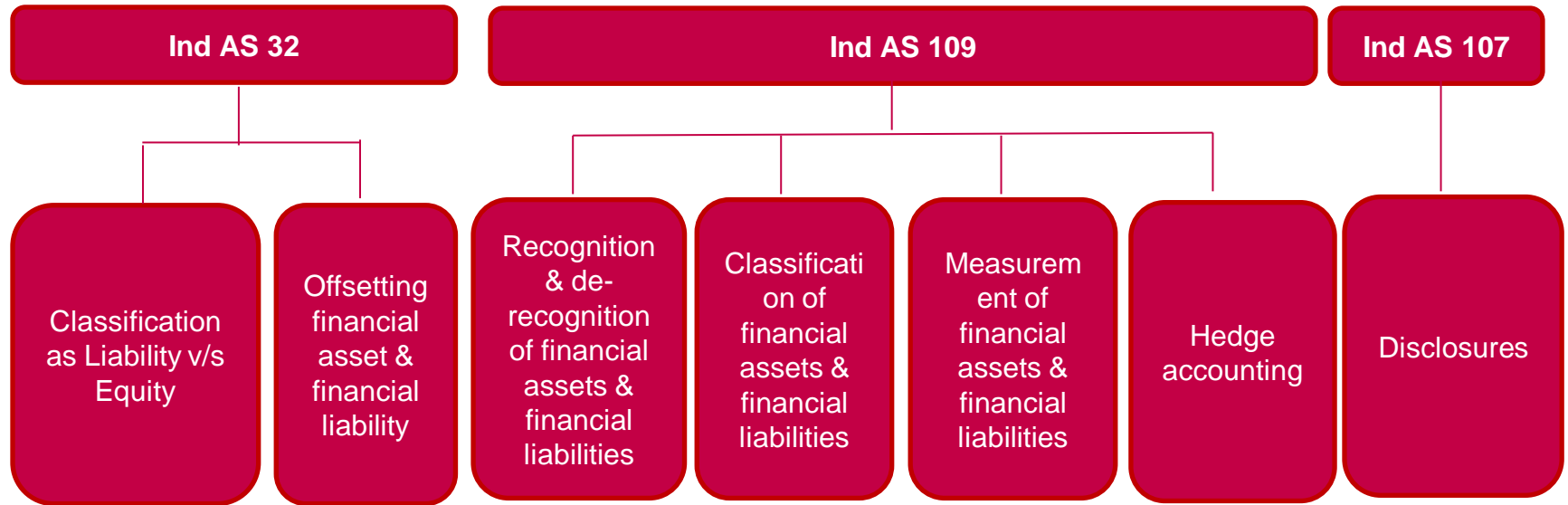


Financial Instruments: Ind AS 32, 109 and 107

The trinity of financial instruments standards



Financial Instruments: Presentation

Ind AS 32

Ind AS 32 – objective, rationale and scope

Objective	Lays down the principles for classification of financial instruments into equity, financial liability or both
Scope	Only standard which deals with accounting for equity instruments
Core principle	Emphasis on contractual rights and obligations arising from the terms of the instrument Probabilities of those contractual rights and obligations leading to an outflow of cash/ other resources are disregarded
Key definitions	Equity instrument, financial liability and financial asset

Definitions

Definition – Financial Instrument

Financial instrument is

- any contract
- that gives rise to
- a **financial asset** of one entity and
- a **financial liability or equity instrument** of another entity.

Definition - Equity

Equity

Any contract that **evidences a residual interest** in net assets of an entity

Examples

- Ordinary shares
- Share warrants
- Mandatorily convertible preference shares

in other words, contracts that are not liabilities

Definition – Financial Liability

Financial liability is

- A contractual **obligation**
 - **to deliver cash or other financial assets** to another entity
 - to exchange financial assets/ liabilities under **potentially unfavourable conditions**; or
- a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to deliver a **variable number** of the entity's own equity instruments; or
 - a derivative that will or may be settled **other than by the exchange of a fixed amount of cash or another financial asset for a fixed number** of the entity's own equity instruments

Exercise - identify financial liabilities

Instruments	Yes	No
1. Tax liability		<input checked="" type="checkbox"/>
2. Finance lease obligations	<input checked="" type="checkbox"/>	
3. Non-refundable revenue received in advance		<input checked="" type="checkbox"/>
4. Non-refundable advance received against sale of government securities	<input checked="" type="checkbox"/>	
5. Liability for damages under a lawsuit		<input checked="" type="checkbox"/>
6. Deferred Revenue		<input checked="" type="checkbox"/>
7. Financial guarantees given	<input checked="" type="checkbox"/>	

Debt vs. equity

Equity and liability classification

Financial instrument is an equity instrument only if both criteria are met:

- There is no obligation to deliver cash or another financial asset or to exchange financial assets or financial liability; **and**
- The issuer will exchange fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Does the entity have an unavoidable contractual obligation?

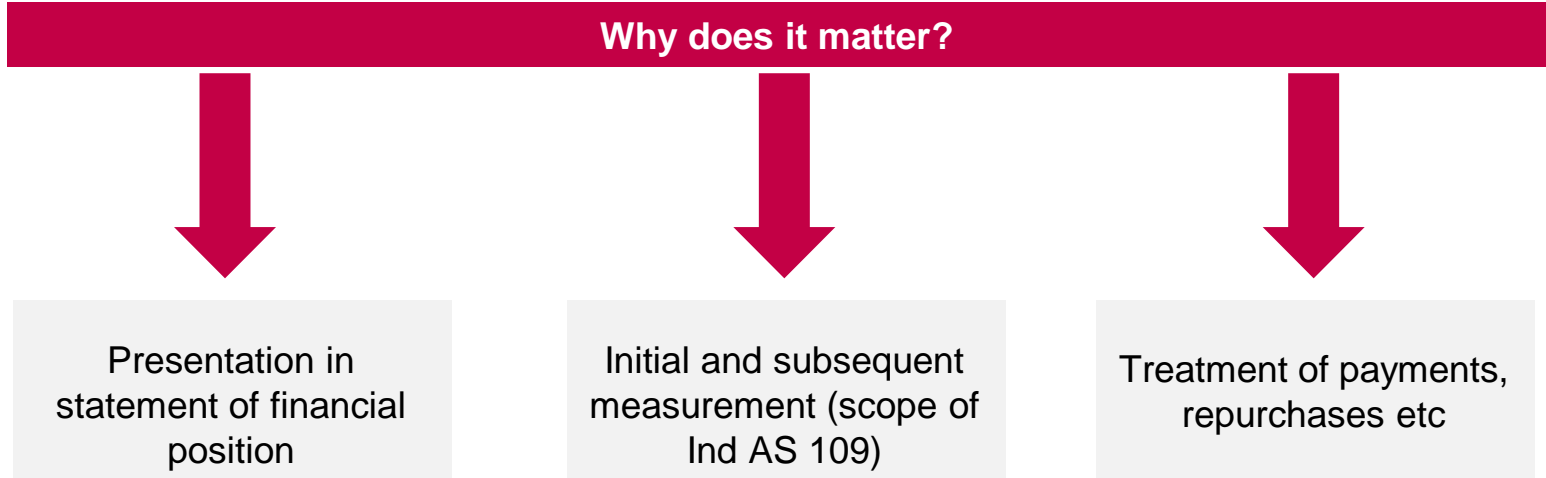
Yes

Liability

No

Equity

Ind AS 32 - Equity or liability distinction



Obligation to deliver cash

- Subject to certain exceptions,
 - if an entity does not have
 - an unconditional right
 - to avoid delivering cash or another financial asset
 - to settle a contractual obligationthe obligation meets the definition of a financial liability.
- Lack of access to funds or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument and hence does not affect its classification

Examples – obligation to deliver cash

Type of instrument	Liability	Equity
Non-redeemable shares with discretionary dividends ('ordinary shares')		<input checked="" type="checkbox"/>
Shares that are redeemable at the option of the holder ('puttable shares')	<input checked="" type="checkbox"/>	
Shares that are redeemable at the option of the issuer ('callable shares')		<input checked="" type="checkbox"/>
Irredeemable preference shares with contractual dividends payable @4% p.a.	<input checked="" type="checkbox"/>	
Redeemable shares with discretionary dividends ('ordinary shares')	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Puttable instruments

- Puttable instrument” is a financial instrument that gives the holder:
 - the right to put the instrument back to the issuer for cash or another financial asset, OR
 - is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.
- Phrase “put back to the issuer” = redemption of the instrument

For example - mutual funds and unit trusts, wherein the redemption amount is equal to a proportionate share in the net assets of the entity











Obligations arising on liquidation

- Certain instruments create an obligation only on liquidation of the entity
- Liquidation may be certain to occur and outside issuer's control or uncertain to occur and at the option of holder.

For example - Limited life entities like special purpose vehicles (SPV) for execution of an infrastructure project

As per the ordinary definition of "financial liability", puttable instruments and instruments mentioned above shall always be classified as financial liabilities. But, there is an **exception**.

Exceptions to the condition "obligation to deliver cash"

Condition to be fulfilled	Puttable instruments	Obligations arising on liquidation
Holder is entitled to a pro rata share of net assets in liquidation		
Instrument is subordinate to all other classes of instruments, i.e. it has no priority over other claims to the entity's assets on liquidation		
All financial instruments in the most subordinate class have identical features		
No other features of the instrument could satisfy the definition of "financial liability"		
Total expected cash flows are based on nothing other than (a) profit or loss, (b) change in net assets or (c) change in fair value of net assets		
No other contract that restricts or fixes residual return		

Settlement in entity's own equity instruments

- A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity's own equity instruments.
- If an entity has:
 - a contractual right or obligation
 - to receive or deliver
 - a number of its own shares or other equity instruments
 - that varies
 - so that the fair value of the entity's own equity instruments to be received or delivered equals
 - the amount of the contractual right or obligationsuch a contract is a financial liability.

Settlement in entity's own equity instruments

S. No.	Consideration for financial instrument	Number of own equity instruments to be issued in settlement	Classification and rationale
1	Fixed	Variable	Financial liability – own equity instruments are being used as currency to settle an obligation for a fixed amount
2	Fixed	Fixed	Equity – issuer does not have an obligation to pay cash and holder is not exposed to any variability
3	Variable	Fixed	Financial liability – though issuer does not have an obligation to pay cash, but holder is exposed to variability
4	Variable	Variable	Financial liability – though issuer does not have an obligation to pay cash, but both parties are exposed to variability

Settlement in entity's own equity instruments

S. No.	Consideration for financial instrument	Number of own equity instruments to be issued in settlement	Classification and rationale
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4	Variable	Variable	Financial liability – though issuer does not have an obligation to pay cash, but both parties are exposed to variability

"Fixed for fixed" rule

Examples – settlement in entity's own equity instruments

Type of instrument

Liability

Equity

Non-redeemable preference shares convertible into a number of equity shares at market value as per pre-defined formula



Non-redeemable preference shares convertible into a fixed number of equity shares



Written option wherein the holder can purchase issuer's equity instruments at prices that fluctuate in response to the share price of issuer



Acquirer will discharge purchase consideration by issuing 1 equity share against 5 equity shares of acquiree



Conversion ratio changes with time



Conversion ratio changes to protect rights of convertible instrument holders



Contingent settlement provisions

- An entity may issue a financial instrument where manner of settlement depends on:
 - Occurrence or non occurrence of uncertain future event; or
 - The outcome of uncertain circumstances,

When these events are beyond the control of issuer and holder, the instrument is a liability

- For example,
 - Change in a stock market index or consumer price index,
 - Change in interest rate
 - Change in Tax law
 - The issuer's future revenues, net income, etc,

Contingent settlement provisions

Contingent Settlement Event	Within the Issuer's control?
Commencement of war	No
Issue of a subordinated security that ranks equally or in priority to the securities	Yes
Issue of an IPO Prospectus prior to the conversion date	Yes
Execution of an effective IPO	No
Change in credit rating of the issuer	No
Disposal of all or substantially all of the issuer's business undertaking or assets	Yes
Issuer makes a distribution on ordinary shares	Yes

Economic compulsion

- Certain instruments may have no settlement requirement, but the issuer **may feel compelled to settle**, as not doing so would impose significant negative economic consequences.
- Economic compulsion is not relevant to the classification of a financial instrument.
- For example
 - Entity A has issued Class A Equity and Class B optionally redeemable shares. Option is with the company.
 - 10% dividend on class B shares is payable only if dividend on class A shares is paid
 - if class B shares not redeemed within 3 years, dividend rate will increase to 25%.

The instrument should be classified as equity as there is no compulsion to pay dividend or redeem the shares.

Ind AS carve out from IFRS: Foreign Currency Convertible Bonds (FCCBs)

- An entity issues a bond with following terms:
 - face value of USD 100
 - carrying a fixed coupon rate of 6% p.a.
 - bond is convertible into 1,000 equity shares of the issuer
- While the number of equity shares is fixed, the amount of cash is not. The variability in cash arises on account of fluctuation in exchange rate of INR-USD.
- Such a foreign currency convertible bond (FCCB) will qualify the definition of “financial liability”.
- However, as per Ind AS, equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of the entity’s own equity instruments is an equity instrument **if the exercise price is fixed in any currency**

Compound Instruments

Compound instruments

Compound instruments:

Instrument whose terms indicate that it contains **both a liability and an equity** component



'split
accounting'



liability component

equity component



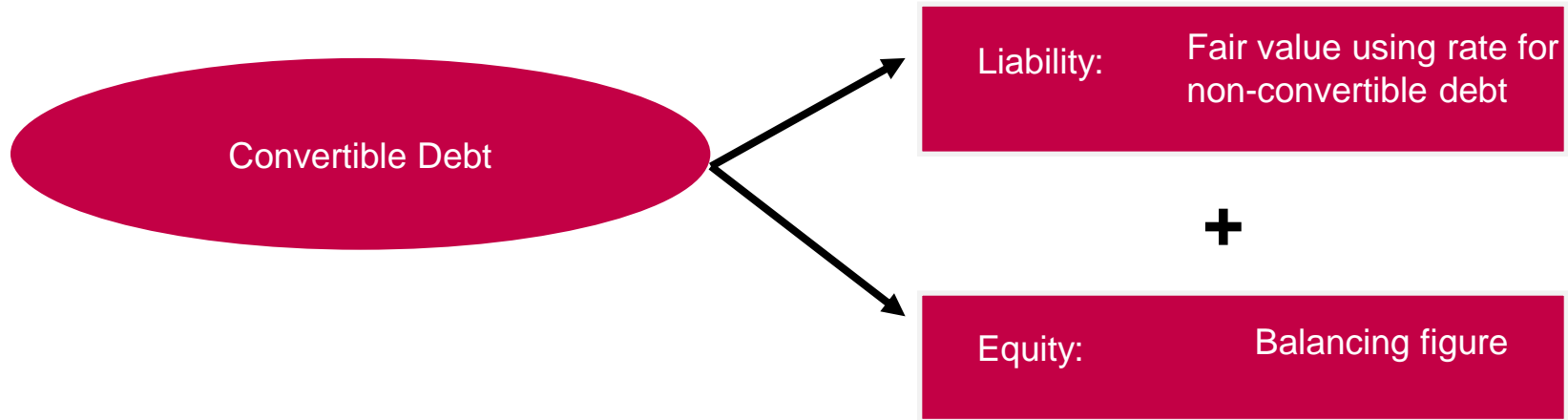
- must meet the definition of equity
- calculated as a residual

Compound instruments - Example

Instrument	Liability Component	Equity Component
1) Redeemable preference shares with discretionary dividends	Principal redemption	Discretionary dividend
2) Convertible bonds – conversion option with holder	Principal redemption and interest payment	Convertibility option to the holder

Issuer of a non-derivative financial instrument to evaluate the terms of the financial instrument to determine **whether it contains both a liability and an equity component**. If such components are identified, they must be **accounted for separately** as financial liabilities, financial assets or equity, and the liability and equity components are shown separately on the balance sheet.

Compound instruments – Separation



The transaction costs are allocated to the liability and equity components in the same proportion as above

Compound instruments – Example

- Q:**
- ABC PLC issues 2,000 convertible bonds.
 - The bonds have a 3 year term, and are issued at par with a face value of Rs.1,000 per bond, giving total proceeds of INR 2,000,000.
 - Interest is payable annually in arrears at a nominal annual interest rate of 6% (i.e. INR.120,000 per annum).
 - Each bond is convertible at any time up to maturity into 250 ordinary shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9% per annum.
 - The entity incurs issue costs of INR 100,000.

How should ABC PLC classify the bond?

Compound instruments – Example

A:

Year	Particulars	Cash flow (INR)	Discount Factor (@9%)	NPV of cash flows
1	Interest	120,000	$1/1.09$	110,092
2	Interest	120,000	$1/1.09^2$	101,002
3	Interest & principal	2,120,000	$1/1.09^3$	1,637,029
	Total liability component			1,848,122
	Total equity component (balance)			151,878
	Total proceeds			2,000,000

Compound instruments – Example

- A:**
- The issue cost Rs.100,000 would be allocated to the liability and equity components on a pro-rata basis
 - i.e. Rs. 92,406 ($100,000 \times 18,48,122 / 2,000,000$) towards debt and;
 - balance Rs. 7,594 towards equity.
 - Rs.144,284 (151,878 minus 7,594) credited to equity is not subsequently re-measured.
 - On the assumption that the liability is not classified as at fair value through profit or loss the Rs. 1,755,716 liability component would be accounted for under the effective interest rate method.
 - The effective interest rate is not the 9% used to determine the gross value of the liability component, but at its EIR

Case studies – debt vs. equity

Case Study 1

Terms		Classification	
Redemption of principal	Payment of dividends (assume all at market rates)	Type of instrument	Reasons
Non-redeemable	Discretionary	Equity	There is no contractual obligation to pay cash. Any dividends paid are recognised in Equity
	Non-discretionary	Liability	<p>Liability component is equal to the present value of the dividend payments to perpetuity.</p> <p>Assuming the dividends are set at market rates, the proceeds will be equivalent to the fair value (at the date of issue) of the dividends payable to perpetuity.</p> <p>Therefore, the entire proceeds are classified as a liability</p>

Case Study 2

Terms		Classification	
Redemption of principal	Payment of dividends (assume all at market rates)	Type of instrument	Reasons
Redeemable at the issuer's option at some future date.	Discretionary	Equity	There is no contractual obligation to pay cash. An option to redeem the shares for cash does not satisfy the definition of a financial liability. Any dividends paid are recognised in equity
	Non-discretionary	Liability with an embedded call option derivative	Liability component equal to the present value of the dividend payments to perpetuity. Assuming the dividends are set at market rates, the proceeds will be equivalent to the fair value (at the date of issue) of the dividends payable to perpetuity. Therefore, the entire proceeds are classified as a liability. In addition, because the entire instrument is classified as a liability, the issuer call option to redeem the shares for cash is an embedded derivative (an asset).

Case Study 3

Terms		Classification	
Redemption of principal	Payment of dividends (assume all at market rates)	Type of instrument	Reasons
Mandatorily redeemable at a fixed or determinable amount at a fixed or future date.	Discretionary	Compound	Liability component is equal to the present value of the redemption amount. Equity component is equal to proceeds less liability component. Any dividends paid are related to the equity component and are recognised in equity. If any unpaid dividends are added to the redemption amount, then the whole instrument is a financial liability.
	Non-discretionary	Liability	The entity has an obligation to pay cash in respect of both principal and dividends

Case Study 4

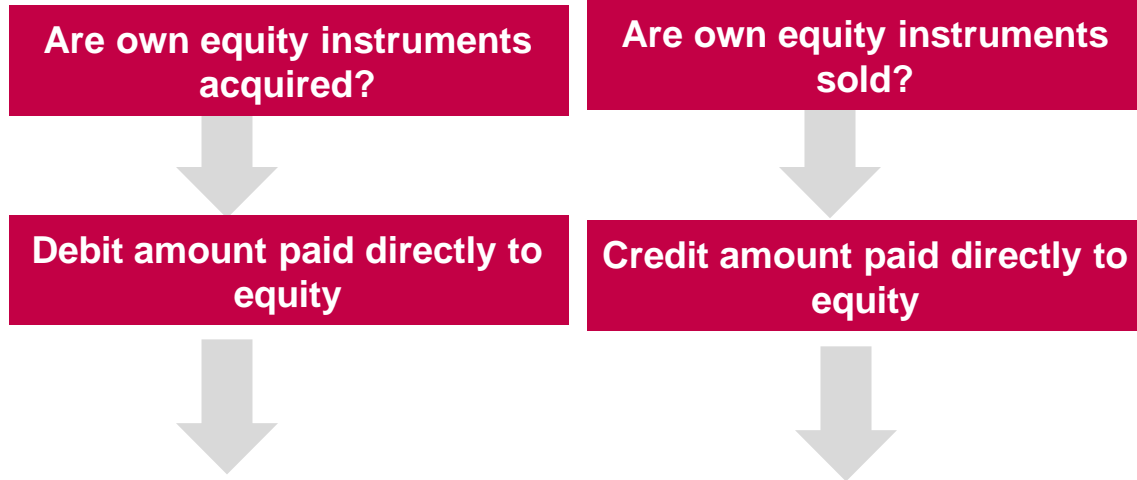
Terms		Classification	
Redemption of principal	Payment of dividends (assume all at market rates)	Type of instrument	Reasons
Redeemable at the holder's option at some future date.	Discretionary	Compound	Liability component is equal to the present value of the redemption amount. Equity component is equal to proceeds less liability component. Any dividends paid are related to the equity component and are recognised in equity. If any unpaid dividends are added to the redemption amount, then the whole instrument is a financial liability.
	Non-discretionary	Liability with an embedded put option derivative	Dividend. In addition, because the entire instrument is classified as a liability, the embedded put option to redeem the shares for cash is an embedded derivative.

Treasury shares

Treasury Shares

- Treasury shares are shares issued by an entity that are held by the entity.
- Holdings of treasury shares may arise in a number of ways. For example:
 - Direct transaction, such as a market purchase,
 - Buy-back of shares from shareholders as a whole, or a particular group of shareholders
 - The entity is in the financial services sector with a market-making operation that buys and sells its own shares along with those of other listed entities in the normal course of business,
 - In consolidated financial statements:
 - the shares were purchased by another entity which subsequently became a subsidiary of the reporting entity, either through acquisition or changes in financial reporting requirements;
 - the shares have been purchased by an entity that is a consolidated Special Purpose Entity of the reporting entity.

Treasury Shares



No gains / losses recognised in profit or loss on:

- Any purchase, sale, issue or cancellation of own equity instruments or
- In respect of any changes in the value of treasury shares

Financial Instruments

Ind AS 109

Definitions

Definition – Financial Asset (as per Ind AS 32)

Financial asset is

- cash
- an equity instrument of another entity
- a **contractual right**:
 - to receive cash or another financial asset from another entity
 - to exchange financial assets or financial liabilities under favourable conditions
- a **contract** that will or may be settled in the entity's own equity instruments and is
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments

Exercise- identify financial assets?

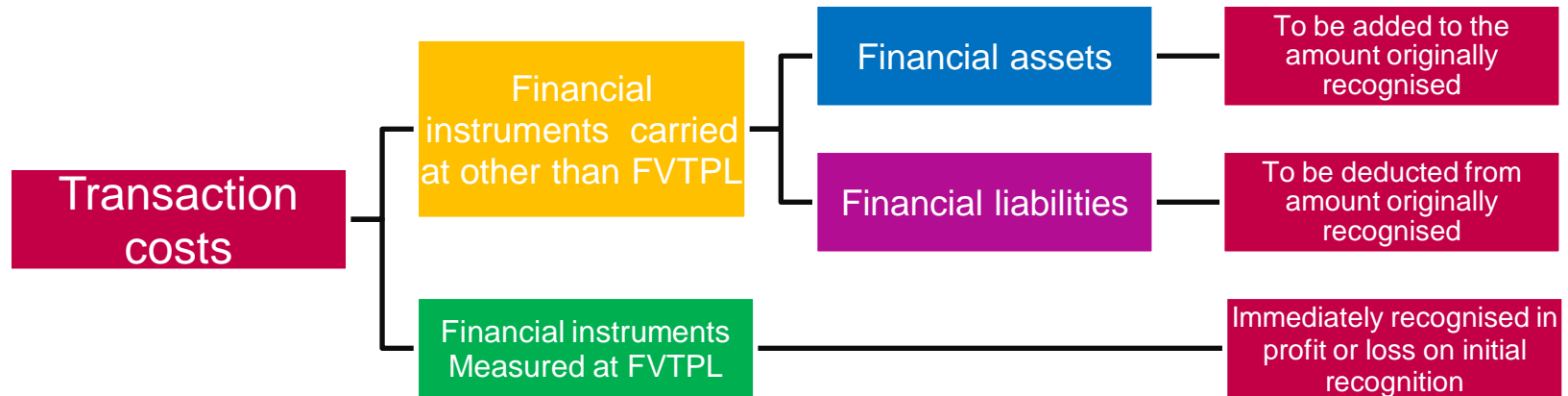
Instruments	Yes	No
1. Bank Balance	<input checked="" type="checkbox"/>	
2. Shares of subsidiary companies	<input checked="" type="checkbox"/>	
3. Advance given for purchase of goods		<input checked="" type="checkbox"/>
4. Investment in perpetual debt carrying interest at fixed rate	<input checked="" type="checkbox"/>	
5. Prepaid expense		<input checked="" type="checkbox"/>
6. Deferred tax asset		<input checked="" type="checkbox"/>
7. Lease deposit paid	<input checked="" type="checkbox"/>	

Exercise- identify financial assets?

Instruments	Yes	No
8. CENVAT credit receivable		<input checked="" type="checkbox"/>
9. USD-INR option held by the entity. The entity is buyer of the option	<input checked="" type="checkbox"/>	
10. Gold bullion: Whether a financial instrument (like cash) or a commodity		<input checked="" type="checkbox"/>
11. Shares of the entity held by consolidated ESOP Trust		<input checked="" type="checkbox"/>

Initial recognition and measurement

Initial measurement – transaction costs



Transaction costs **are incremental costs that are directly attributable** to the acquisition or issue or disposal of a financial asset or financial liability.

Example of transaction cost are regulatory and registration fees, loan processing fees, brokerage, etc.

Note : Transaction costs expected to be incurred on a financial instrument's transfer or disposal are not included in the financial instrument's measurement.

Subsequent measurement

Categories of financial assets – based on subsequent measurement

1

**Amortised
cost**

2

Fair Value

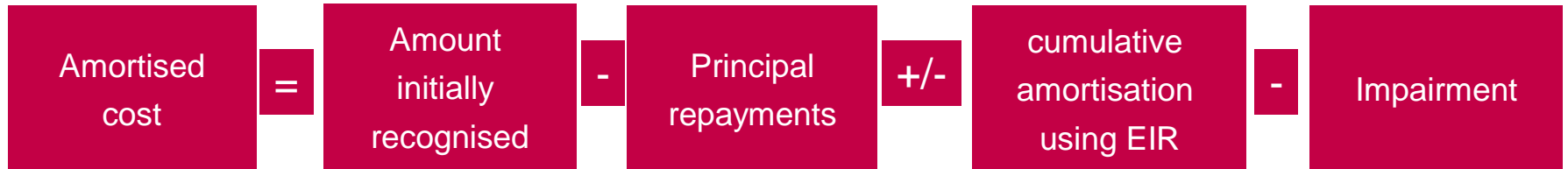
2A

**Fair value
through OCI**

2B

**Fair value
through P&L**

The concept of amortised cost – Financial Assets



Effective interest rate is the rate that exactly discounts the expected stream of future cash payments or receipts through maturity to the net carrying amount at initial recognition.

No option to use straight line method

Amortized Cost- Example of Financial Asset

Refundable Security Deposit

Date of Security Deposit (Starting Date)	1-Apr-12
Date of Security Deposit (Finishing Date)	31-Mar-17
Description	Lease
Total Lease Period (Years)	5
Discount rate	12.00%
Present value annuity factor	0.56743
Security deposit (A)	1,000,000
Present value of deposit at beginning (B)	567,427
Prepaid lease payment at beginning (A-B)	432,573

Amortized Cost- Example of Financial Asset

Refundable Security Deposit

Initial recognition

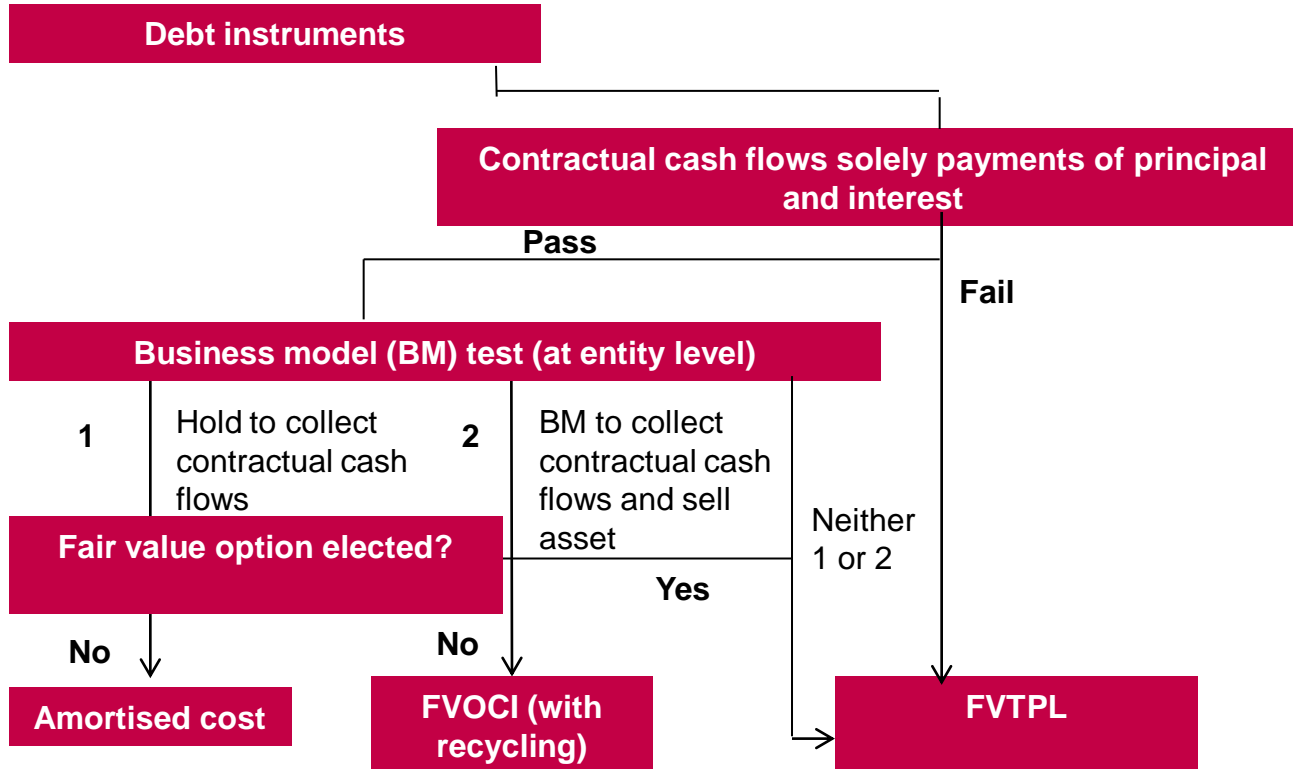
Security Deposit (Dr)	567,427
Prepaid lease Payment (Dr)	432,573
To Bank (Cr)	(1,000,000)

Subsequent measurement

Security Deposit (Dr)	68,091
To Interest Income (Cr)	(68,091)
(For recognition of interest on unwinding of present value)	
Lease Expense (Dr)	86,515
To Prepaid Lease Payment (Cr)	(86,515)

Period	Opening	Interest Income	Cash flow	Closing Balance	Prepaid amortization
31-Mar-13	567,427	68,091	-	635,518	86,515
31-Mar-14	635,518	76,262	-	711,780	86,515
31-Mar-15	711,780	85,414	-	797,194	86,515
31-Mar-16	797,194	95,663	-	892,857	86,515
31-Mar-17	892,857	107,143	1,000,000	-	86,515

Application to investments in debt instruments



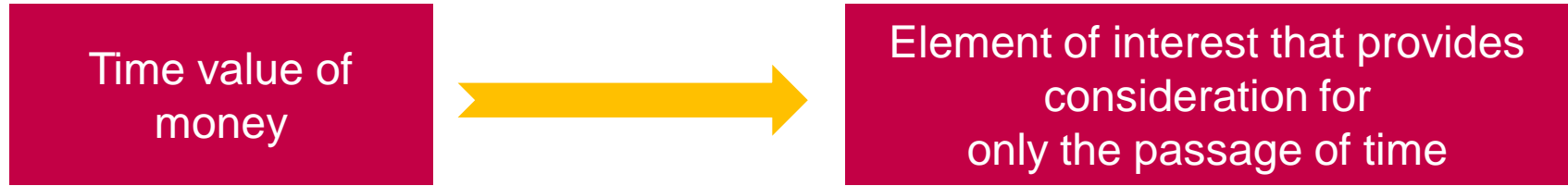
'Solely payment of principal and interest' ('SPPI') test

- Contractual cash flows that are SPPI are consistent with a **basic lending arrangement**
- **Principal** is the fair value of the financial asset at initial recognition – principal amount may change over the life of the financial asset (for example, if there are repayments of principal)
- **Interest elements** – consideration consistent with basic lending arrangement:
 - time value of money
 - credit risk
 - other basic lending risks (example, liquidity risk)
 - costs associated with holding the financial asset for a particular period of time
 - profit margin that is consistent with a basic lending arrangement
- Assessment done in the currency in which financial asset is denominated

SPPI test – Examples of terms inconsistent with basic lending arrangement

- contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices
 - Examples
 - (a) Interest rate is linked with equity index
 - (b) A simple loan Interest is linked with gold index
- leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.
 - Examples
 - (a) Interest is leveraged – say 3 times of risk free rate
 - (b) Indian loan interest rate is 5 times of EPS of the company

Consideration for time value of money



- in order to assess whether the element provides consideration for only the passage of time, an entity:
 - applies **judgment**
 - considers relevant factors such as
 - currency in which the financial asset is denominated
 - period for which the interest rate is set
 - assesses nature of modification to time value of money element

Contractual cash flow characteristics' test - Examples

Instruments that will qualify	Instruments that will <u>NOT</u> qualify
A bond with a stated maturity date. Principal and interest are linked to an <u>inflation index that is not leveraged</u> .	A <u>convertible bond</u> that is convertible into equity instruments of the issuer.
A variable interest rate loan with a stated maturity date that permits the borrower to change the period of the market interest rate at each interest reset date on an ongoing basis.	A loan that pays an inverse floating rate, i.e. <u>the interest rate has an inverse relationship to the market interest rates</u> .
A bond with a stated maturity date and <u>pays a variable market interest rate which is capped</u> .	A <u>constant maturity bond</u> with a five-year term that pays a variable rate that is <u>reset periodically but always reflects a five-year maturity</u> .
A <u>full recourse loan secured by collateral</u> .	

Business model

What it is...

- a **matter of fact** and not merely an assertion
- determined by **entity's key management personnel** (KMP)
- determined at a level that reflects how **groups of financial assets are managed** together to achieve a particular business objective
- **observable through the activities** that the entity undertakes to achieve the objective of the business model
- a single entity may have **more than one business model** for managing its financial instruments

What it is not...

- **does not depend on management's intentions** for an individual instrument
- need not be determined at the reporting entity level
- not determined on the basis of scenarios that the entity does not reasonably expect to occur ('worst case' or 'stress case' scenarios)

'Hold to collect' business model

Objective

- collect contractual payments over life of the instrument
- entity manages the assets held within the portfolio to collect **those particular** contractual cash flows

Factors to consider

Frequency of sales in prior periods

Value of sales in prior periods

Timing of sales in prior periods

Reason for such sales

Expectations about future

Examples of exceptions

- policy to sell assets when there is an increase in the asset's credit risk or to manage credit concentration risk
- sales close to maturity of the assets where proceeds approximate remaining contractual cash flows
- increased sales in a particular period if the entity can explain the reasons for the sales

'Hold to collect' business model - Example

Sales in a held-to-collect business model

Example

Entity A has a portfolio of financial assets which is part of a held-to-collect business model. Due to change in legal requirement, entity A has sell some of the assets and has to significantly rebalance its portfolio.

Whether, business model needs to be assessed or changed

Solution

No, as the selling activity is considered an isolated or one time event.

However, if the rules require entity A to routinely sell financial assets from its portfolio and the value of assets sold is significant, entity A's business model would not be held-to-collect.

'Hold to collect and sell' business model

- KMP's decision – **both**:
 - collecting contractual cash flows and
 - selling financial assetsare **integral** to achieving the objective of the business model
- compared to 'hold to collect' business model, this business model will typically involve greater **frequency** and **value** of sales
- no threshold for the frequency or value of sales
- Examples of **objectives consistent** with 'hold to collect and sell' business model:
 - manage everyday liquidity needs
 - maintain a particular interest yield profile
 - match the duration of the financial assets to the duration of the liabilities that those assets are funding

'Hold to collect and sell' business model – Example 1

- ❑ A bank holds financial assets to meet its everyday liquidity needs
- ❑ The bank seeks to minimise the costs of managing its liquidity needs and therefore **actively manages the return on the portfolio**
- ❑ The bank typically **holds some** financial assets to collect contractual cash flows and **sells others to reinvest** in higher yielding assets or to better match the duration of liabilities
- ❑ This strategy has resulted in **significant and recurring** sales activity in the past, which is expected to continue

'Hold to collect and sell' business model – Example 2

Holding investments in anticipation of capital expenditure

Example

Entity Z operates in the entertainment industry. Its operations include a sports stadium. Entity Z has a long-term plan for renovating the stadium involving significant investment at set points three, seven and ten years in the future. In anticipation of this expenditure, Entity Z invests surplus cash in bond assets. Many of the bonds have maturity dates that substantially exceed the points at which the stadium expenditure is expected to take place.

Solution




Entity Z holds these bonds to collect the contractual cash flows until it needs the cash to invest in the stadium. It may also make opportunistic sales if management considers that market prices rise to levels that significantly exceed their own assessment of the bonds' fundamental valuation. Accordingly the bonds held by Entity Z would be accounted for under a hold to collect and sell business model.

'Other' business models – the residual category (B – 3)

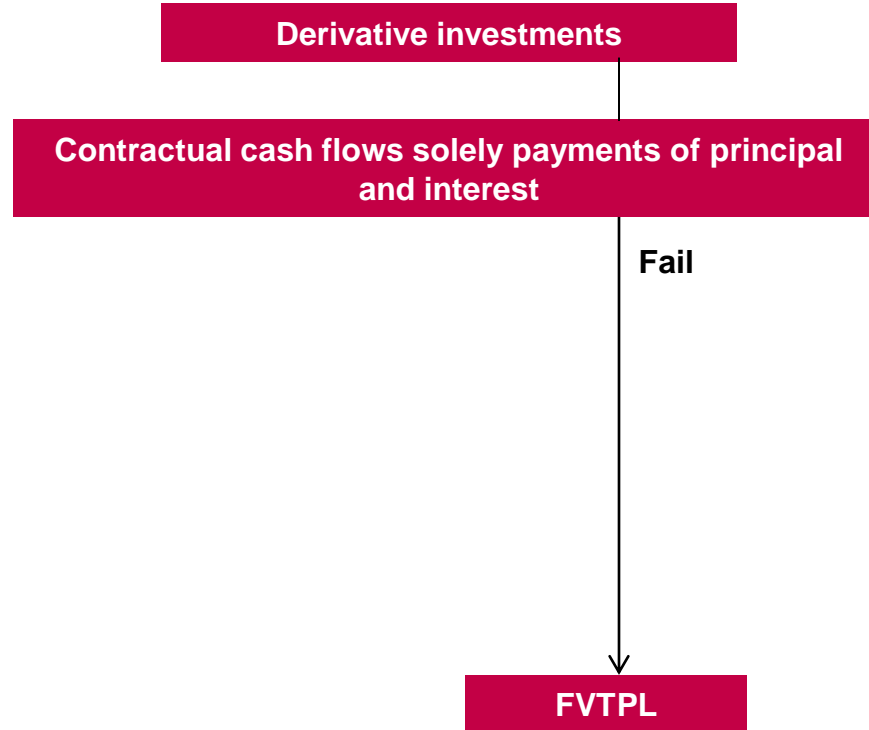
- Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is:
 - to hold assets to collect contractual cash flows, or
 - achieved by both collecting contractual cash flows and selling financial assets
- **Examples**
 - assets managed with the objective of realising cash flows through sale
 - a portfolio that is managed, and whose performance is evaluated, on a fair value basis
 - a portfolio that meets the definition of 'held-for-trading'

Reassessment of business models

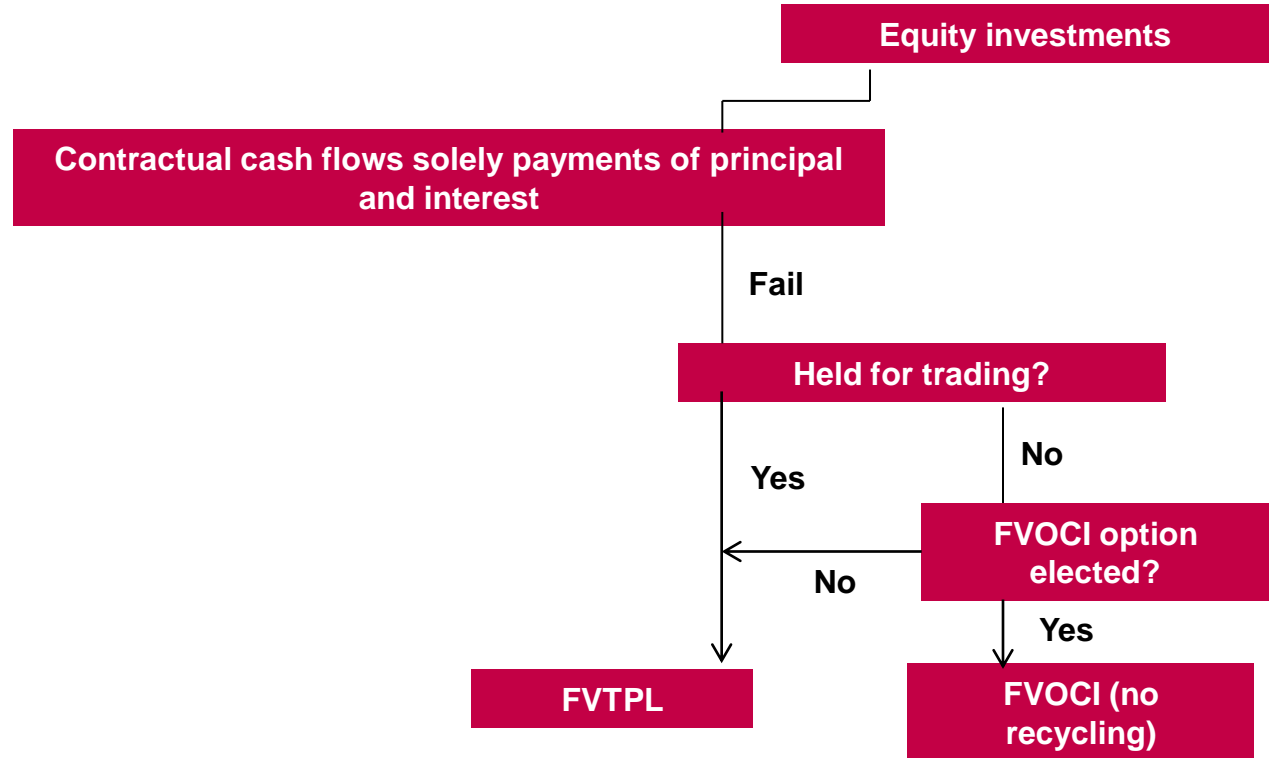
- An entity should reassess its business models at each reporting period.
- Reclassification of financial assets is required when, and only when, an entity changes its business model for managing the assets.

Scenario	Scenario change of business model?
Entity A holds a group of debt assets originally intending to collect all the contractual cash flows. As a result of a cash shortage management decides to sell half the assets	
Entity B holds a portfolio of debt assets for trading and classifies them at FVTPL. Due to a severe financial crisis the market in these assets disappears.	
Entity C is a financial services firm with a large retail domestic mortgage business. As a result of a strategic review management decides to close this business and commences a programme to sell the loans	

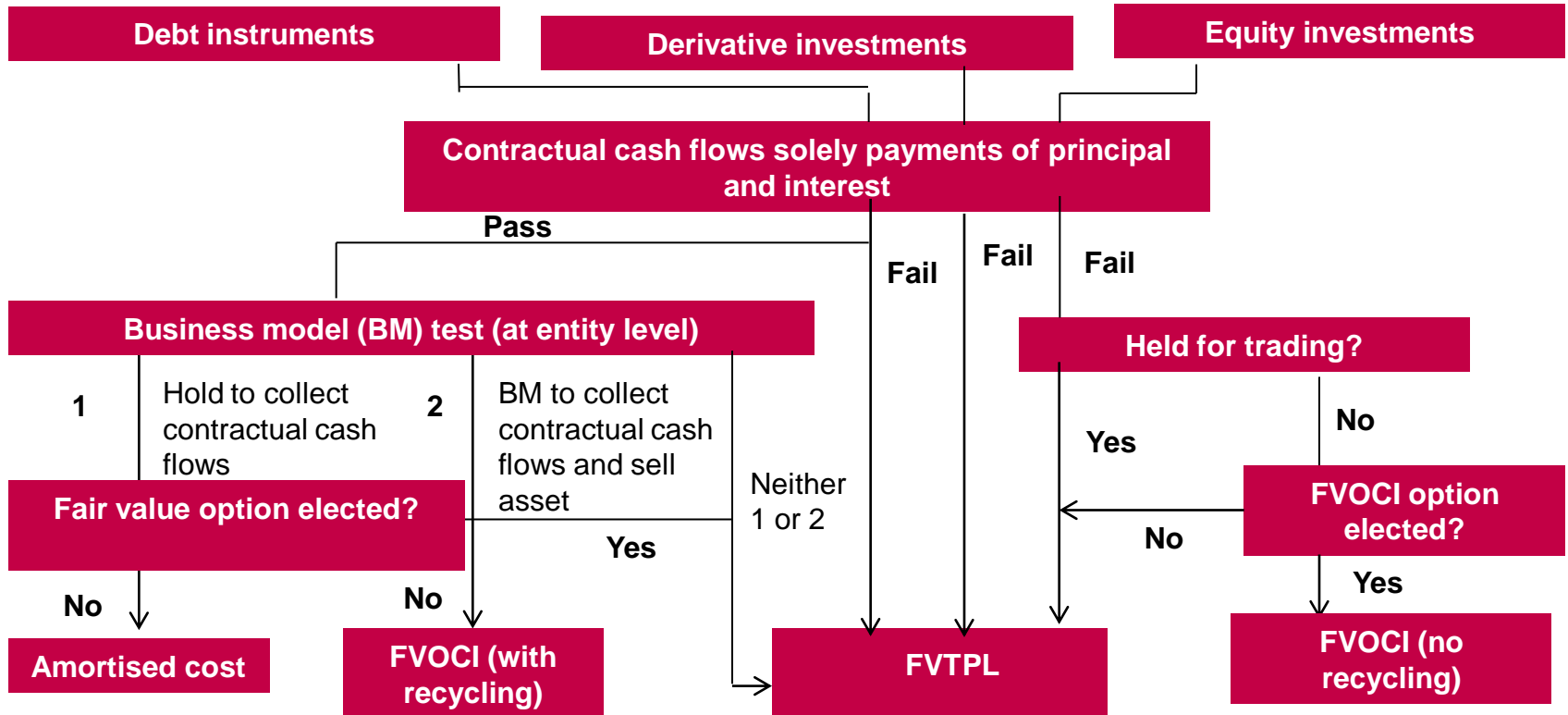
Application to derivative instruments



Application to equity instruments



Summary – classification of financial assets



Summary of effect of different classification categories

Category	Balance sheet	Statement of profit or loss and other comprehensive income
Amortised cost	<ul style="list-style-type: none"> • amortised cost • impairment allowance 	<ul style="list-style-type: none"> • presented in P&L <ul style="list-style-type: none"> – interest using effective interest rate (EIR) – initial impairment allowance and subsequent changes
FVOCI	<ul style="list-style-type: none"> • fair value 	<ul style="list-style-type: none"> • changes in FV in OCI • presented in P&L: <ul style="list-style-type: none"> – interest calculated using EIR – initial impairment allowance and subsequent changes (offsetting entry presented in OCI) – FOREX gains and losses • cumulative FV gains/losses recycled on derecognition or reclassification
FVPL	<ul style="list-style-type: none"> • fair value 	change in FV presented in P&L
Equity FVOCI	<ul style="list-style-type: none"> • fair value 	<ul style="list-style-type: none"> • changes in fair value presented in OCI • no reclassification to P&L on disposal • dividends recognised in P&L

Summary of reclassification accounting

		Reclassification to		
		FVTPL	FVOCI	Amortised cost
Reclassification from	FVTPL		<p>Fair value on reclassification date = new gross carrying amount.</p> <p>Calculate EIR based on new gross carrying amount. In case of FVOCI, recognise subsequent changes in fair value in OCI.</p>	
	FVOCI	<p>Reclassify accumulated OCI balance to profit or loss on reclassification date.</p>		<p>Reclassify financial asset at fair value. Remove cumulative balance from OCI and use it to adjust the reclassified fair value.</p> <p>Adjusted amount = amortised cost.</p> <p>EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.</p>
	Amortised cost	<p>Fair value on reclassification date = new carrying amount.</p> <p>Recognise difference between amortised cost and fair value in profit or loss.</p>	<p>Re-measure to fair value, with any difference recognised in OCI.</p> <p>EIR determined at initial recognition is not adjusted as a result of reclassification.</p>	

Classification and measurement principles – Financial liabilities

1

**Amortised
cost**

2

**Fair Value
through P&L**

Classification and measurement principles – Financial liabilities

1

**Amortised
cost**

2

**Fair Value
through P&L**

- Liabilities held for trading (includes all derivatives) are measured at fair value
- Contingent consideration recognised by an acquirer in a business combination

Classification and measurement principles – Financial liabilities

1

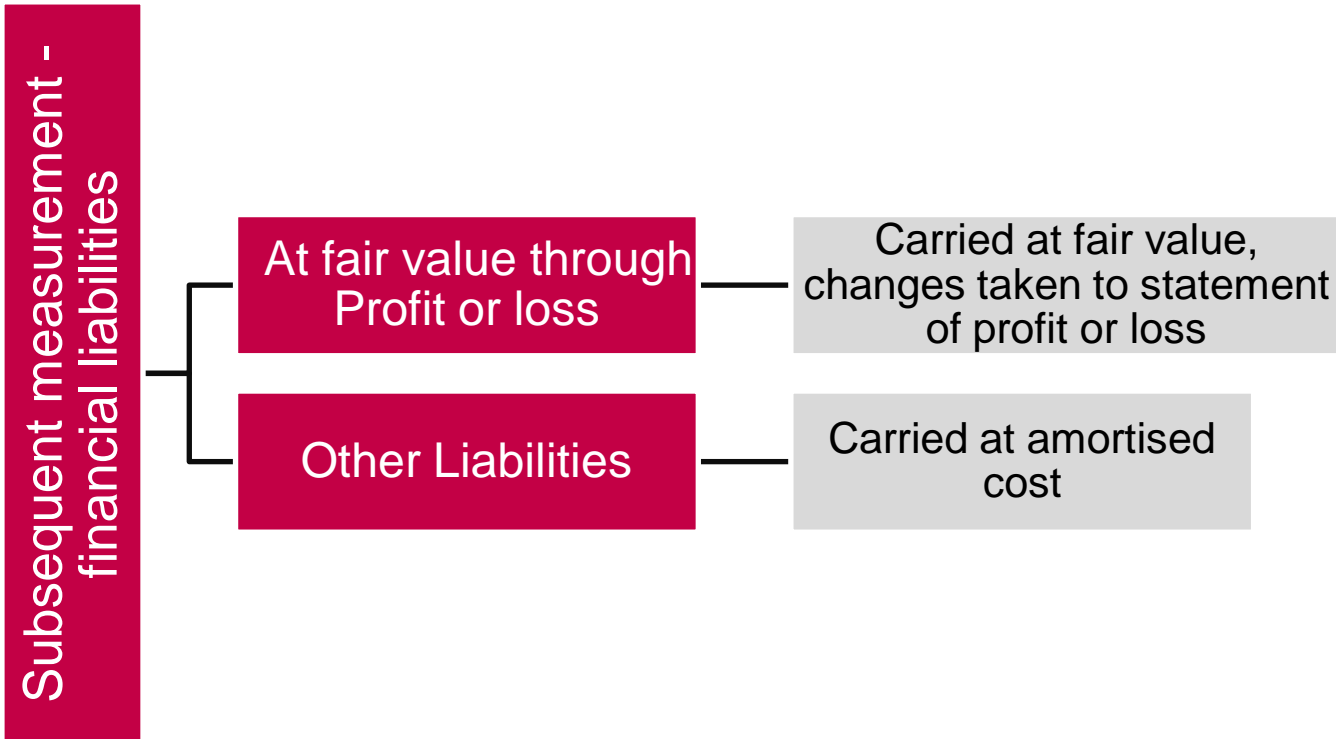
**Amortised
cost**

2

**Fair Value
through P&L**

- All liabilities not covered under FVTPL

Subsequent measurement – Financial liabilities



The concept of amortised cost – Financial Liability



Effective interest rate is the rate that exactly discounts the expected stream of future cash payments or receipts through maturity to the net carrying amount at initial recognition.

No option to use straight line method

Amortized Cost- Example of Financial Liability

Loan from a bank

Loan Amount	1,000
Transaction Cost	50
Tenor	Bullet Repayment of Pricipal after 5 years
Interest Rate	10%
Effective interest rate (Rate at which future cash outflows is equal to the cash inflow)	11.35%

Amortized Cost- Example of Financial Liability

Loan from a bank

Initial recognition

Bank (Dr)	950
To Borrowings	(950)

Subsequent measurement

Interest Expense	107.97
To Borrowing (Cr)	(107.97)
(For recognition of interest expense on EIR)	
Borrowing (Dr)	100
To Bank (Cr)	(100)

Year	Opening	Interest Expense @ 11.35%	Cash flow	Closing Balance
1	950.00	107.97	-100	957.97
2	957.97	108.88	-100	966.85
3	966.85	109.89	-100	976.73
4	976.73	111.01	-100	987.74
5	987.74	112.26	-1,100	-

Embedded derivatives

Definition of a derivative

'underlying'

- value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable
- exception for a non-financial variable that the variable is not specific to a party to the contract

initial net investment

- requires:
 - no initial net investment; or
 - initial net investment smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors

future Settlement

- settled at a future date

Underlying – examples

- An interest rate (e.g. LIBOR)
- A security price (e.g. the price of share of XYZ entity equity share listed on a regular market)
- A commodity price (e.g. price of a bushel of wheat)
- A foreign exchange rate (e.g. EURO/ USD spot rate)
- An index (e.g. a retail price index)
- Other variables (e.g. sales volume indices specifically created for settlement of derivatives)

Why do entities use derivatives?

➤ To Manage Risks

▪ Of Price Changes (Fluctuations)

- Exchange rates
- Interest rates
- Prices (shares, bonds, commodities, etc.)

▪ Others

- Default risk
- Catastrophe / Bad Weather

➤ Speculation

Embedded derivatives – where can they arise?

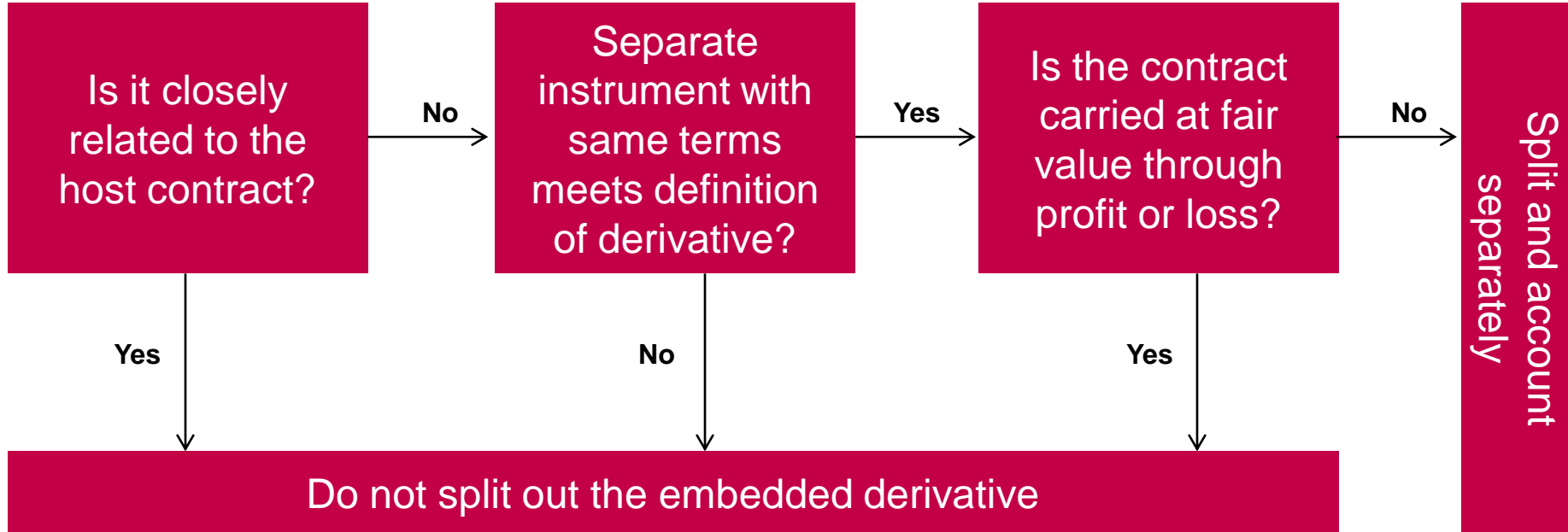


- An embedded derivative is a component of a hybrid financial instrument that includes both
 - a derivative and
 - a host contract
- Example – Convertible bond
 - Host contract - The bond
 - Embedded derivative - Call option on shares
- Effect of embedded derivatives
 - Some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Evaluation of embedded derivatives – scope

- Ind AS 109 eliminates requirement to separate embedded derivatives within hybrid contracts where **host contract is an asset** within the scope of Ind AS 109
 - such contracts will be likely to fail Ind AS 109's cash flow characteristics test and hence shall be subsequently measured at fair value through profit or loss
- entities must still consider the need to separate embedded derivatives where host contract is a financial liability or an asset outside the scope of Ind AS 109

Embedded derivatives – when to separate?



"Not closely related" embedded derivatives - examples

Contract	Terms
Put option embedded in an instrument	Holder can require the issuer to reacquire the instrument for an amount that varies on the basis of the change in an equity or commodity price or index
Equity-indexed interest or principal payments	Host debt instrument or insurance contract and the amount of interest or principal is indexed to the value of equity instruments - risks inherent in the host and the embedded derivative are dissimilar
Credit derivatives are embedded in a host debt instrument	Such contracts allow one party (the 'beneficiary') to transfer the credit risk of a particular reference asset, which it may not own, to another party (the 'guarantor')

"Closely related" embedded derivatives - examples

Contract	Terms
Debt instrument with interest linked to interest rate index	Underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract
Embedded derivative in a host lease contract	If the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index, (ii) contingent rentals based on related sales or (iii) contingent rentals based on variable interest rates.

"Closely related" test – debt prepayment options

- A call, put, or prepayment option embedded in a host debt contract **is not closely related** to the host contract unless:
 - the option's exercise price is approximately equal (on each exercise date) to the amortised cost of the host debt instrument; or
 - the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract.
- The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with Ind AS 32.

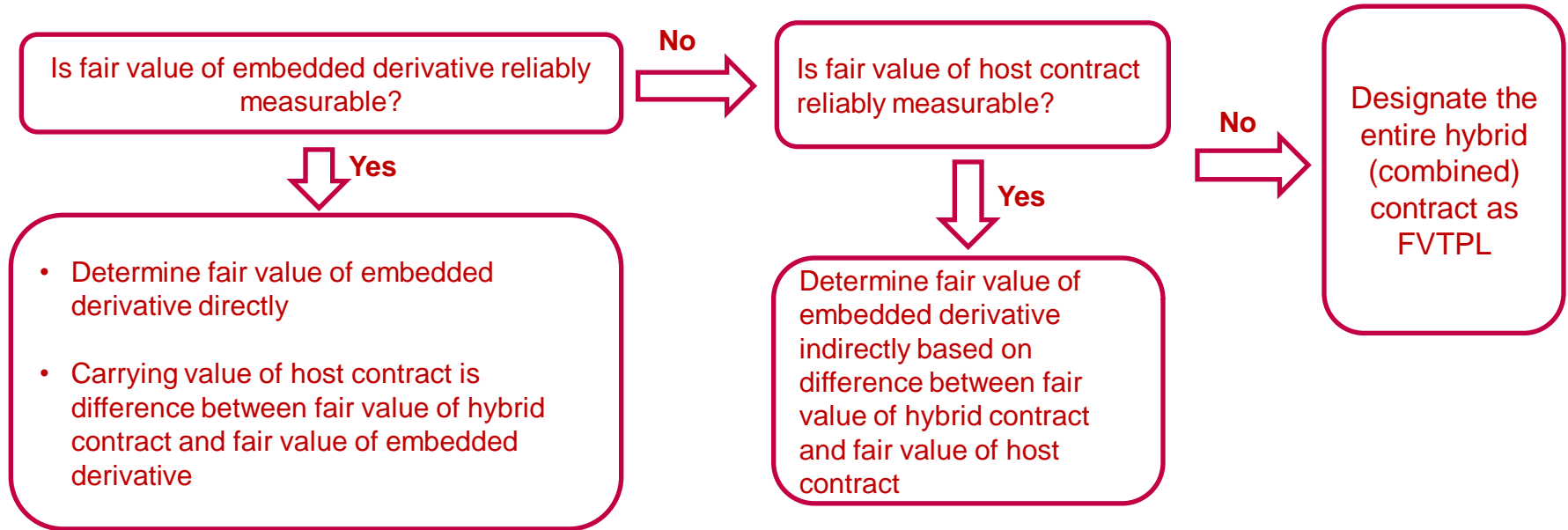
"Closely related" test – foreign currency derivative

- An embedded foreign currency derivative in a host contract that is not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) **is closely related** to the host contract provided:
 - it is not leveraged,
 - does not contain an option feature, and
 - requires payments denominated in one of the following currencies:
 - the functional currency of any substantial party to that contract;
 - the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (US dollar for crude oil); or
 - a currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place

How to separate embedded derivatives?

- **Embedded non-option derivative**, such as forward or swap:
 - separated from its host contract on the basis of its stated or implied substantive terms
 - so as to result in it having a fair value of zero at initial recognition
- **Embedded option-based derivative**, such as put or call option:
 - separated from its host contract on the basis of the stated terms of the option feature
 - initial carrying amount of the host instrument is the residual amount after separating the embedded derivative

Separation of embedded derivatives



The initial bifurcation of an embedded derivative does not result in recognition of a gain or loss

Debt prepayment options – example of separation

Option based derivative

10 year fixed rate bank loan with option to repay early

Host contract

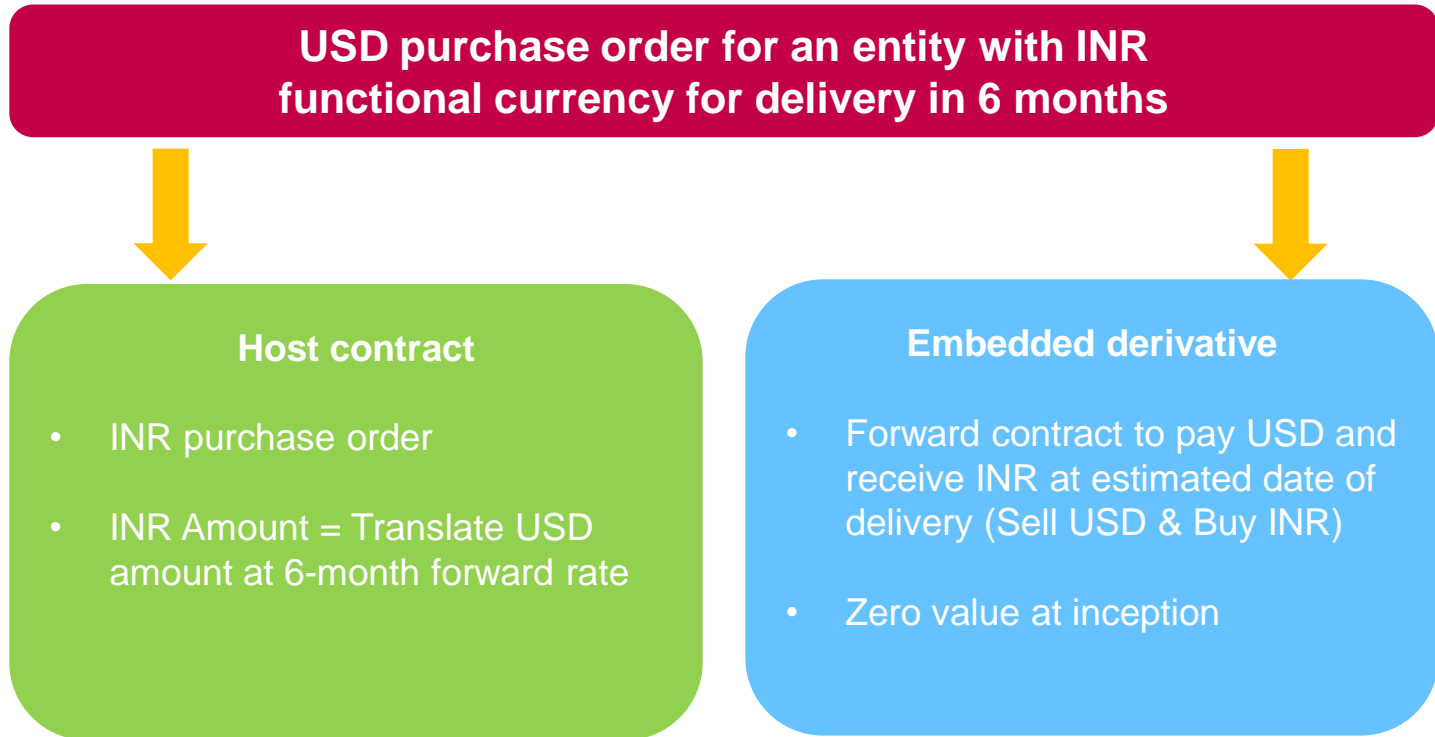
- 10 year bank loan
- No prepayment option

Embedded derivative

- option to pay exercise price and receive future loan repayments
- value at inception = difference between FV of loan and a similar loan with no repayment option

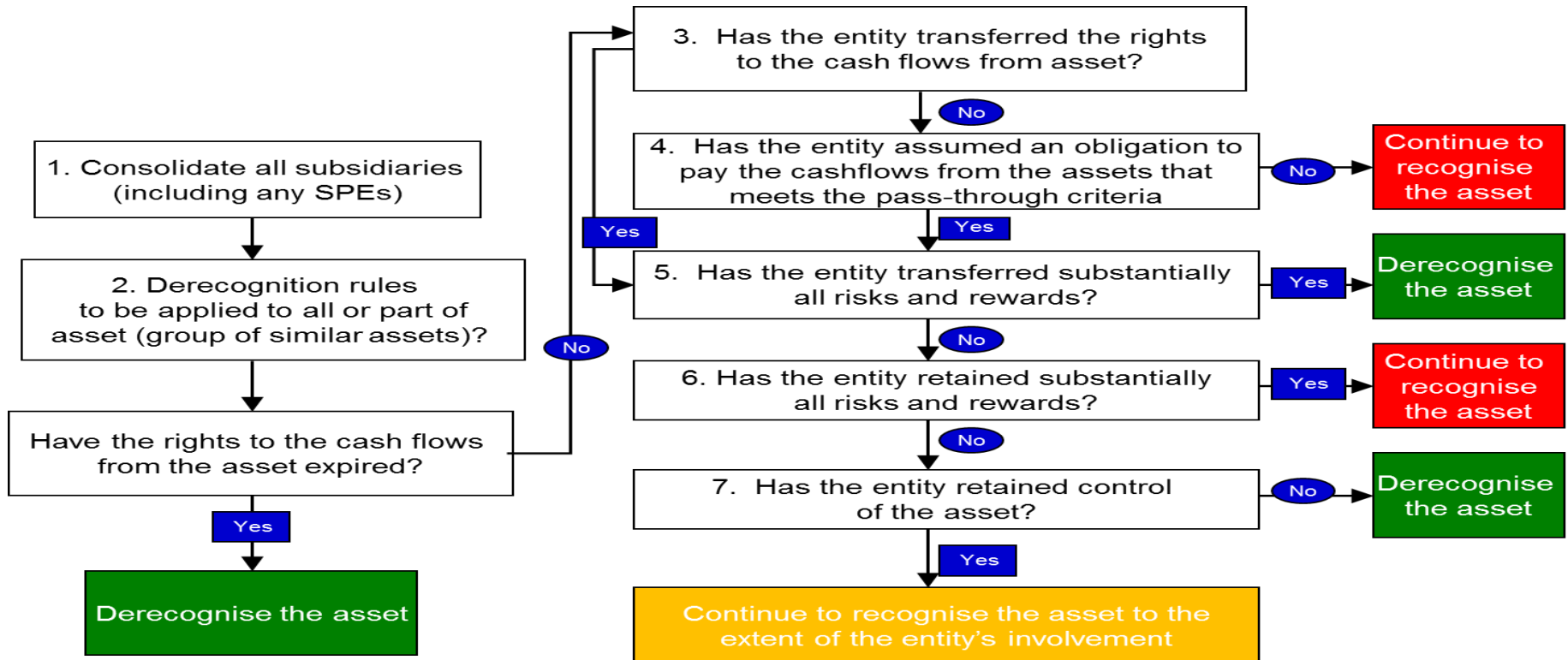
Foreign currency derivatives – example of separation

Non-option derivative



Derecognition

Financial asset derecognition model



Asset derecognition – Examples of application to part of a financial asset

Contractual arrangement	Derecognition consequences
Entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows	Derecognition principles are applied to interest cash flows only and not to principal cash flows
Entity enters into an arrangement whereby the counterparty obtains the rights to a 90% share of all cash flows of a debt instrument	Derecognition principles are applied to 90% of those cash flows
Entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of interest cash flows from a financial asset	Derecognition principles are applied to 90% of those interest cash flows
Entity transfers the rights to the first or the last 90% of cash collections from a financial asset	Derecognition principles are applied to the financial asset in its entirety
Entity transfers the rights to 90% of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8% of the principal amount of the receivables	Derecognition principles are applied to the financial asset in its entirety

Liability derecognition

General principle

Derecognise liability only on *extinguishment* i.e. when obligation:

- cancelled (legal release)
- settled
- expires
- repurchased



Modification/ exchange of financial liability

Accounted for as an extinguishment if revised terms are substantially different to original terms

Modification/exchange of financial liability

Modification/ exchange of financial liability

E.g. change to contractual:

- interest rate
- maturity
- principal
- collateral

'10% test'

Compare:

- PV of remaining **original** cash flows using **original EIR**
- PV of **revised** cash flows (including fees) also using **original EIR**

Substantial ($\geq 10\%$)

Extinguishment accounting:

- derecognise 'old' loan
- 'new' loan at fair value
- gain or loss to P&L
- fees/costs to P&L

Non-substantial ($< 10\%$)

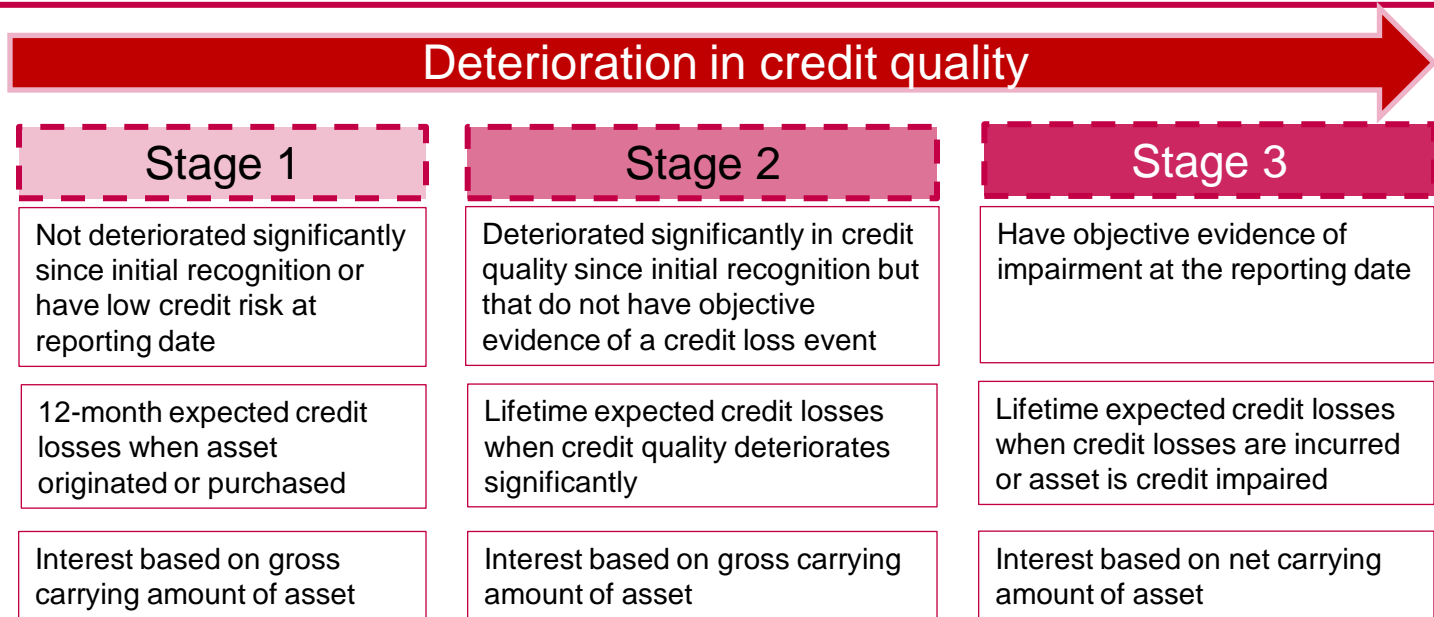
Modification accounting:

- calculate new EIR
- no gain or loss
- fee/costs amortised over remaining term

Same approach whether or not borrower is 'distressed'

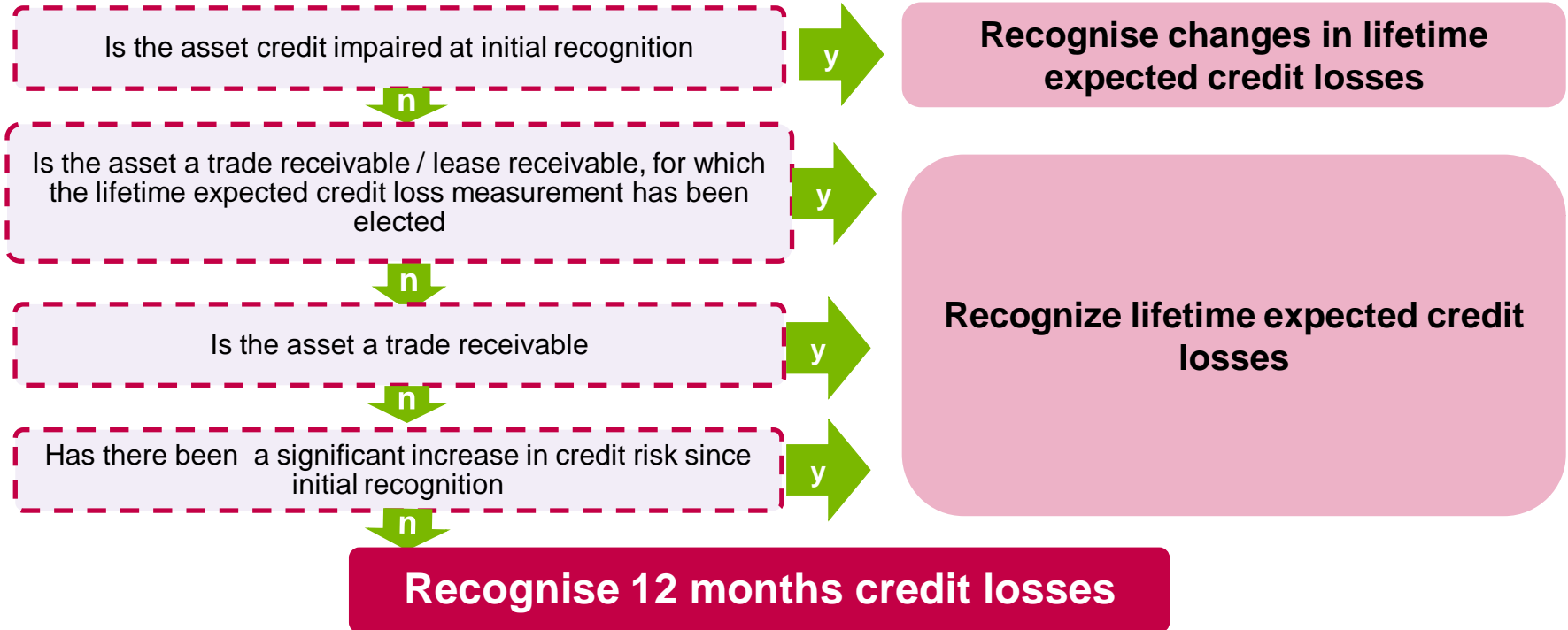
Impairment of financial assets

Credit losses increase as credit risk increases

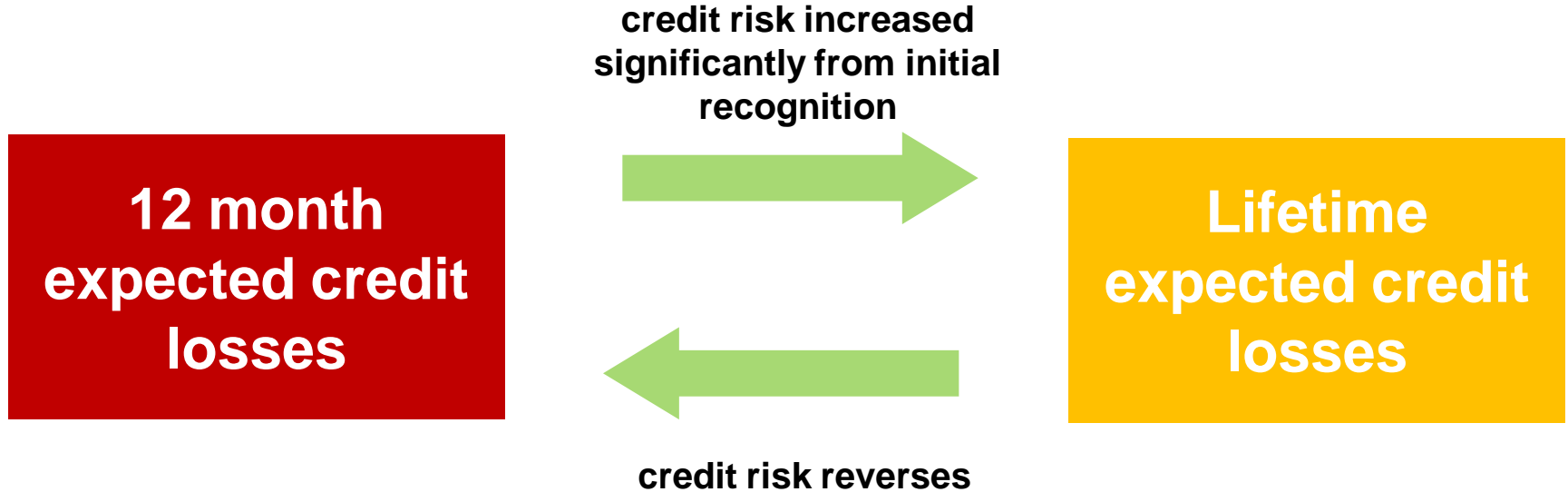


If the financial instrument is determined to have low credit risk at reporting date, it may be assumed that the credit risk on a financial instrument has not increased significantly

The new impairment model



Symmetrical impairment model



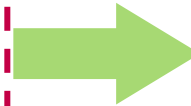
Impairment – determining significant increases in credit risk

At each reporting date:

Assess whether credit risk has increased significantly since initial recognition

Compare risk of default occurring as at reporting date with that at initial recognition

- consider reasonable and supportable information that is available without undue cost or effort
- no need to undertake exhaustive search for information



Assume that credit risk has not increased significantly since initial recognition where low credit risk at reporting date

Example

Company A uses an internal credit rating system of 1 to 10, with 1 denoting the lowest credit risk and 10 denoting the highest credit risk.

A considers an increase of two rating grades to represent a significant increase in credit risk. It considers grades 3 and lower to be a "low credit risk."

At the reporting date A has two loans outstanding, as follows,

	Grade at initial recognition	Grade at reporting date
Loan A	2	5
Loan B	4	5

A assesses whether there has been a significant increase in credit risk in respect of the loans and reached the following conclusions

Example...continued

	Significant credit risk increases?	Recognize allowance equal to
Loan A	Yes	Lifetime expected credit losses
Loan B	No	12-month expected credit losses

The measurement basis for the loss allowance is different for both the loans irrespective of the fact that both loans have the same grade at the reporting date.

Rebuttable presumption 'credit risk has increased significantly'

Rebuttable presumption that:

- credit risk has increased significantly where payments \geq 30 days past due
- rebuttable only where:
 - reasonable and supportable information demonstrates that even where payments \geq 30 days past due, this does not represent a significant increase in credit risk

Impairment – measuring expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses over instrument's expected life

- done by evaluating a range of possible outcomes
- idea is not to use 'worst-case' (or 'best-case') scenarios
- must always reflect possibility of a credit loss occurring and a credit loss not occurring



- may use practical expedients if consistent with principles
- e.g. calculating expected credit loss on trade receivables using a provision matrix

Example Provision Matrix: Short tem trade receivables

G & Co. has a portfolio of trade receivables of 30,000 at the reporting date. None of the receivables includes a significant financing component.

Company operates only in one geographic region, and has a large number of small clients.

G & Co. uses a provision matrix to determine the lifetime expected credit losses for the portfolio.

It is based on Company's historical observed default rates, and is adjusted by a forward-looking estimate that includes the probability of a worsening economic environment within the next year.

At each reporting date, Company updates the observed default history and forward-looking estimates.

Example Provision Matrix: Short tem trade receivables

On this basis, G & Co. uses the following provision matrix:

	Expected credit loss	Trade Receivables	Impairment allowance
Current	0.3%	15,000	45
1-30 days past due	1.6%	7,500	120
31-60 days past due	3.6%	4,000	144
61-90 days past due	6.6%	2,500	165
Over 90 days past due	10.6%	1,000	106
Total		30,000	580

Example: Debt instruments measured at FVOCI

On 31 December 2014, Company Z purchases a debt instrument with a fair value of 1,000 and classifies it measured at FVOCI. The instrument is not credit impaired. Z estimates 12-month expected credit losses for the instrument of 10.

On initial recognition of the instrument, Z makes the following entries

B/S	Debt Security	1000	
B/S	Cash		1000
P/L	Impairment Loss	10	
OCI	Loss allowance		10

At the end of the next reporting date, the fair value of the debt instrument decreases to 950. Z concludes that there has not been a significant increase in credit risk since initial recognition and that 12-month expected credit losses on 31 Dec 2015 are 30.

Example: Debt instruments measured at FVOCI

Accordingly Z makes the following entries at that date

B/S	Debt Security		50
P/L	Impairment Loss	20	
OCI	Loss allowance	30 (balancing number)	

NO loss allowance is recognized in the B/S in respect of debt instruments that are measured at FVOCI, because the carrying amount of these assets is their fair value. However disclosures have to be provided about the loss allowance amount.

Impairment – when is credit risk low?

Credit risk is considered low if:

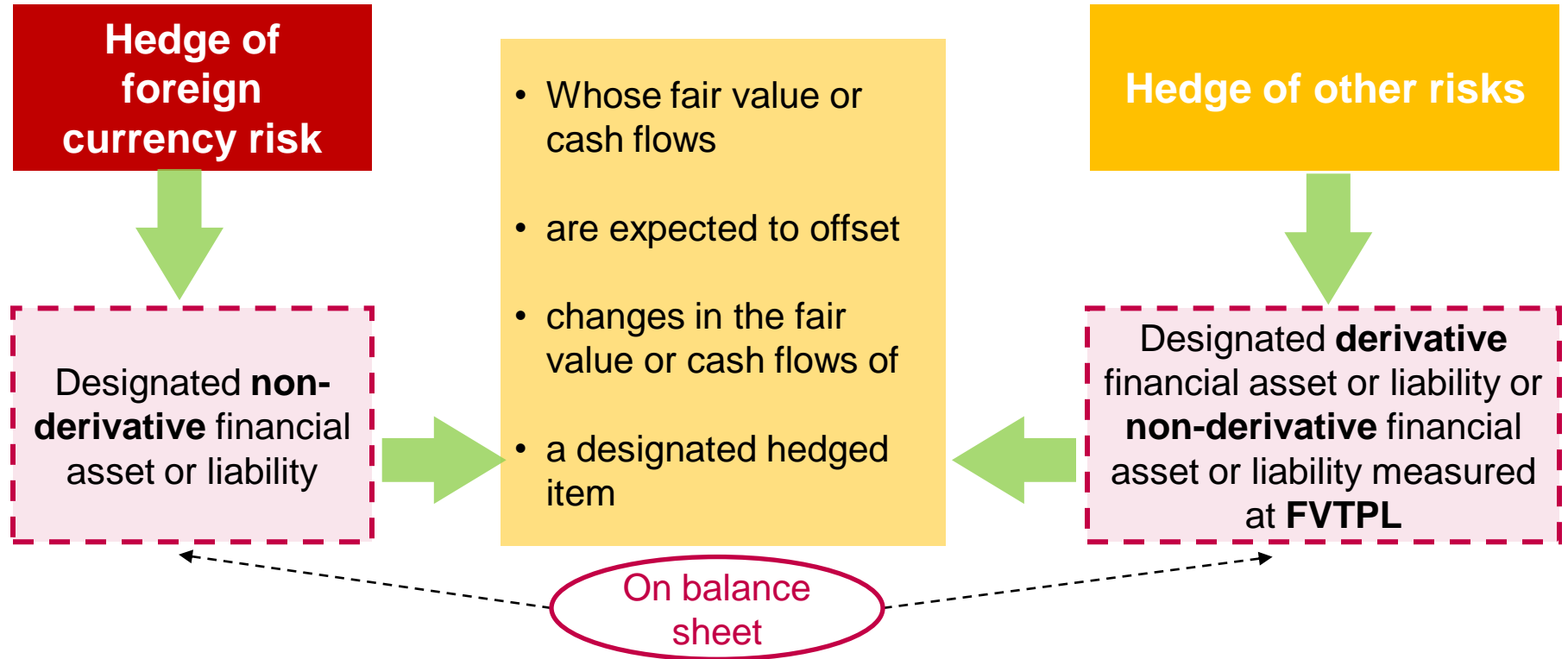
- the financial instrument has low risk of default
 - borrower has a strong capacity to meet contractual cash flow obligations in the near term and
 - adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations
- external 'investment grade' rating considered low credit risk
 - may use internal credit risk ratings if consistent with how credit risk is understood globally

Hedge accounting

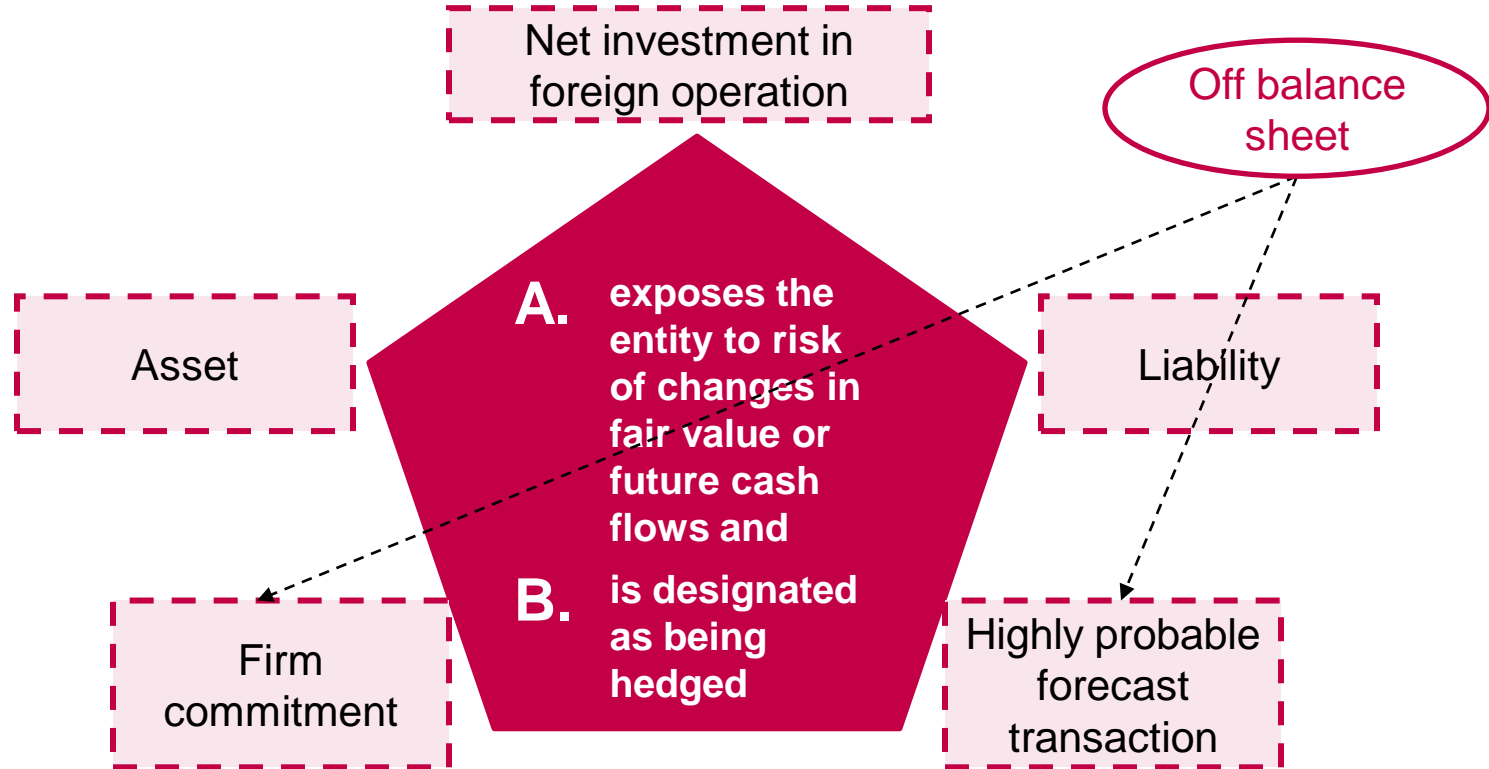
Introduction

- In simple terms ‘hedge accounting’ is a **voluntary accounting route** that modifies the normal basis for recognising gains and losses (or revenues and expenses) on associated hedging instruments and hedged items so that both are recognised in earnings in the same accounting period.
- Hedge accounting thus allows entities the opportunity to eliminate or reduce the P&L volatility that otherwise would arise if the hedged items and hedging instruments were accounted for separately.
- Hedge accounting is considered a **privilege** and not a **right** since it requires several conditions to be met including extensive documentation.

Hedging instrument



Hedged item



Hedge accounting – types of hedge

Fair value hedge

Hedge of exposure to changes in fair value of:

- a recognised asset or liability;
- an unrecognised firm commitment

that is attributable to a particular risk and could affect profit or loss or OCI.

E.g. An entity with fixed rate debt converts the debt into a floating rate debt using an interest rate swap.

Cash flow hedge

Hedge of exposure to changes in cash flows that is attributable to a particular risk associated with:

- a recognised asset or liability
- a highly probable forecast transaction
- an unrecognised firm commitment (forex risk only)

and could affect profit or loss.

E.g. An entity with floating rate debt converts the rate on the debt to a fixed rate using an interest rate swap.

Net investment hedge

Hedge of a net investment in a foreign operation (including a hedge of a monetary item that is accounted for as part of the net investment), as defined in IAS 21 - 'The effect of changes in foreign exchange rates' is accounted for similar to a cash flow hedge.

Hedge accounting – types of hedge

Fair value hedge

Hedge of exposure to changes in fair value of:

- a recognised asset or liability;
- an unrecognised firm commitment

that is attributable to a particular risk and could affect profit or loss or OCI.

E.g. An entity with fixed rate debt converts the debt into a floating rate debt using an interest rate swap.

Cash flow hedge

Hedge of exposure to changes in cash flows that is attributable to a particular risk associated with:

- a recognised asset or liability
- a highly probable forecast transaction
- an unrecognised firm commitment (forex risk only)

and could affect profit or loss.

E.g. An entity with floating rate debt converts the rate on the debt to a fixed rate using an interest rate swap.

Net investment hedge

Hedge of foreign currency risk of firm commitment can be accounted for as fair value or cash flow hedge

Fair value hedge - accounting

Hedging instrument



- Remeasured at fair value (except non-derivative financial instrument to hedge foreign currency risk: measured at spot rate)
- Change in FV recognised in P&L except below
- Hedge of FVOCI equity investment – change in FV of hedging instrument recognised in OCI

Hedged item



- Remeasured to fair value in respect of the hedged risk
- Change in FV recognised in P&L except below (corresponding adjustment to carrying amount of hedged item)
- Hedge of FVOCI equity investment – change in FV of hedged item recognised in OCI

Cash flow hedge - accounting

Hedging instrument



- Remeasured at fair value
- Effective portion of change in FV recognised in OCI and reclassified to P&L when the hedged item affects P&L
- Ineffective portion of change in FV recognised in P&L

Hedged item



Follow regular recognition and measurement principles

What is hedge effectiveness?

- **Hedge effectiveness** is the extent to which changes in the fair value or the cash flows of the hedging instrument offset changes in the fair value or the cash flows of the hedged item
- In contrast, **hedge ineffectiveness** is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item.

Hedge effectiveness requirements

Economic relationship

- Between hedged item and hedging instrument
- Systematic change (opposite direction) in response to same or economically related underlyings

Credit risk does not dominate

- Credit risk does not frustrate economic relationship
- Credit risk can arise from hedging instrument and hedged item

Hedge ratio

- Consistent with actual ratio used by entity
- Different ratio only if accounting outcome would be inconsistent with purpose of hedge accounting

Cash flow hedge accounting: Example

- On 1 Jan 2017, ST Limited (the company or the entity) obtained a one-year, Euro 15 million loan from Bank AT that is repayable on 31 December 2017.
- The interest rate on the loan is variable at 6-month LIBOR plus 3% p.a., payable on a half yearly basis.
- On 1 Jan 2017, ST Limited enters into a one-year **cross currency principal cum interest rate swap (CCIRS or the swap)** with Bank RT, maturing on 31 December 2017, with following terms.
 - Notional amount: Euro 15 million
 - Fixed exchange of principal at maturity: Rs. 1,125 million
 - Bank RT will pay interest @ 6-month LIBOR plus 3% p.a. and ST Limited will pay interest @ 12% p.a.

Cash flow hedge accounting: Example (contd.)

- Other information:

Date	LIBOR	Spot rate	Fair value of swap (INR)	Effective portion (INR)
1-Jan-17	2.00%	75.00	-	-
30-Jun-17	2.50%	77.50	100,000,000	90,000,000
31-Dec-17	3.00%	76.00	105,000,000	98,000,000

Date	Variable rate	Swap rate	Gross payment under swap (INR)	Gross receipt under swap (INR)	Net paid (INR)
1-Jan-17	5.00%	12.00%	-	-	-
30-Jun-17	5.50%	12.00%	67,500,000	31,968,750	35,531,250
31-Dec-17	6.00%	12.00%	67,500,000	34,200,000	33,300,000

Cash flow hedge accounting: Journal entries

1-Jan-17	Dr. Bank	1,125,000,000	31-Dec-17	Dr. Interest expense	34,200,000
	Cr. Loan	(1,125,000,000)		Cr. Bank	(34,200,000)
30-Jun-17	Dr. Interest expense	31,968,750		Dr. Cash flow hedge reserve (OCI)	8,000,000
	Cr. Bank	(31,968,750)		Cr. Finance cost (ineffectiveness)	(3,000,000)
	Dr. Cash flow hedge reserve (OCI)	90,000,000		Cr. CCIRS	(5,000,000)
	Dr. Finance cost (ineffectiveness)	10,000,000		Dr. Interest expense	33,300,000
	Cr. CCIRS	(100,000,000)		Cr. Cash flow hedge reserve (OCI)	(33,300,000)
	Dr. CCIRS	35,531,250		Dr. CCIRS	33,300,000
	Cr. Bank	(35,531,250)		Cr. Bank	(33,300,000)
	Dr. Interest expense	35,531,250		Dr. Loan	22,500,000
	Cr. Cash flow hedge reserve (OCI)	(35,531,250)		Cr. Foreign exchange gain	(22,500,000)
	Dr. Foreign exchange loss	37,500,000		Dr. Foreign exchange gain	22,500,000
	Cr. Loan	(37,500,000)		Cr. Cash flow hedge reserve (OCI)	(22,500,000)
	Dr. Cash flow hedge reserve (OCI)	37,500,000		Dr. Loan	1,140,000,000
	Cr. Foreign exchange loss	(37,500,000)		Cr. Bank	(1,140,000,000)
				Dr. CCIRS	36,168,750
				Dr. Finance cost	8,000,000
				Cr. Cash flow hedge reserve (OCI)	(44,168,750)

Financial Instruments: Disclosures

Ind AS 107

Objectives

- ❑ Requires entities to provide disclosures that would enable users to evaluate:
 - ❖ The significance of financial instruments for an entity's
 - Financial position; and
 - Financial performance
 - ❖ The nature and extent of risks arising from financial instruments to which the entity is exposed
 - During the period and
 - At the reporting date, and
 - ❖ How the entity manages those risks

Overview of Ind AS 107 disclosures

Extent of disclosures

- Will depend on the way management manages financial risks
- Will depend on the extent of use of financial instruments
- There is no choice of presenting Ind AS 107 minimum disclosures or figures used to manage risk.

Risk management disclosures

Liquidity risk

- Liquidity analysis
- How the risk is managed

Credit risk

- Fully performing
- Past due

Market risk

- Interest rate
- Foreign currency

Numbers and Notes

Balance sheet and income statement

- Categories of Financial Assets & Financial Liabilities
- Reclassification, derecognition, collateral, reco. of credit losses, defaults and breaches

Other disclosures

- Accounting policies
- Hedge accounting
- Fair value

Risk management disclosures

Liquidity risk disclosures

- Items covered
 - All recognised financial assets and liabilities
 - No exceptions
 - Loan commitments
 - Contractual amounts for derivatives

Market risk disclosures

- Interest rate risk
- Foreign currency risk
 - Non-monetary items not included
 - Items in functional currency
- Other price risk

Sensitivity analysis
- equity
- P/L

Credit risk disclosures

Fully performing	Past due	Impaired
Carrying amount		
Description of collateral held		
Credit quality	Aging analysis	Analysis of impaired assets
Renegotiated FA	Fair value of collateral held	
	Reconciliation of allowance	

Liquidity risk disclosures - example

	<1 year	1- 2 Years	2-5 Years	Over 5 Years	Total
As at 31st March' XX					
Borrowings					
Finance Lease Liabilities					
Trade and Other Payables					
Financial Guarantee Contracts					

Fair value disclosures

Three level hierarchy when disclosing fair value

- Level 1 – **Quoted price** in active markets for identical assets or liabilities
- Level 2 – **Observable inputs** other than quoted prices included above
- Level 3 – **Unobservable inputs** for the asset or liability

Disclosures required

- Required for each class of financial instruments carried at fair value
- Any change in the method for determining fair value and the reason for the change
- Reconciliation from beginning balance to closing balance for Level 3 hierarchy

Description	31 Dec 20XX	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Available-for-sale financial assets				
Equity investments				
Total				

(Note: For liabilities, a similar table might be presented)

Offsetting related disclosures

- Qualitative and quantitative disclosures relating to gross and net amounts of recognised financial instruments that are:
 - set off in the statement of financial position identifying and explaining related amounts in the financial statements
 - subject to enforceable master netting arrangements and similar agreements, even if not set off

Gross amounts before offsetting (A)	Gross amounts set off (B)	Net amounts presented in balance sheet (C)	Other amounts in scope but not set off in balance sheet (D)	Net amounts (E)
[same for all preparers]	[depends on offsetting model]	[depends on offsetting model]	[depends on offsetting model]	[same for all preparers]

Thank you!

Presenter:

CA. Siddharth Talwar

Partner, Walker Chandiook & Co LLP

E-mail: siddharth.talwar@in.gt.com