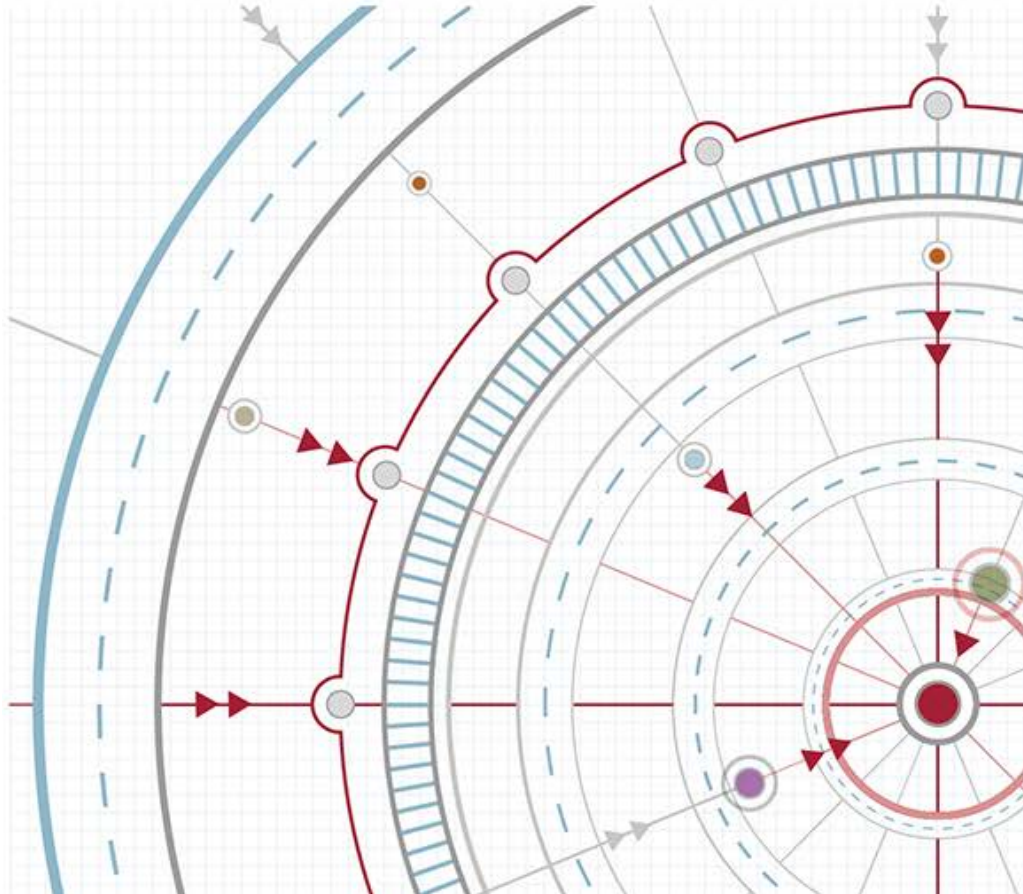IFRS® Foundation

Review of common reporting practice

IFRS 7 *Financial Instruments: Disclosures*

Izabela Ruta, IASB Technical Staff

Objective of this paper

| Background	Feedback received indicates that tagging disclosures related to IFRS 7 *Financial Instruments: Disclosures* is complex and requires many entity-specific elements (extensions).
Analysis	The staff performed high-level analysis of extensions created by Foreign Private Issuers and observed that there are many extensions related to financial instruments and in the finance sector.
Staff proposal	The staff proposes to start more detailed analysis focusing on: • on particular disclosures in IFRS 7 • the finance sector separately from the non-finance sector.
Feedback	We would like your comments or suggestions on the initial analysis and proposed next steps.

Agenda

Background: why financial instruments?

Slides
4 - 8

High level analysis of extensions related to financial instruments

9 - 12

Q1&2 slide 13

Finance sector sample
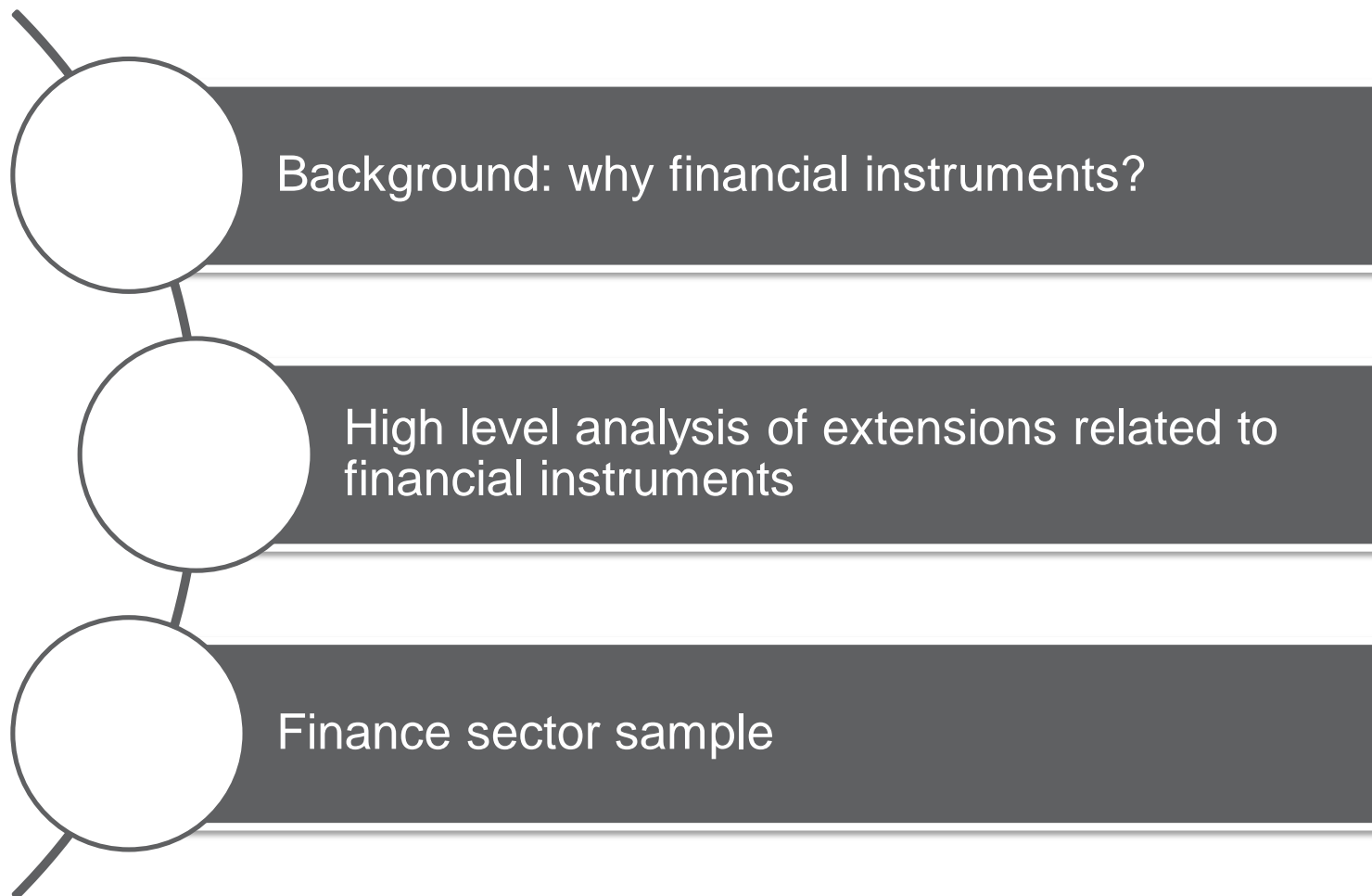
14 - 17

Q3 slide 18

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Background:
Why financial instruments?

Why Financial Instruments?

IFRS 9 became effective in 2018

- Review electronic data to understand whether the IFRS Taxonomy should be improved to help tag information about financial instruments

Stakeholder feedback indicated complexity

- Respond to the feedback raised by stakeholders (see slide 6)

High number of extensions noted in initial research

- Initial research on the reporting practice for the primary financial statements highlighted many extensions for the finance sector - see AP4 for June 2019 ITCG meeting.

- Initial research on the monetary extension line items used to tag financial information (including notes) confirmed many extensions for the finance sector (see slide 8) and highlighted a relatively large number of extensions for financial instruments (see slide 10)

Feedback received

Complexity of tagging

- Financial instrument disclosures include interrelated information that need to be tagged and modelled consistently which adds to tagging complexity.

- The presentation structure of the IFRS Taxonomy differs from the reporting practice. For example, IFRS 7 organises disclosure requirements by type of information (topic) while companies commonly present disclosures by type of instrument. This makes it more difficult to find the correct element.

Large number of extensions

- Some disclosure requirements are principle based which are reflected in the IFRS Taxonomy as high-level elements (for example text blocks) therefore companies need to create extensions to tag detailed information.

- Feedback indicated that there are insufficient elements to tag some disclosures, for example disclosures related to capital and market risk.

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Methodology used for analysis of extensions

Sample

Monetary line items created by Foreign Private Issuers for 2018 annual filings

Does not include axes and members, the staff proposes to extend detailed analysis to axes and members (see slide 13)
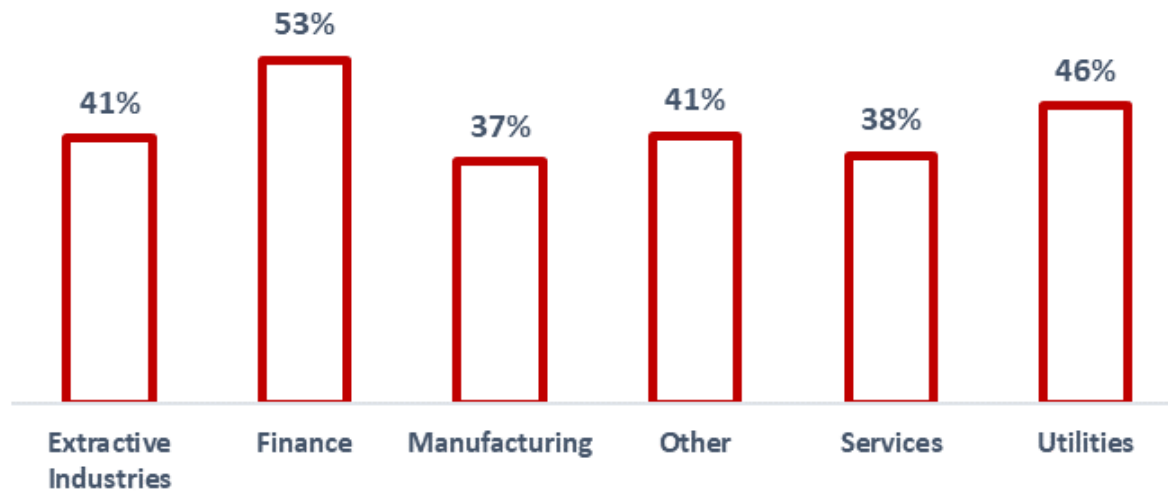
Analysis

The staff manually grouped elements related to financial instruments (see slide 8 &10) and disclosure type (see slide 12) based on high-level analysis of the element label

High level analysis of extensions

Average extension rate by sector

41%	53%	37%	41%	38%	46%
Extractive Industries	Finance	Manufacturing	Other	Services	Utilities

75,5k — All extensions created in 2018

61,1k — Extensions not for financial instruments

14,4k — Extensions for financial instruments

Around 20% of all extensions relate to financial instruments.

The highest extension rate is for the Finance sector which focuses on finance activities involving financial instruments.
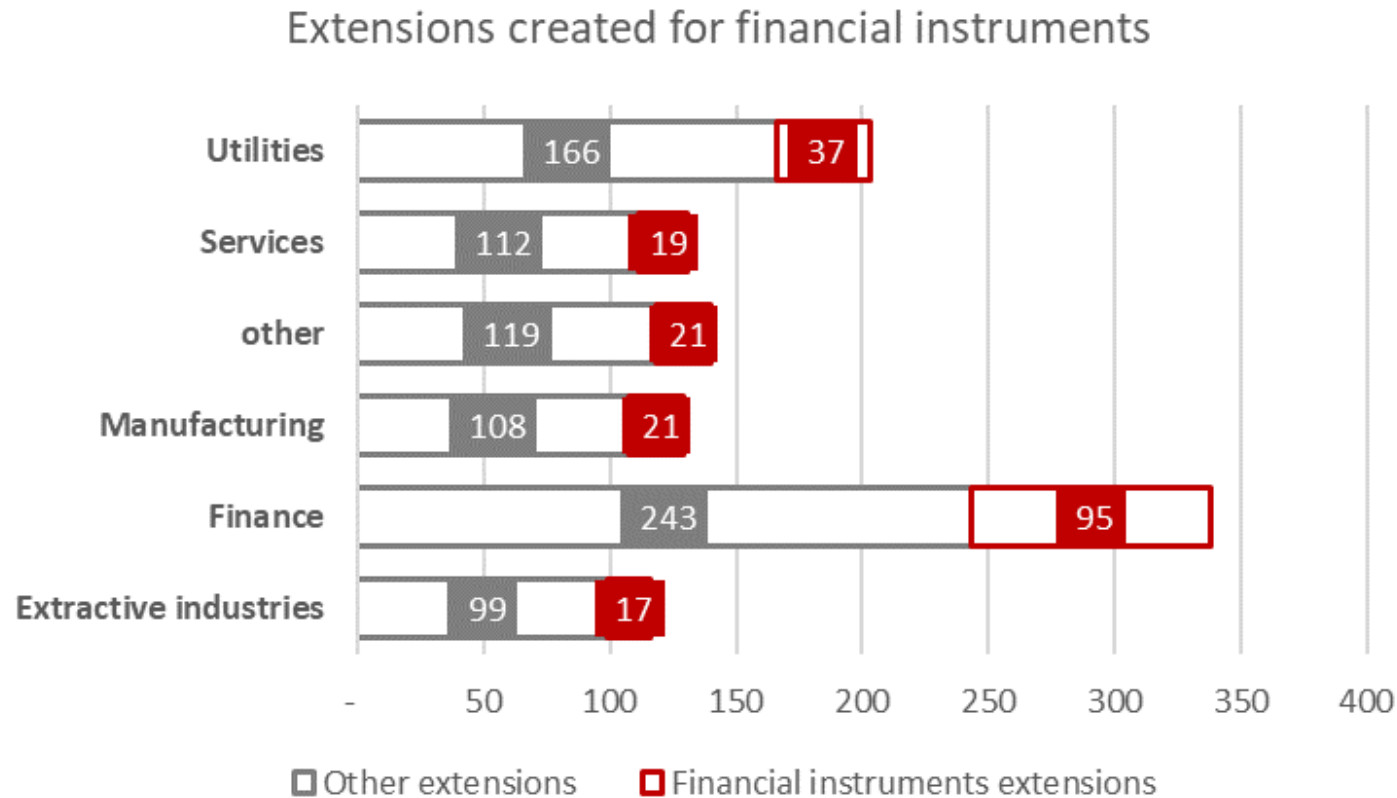
The staff propose to analyse extensions related to financial instruments.

* The average extension rate equals the number of extension elements created divided by the total number of elements used in the filing.

High level analysis of extensions related to financial instruments

Extensions created for financial instruments

Extensions created for financial instruments

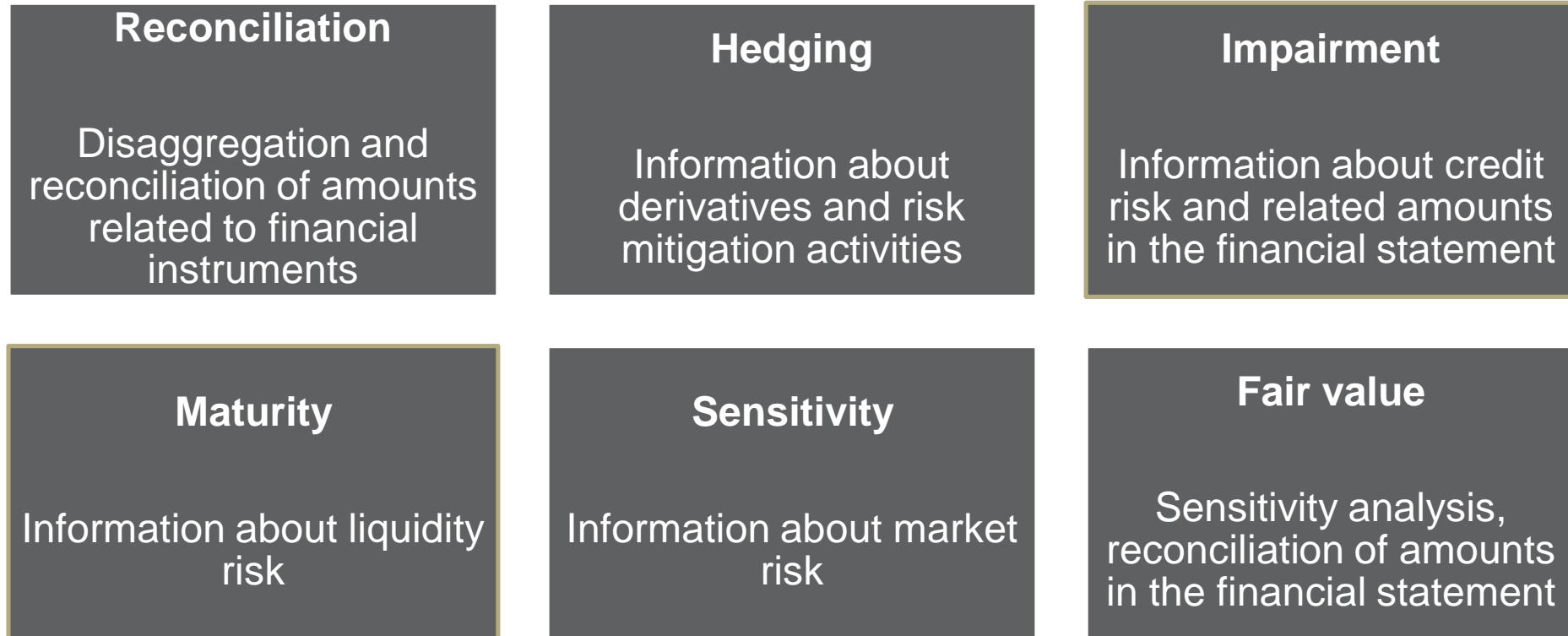| Sector	Other extensions	Financial instruments extensions
Utilities	166	37
Services	112	19
other	119	21
Manufacturing	108	21
Finance	243	95
Extractive industries	99	17

☐ Other extensions ☐ Financial instruments extensions

Average number extensions created per company for financial instruments is higher in the Finance sector than in other sectors. This may be due to the complexity of financial instruments in the finance sector.

The staff propose to analyse extensions for Finance sector separately from other sectors.
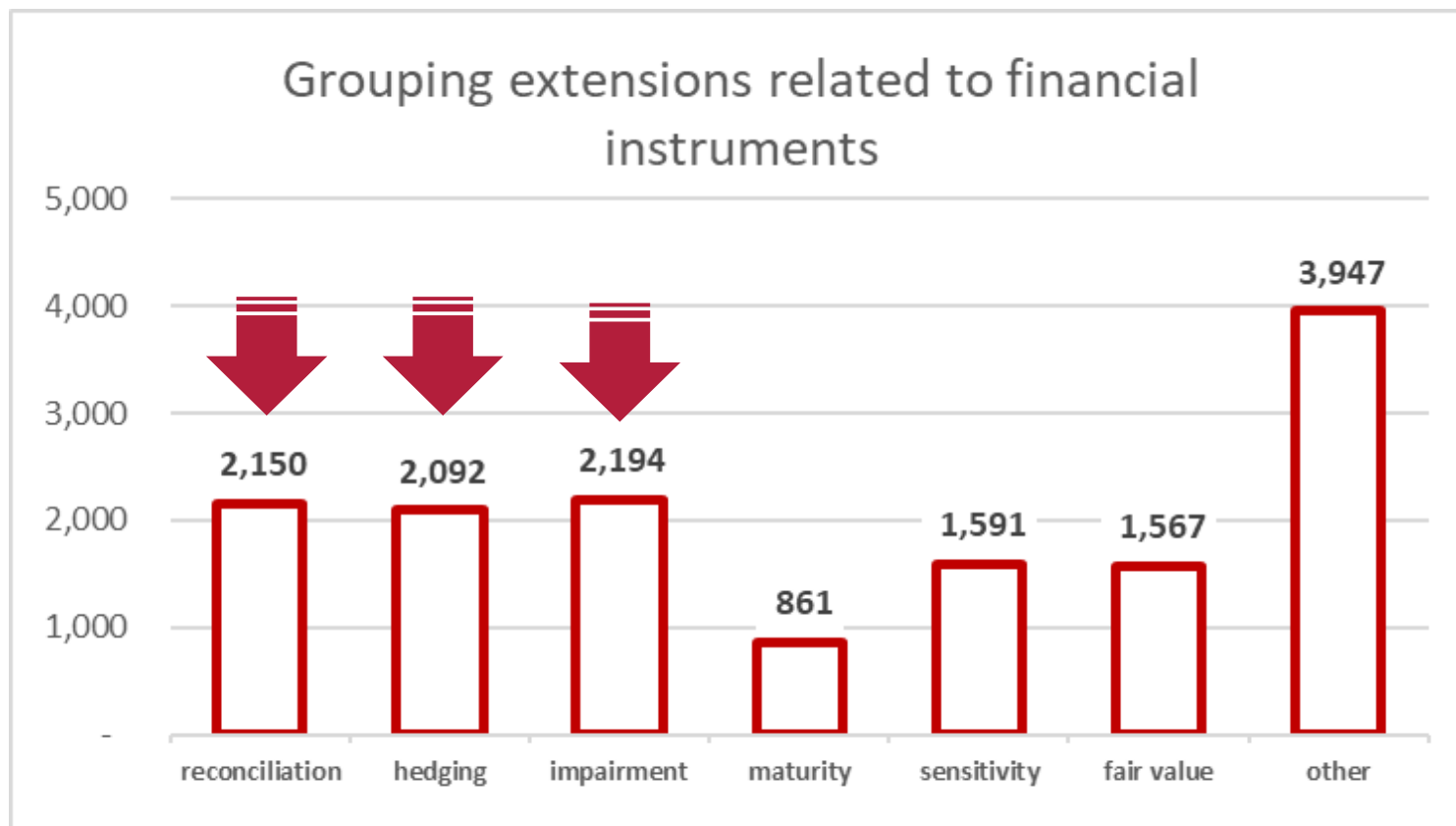
Grouping disclosure requirements related to financial instruments

The staff grouped disclosures related to financial instruments into the following categories:

Reconciliation	**Hedging**	**Impairment**
Disaggregation and reconciliation of amounts related to financial instruments	Information about derivatives and risk mitigation activities	Information about credit risk and related amounts in the financial statement

Maturity	**Sensitivity**	**Fair value**
Information about liquidity risk	Information about market risk	Sensitivity analysis, reconciliation of amounts in the financial statement

Slide 12 analyses extensions by those groups of disclosures.

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Grouping extensions for financial instruments

Grouping extensions related to financial instruments

Bar chart values:
- reconciliation: 2,150
- hedging: 2,092
- impairment: 2,194
- maturity: 861
- sensitivity: 1,591
- fair value: 1,567
- other: 3,947

Almost 50% of all financial instrument extensions relate to three categories of disclosure: reconciliation, hedging and impairment.

The staff propose to start more detailed analysis of extensions related to highlighted sections.

Note: More detailed analysis would be required to allocate the extensions labelled as 'other' (as noted on slide 7, initial grouping was done manually based on the label).

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1. Based on your experience of tagging / analysis of financial instrument disclosures :
   A. Which areas are the most complex to tag / analyse?
   B. Which areas require most extensions?
   C. Are there any other issues, for example common tagging errors?

   Do you have any comments on the staff analysis described on slides 4-12?

2. Do you have any comments or suggestions on the staff's next step proposal to:
   A. include axes and members in analysis – see slide 7;
   B. analyse the finance sector separately from other sectors – see slide 10; and
   C. focus on particular disclosure requirements in IFRS 7 – see slide 12.

Finance sector sample

FPI sample for finance sector: background

The staff proposed to analyse the financial instrument extensions for the finance sector separately from other sectors – see slide 12.
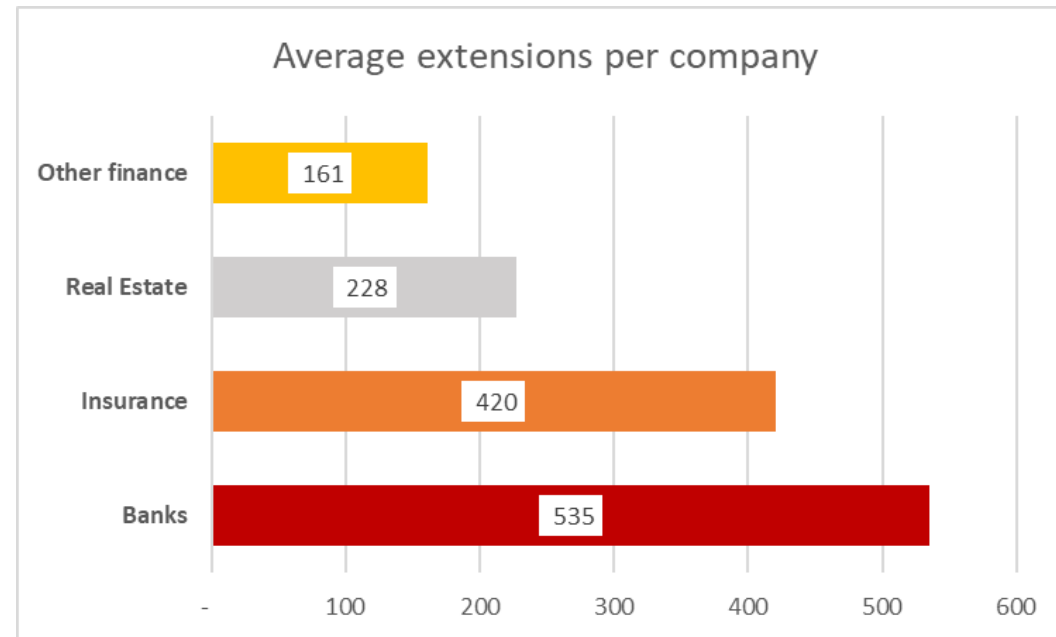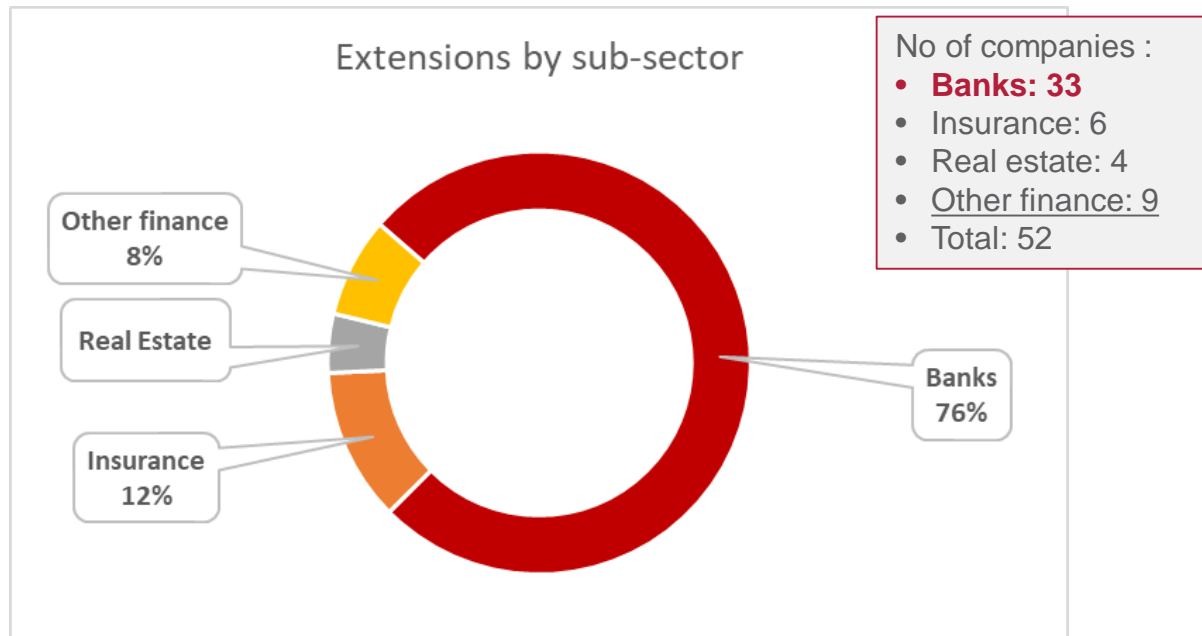
According to *Guide to Common Practice* the sample for analysis of common reporting practice should be representative of a population either geographically or activity-based – see AP2 for this meeting.

The staff noted that population for the finance sector might not be representative. Staff analysis and recommendations are on slides 16-17.

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Extensions by sub-sector

Other finance
8%

Real Estate

Insurance
12%

Banks
76%

No of companies :
- **Banks: 33**
- Insurance: 6
- Real estate: 4
- Other finance: 9
- Total: 52

Average extensions per company

Sub-sector	Value
Other finance	161
Real Estate	228
Insurance	420
Banks	535

The **largest number of extensions are used by banks**. However, banks are also the largest group.

The **largest number of extensions per company** is created for **banks and insurance sub-sector**.

The staff propose focusing on banks within the finance sector sample because:
A. Banks and insurance companies have a relatively high number of extensions; but
B. Most insurance companies in the sample have not yet implemented IFRS 9 (applying IFRS 4 *Insurance Contracts* some insurance companies are permitted to delay implementation of IFRS 9).

Banks by geographical region

Europe, 11, 34%

North America, 7, 21%

Asia , 4, 12%

South America, 10, 30%

Oceania, 1, 3%
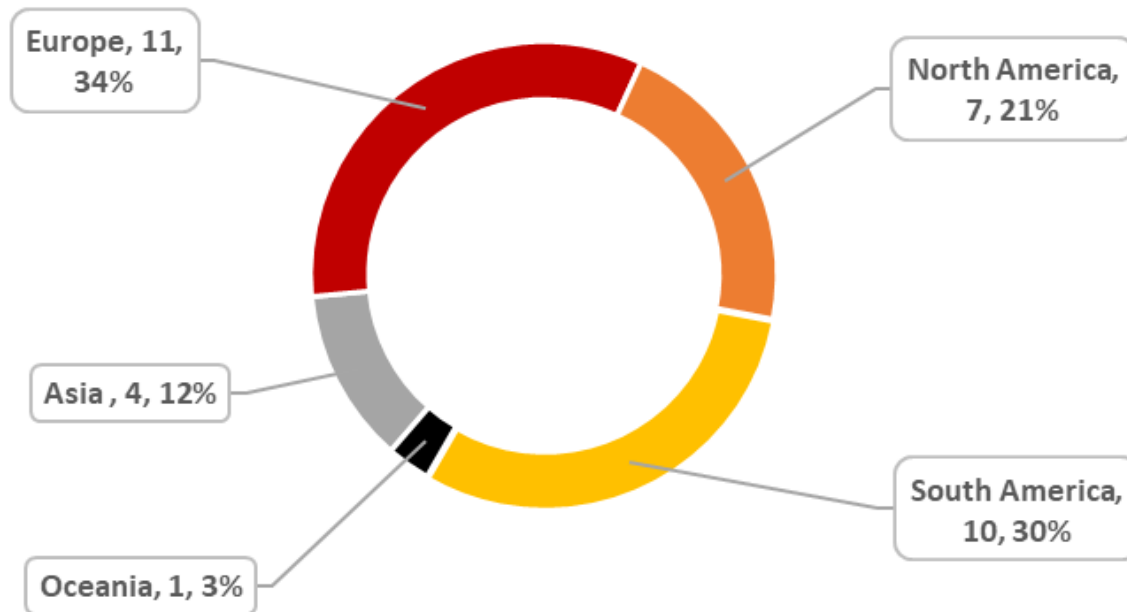
No of companies :
- **Banks: 33**

The sample appears to have a reasonable geographical spread.

The staff think that the sample of 33 companies is too small to be representative, so the staff propose **to analyse a further 17 companies** before proposing changes to the IFRS Taxonomy.

In addition, the staff is aware that banks are normally subject to capital disclosure requirements from various regulators. The staff will **consider whether disclosures related to capital requirements might be country specific** before proposing changes to the IFRS Taxonomy.

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Question 3 to ITCG

Do you have any questions or comments related to staff analysis of FPI sample for Finance sector or staff suggestions on slides 16-17?

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