to group financial assets and financial liabilities into classes, but it shall offset them only to the extent that their carrying amounts are offset in the statement of financial position (para 26).

In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see para B5.1.2A of HKFRS 9). In such cases, HKFRS 7 requires an entity to disclose, by class of financial asset or financial liability (para 28):

(a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see para B1.5.2A(b) of HKFRS 9);

(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference; and

(c) reasons for concluding the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

Illustration 10.1 ***(adapted from the example in IG14 of Guidance on Implementing HKFRS 7)***

Fact of the case

On 1 January 20x1, ABC Ltd purchases $15 million of financial assets that are not traded in an active market. The company has only one class of such financial assets.

The transaction price of $15 million is the fair value at initial recognition.

After initial recognition, the company will apply a valuation technique to establish the financial assets' fair value. This valuation technique includes variables other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of $14 million, which differs from fair value by $1 million.

Application of requirements

ABC Ltd's 20x1 financial statements disclosure would include the following:

Accounting policies

The company uses the net tangible asset per share (NTA) valuation technique to determine the fair value of financial instruments that are not traded in an active market. Differences may arise between the fair value at initial recognition (which, in accordance with HKFRS 9, is generally the transaction price) and the amount determined at initial recognition using the NTA valuation technique. Any such differences are recognised in profit or loss of the year of acquisition.

In the notes to the financial statements

As disclosed under significant accounting policies, the company uses the NTA valuation technique to measure the fair value of the financial instruments that are not traded in an active market. However, in accordance with HKFRS 9, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the NTA valuation technique, that difference is recognised in profit or loss of the year of acquisition. During 20x1, the loss of $1 million is charged to profit or loss.

¶10-400 Risk disclosures

HKFRS 7 requires an entity to disclose information that enables users of the financial statements to evaluate the nature and extent of risks arising