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## IASB<sup>®</sup> meeting

Date	<b>July 2024</b>
Project	<b>Second Comprehensive Review of the <i>IFRS for SMEs</i><sup>®</sup> Accounting Standard</b>
Topic	<b>Issued financial guarantee contracts</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards or the *IFRS for SMEs*<sup>®</sup> Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Introduction

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to continue the discussion from the April 2024 IASB meeting on amendments to the requirements for issued financial guarantee contracts.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).
3. Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft) proposed to define a financial guarantee contract as (**emphasis added**):

A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

4. In this paper, the term 'intragroup financial guarantee contract' refers to a financial guarantee contract issued by an SME where either the holder or the specified debtor (or both) is another group entity. For example, a parent providing a financial guarantee to a bank over its subsidiary's borrowings.

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## Staff recommendation

5. The staff recommend that the IASB confirms its proposal in the Exposure Draft to add a definition of a financial guarantee contract to the Glossary of the Standard, but changes its proposals in the Exposure Draft for the accounting for issued financial guarantee contracts as follows:
- (a) intragroup financial guarantee contracts issued at nil consideration are included in the scope of Section 21 *Provisions and Contingencies* (and specifically scoped out of Section 11);
  - (b) other financial guarantee contracts remain within the scope of Section 11 *Financial Instruments* (measured at fair value through profit or loss);<sup>1</sup>
  - (c) the following disclosures are added to Section 21 for intragroup financial guarantee contracts:
    - (i) the nature and business purpose of the financial guarantee contracts; and
    - (ii) the maximum amount the SME could have to pay if the guarantee is called on.
6. The staff support this recommendation regardless of whether the IASB confirms its decision to incorporate an expected credit loss model into the Standard for SMEs that provide financing to customers as a primary business after considering the fieldwork feedback (see Agenda Papers 30A–30C for this meeting).

## Structure of this paper

7. This paper is structured as follows:
- (a) background (paragraphs 8–15);

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<sup>1</sup> The IASB has decided to combine Sections 11 and 12 of the second edition of the Standard into a single section in the third edition of the Standard renamed Section 11 *Financial Instruments*. The previous requirements in Section 11 *Basic Financial Instruments* will be Part I of the revised Section 11 and the previous requirements in Section 12 *Other financial instrument issues* will be Part II of the revised Section 11.

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- (b) feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (Request for Information) (paragraphs 16–23);
  - (c) feedback on the Exposure Draft (paragraphs 24–30);
  - (d) IASB discussions in April 2024 (paragraph 31);
  - (e) staff analysis (paragraphs 32–45);
  - (f) staff recommendation and question for the IASB (paragraph 46);
  - (g) Appendix A—extracts from the Basis for Conclusions on the Exposure Draft; and
  - (h) Appendix B—extracts from Section 21 and Section 33 *Related Party Transactions* of the Standard.

## Background

### ***SMEIG Q&A on issued financial guarantee contracts***

8. In 2017, the SME Implementation Group (SMEIG) developed Q&A 2017/12.1 *Accounting for financial guarantee contracts in individual or separate financial statements of the issuer* because it was informed of two different views on how to apply the Standard to intragroup financial guarantee contracts issued by a parent entity in that parent entity's separate financial statements:
- (a) View 1—the parent entity should apply Section 21 *Provisions and Contingencies* to issued financial guarantee contracts. Those supporting this view applied the accounting policy hierarchy in paragraphs 10.4–10.6 of Section 10 *Accounting Policies, Estimates and Errors* because they question whether the Standard has specific requirements for accounting for financial guarantee contracts.
  - (b) View 2—the parent entity should apply Section 12 *Other Financial Instrument Issues* to issued financial guarantee contracts. Those supporting

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this view consider the issued financial guarantee contract to be a financial liability within the scope of Section 12.

9. Q&A 2017/12.1 clarifies that an issued financial guarantee contract is a financial liability of the entity, therefore the requirements in Section 12 apply (see paragraphs 12–13 of this paper) unless the entity chooses the option in Sections 11 and 12 to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (fallback to IAS 39).<sup>2</sup>
10. In the Basis for Conclusions accompanying Q&A 2017/12.1, the SMEIG recommended the IASB revisit the accounting treatment for issued financial guarantee contracts during the second comprehensive review of the Standard with a view to providing measurement relief. The SMEIG made this recommendation based on feedback that measuring issued financial guarantee contracts applying Section 12 is more complex than the accounting requirements in full IFRS Accounting Standards.
11. The initial question raised with the SMEIG was an example of a parent entity issuing a financial guarantee contract on behalf of its subsidiary. In discussing the issue, the SMEIG concluded that the accounting requirements in Section 12 of the Standard would apply whenever an SME issued a financial guarantee contract on behalf of another entity, with the parent-subsidiary case provided as an example.

### ***Accounting for issued financial guarantee contracts***

#### ***Applying Section 12 of the Standard***

12. The Standard does not have specific requirements for financial guarantee contracts. However, an issued financial guarantee contract meets the definition of a financial liability within the scope of Section 12.

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<sup>2</sup> The IASB has tentatively decided to remove an entity's option to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* during this comprehensive review.

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13. Applying Section 12, an issued financial guarantee contract is initially and subsequently measured at fair value with changes in fair value recognised in profit or loss.

*Applying IFRS 9*

14. IFRS 9 *Financial Instruments* defines a financial guarantee contract as:

A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

15. Applying IFRS 9, a financial guarantee contract issued by an entity is measured initially at fair value and measured subsequently at the higher of:<sup>3</sup>
- (a) the amount of the loss allowance (allowance for expected credit losses); and
  - (b) the amount initially recognised less, when appropriate, the cumulative amount of income recognised applying the principles of IFRS 15 *Revenue from Contracts with Customers*.

## Feedback on the Request for Information

### *Question in the Request for Information*

16. In view of the SMEIG recommendation that the IASB revisit the accounting treatment for issued financial guarantee contracts during this second comprehensive review (see paragraph 10 of this paper), the IASB decided not to seek views on incorporating Q&A 2017/12.1 into the Standard. Instead, the IASB sought views on aligning the accounting requirements for issued financial guarantee contracts with IFRS 9.

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<sup>3</sup> Ref to paragraph 4.2.1(c)(i) of IFRS 9.

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17. Question S3E of the Request for Information asked for views on:
- (a) adding the IFRS 9 definition of a financial guarantee contract; and
  - (b) aligning the requirements for issued financial guarantee contracts with IFRS 9.

***Feedback on the Request for Information***

18. Feedback supported introducing the definition of a financial guarantee contract from IFRS 9 into the Standard. However, respondents expressed mixed views about aligning the requirements in the Standard for issued financial guarantee contracts with IFRS 9.
19. Some respondents supported aligning the requirements in the Standard for issued financial guarantee contracts with IFRS 9 because they view the requirements in IFRS 9 as simpler than applying Section 12. A few respondents said the requirements should be aligned with IFRS 9, but with some simplifications (for example, to the requirement to determine the amount of any expected credit losses) or permitting the use of the undue cost or effort exemption.
20. In contrast, some respondents did not support aligning the requirements in the Standard for issued financial guarantee contracts with IFRS 9 because in their view these requirements are too complex for SMEs. Most of these respondents suggested that an SME should apply the requirements of Section 21 to its financial guarantee contracts, which they said are simpler than the requirements in IFRS 9 and sufficient for financial reporting by SMEs. For example, one accounting body said:
- ...The application of a financial guarantee contract based on fair value model in accordance with IFRS 9 can be difficult and onerous to SMEs due to lack of the relevant data and knowledge to apply the requirements set out in IFRS 9...
21. Some respondents noted that the type of financial guarantee contracts commonly issued by SMEs are intragroup contracts (for example, a parent providing a financial guarantee over its subsidiary's borrowings) and measuring the fair value

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of these contracts for the purposes of the requirements in Section 12 or IFRS 9 would be difficult, and the cost of measuring fair value would not justify the benefits for users of SMEs' financial statements. Some respondents suggested further simplifications are considered for intragroup financial guarantee contracts, for example including them in Section 21. Examples of comments:

One accounting firm said:

...However, given the prevalence of intra-group guarantees over borrowings of subsidiaries and the difficulty of accessing fair value information for intra-group guarantees, we suggest that intra-group guarantees should be treated differently and should instead be accounted for in accordance with Section 21...

One accounting body said:

...The general situation is that a parent guarantees the liabilities of a subsidiary. In the consolidated financial statements of the parent the guarantee is not recognised because the liability of the subsidiary is recognised in full. It seems unduly onerous to require the parent to recognise the guarantee at fair value in its separate financial statements particularly where it is not probable that any payment will be made under the guarantee. [We] consider that disclosure of the existence of the guarantee as a related party transaction and a requirement to account for it in accordance with Section 21 would be more appropriate...

### ***SMEIG recommendation<sup>4</sup>***

22. In September 2018, during development of the Request for Information, the staff consulted the SMEIG on whether SMEs frequently issued financial guarantee contracts. The majority of SMEIG members said SMEs in their jurisdictions issue financial guarantee contracts, particularly intragroup financial guarantee contracts (for example, a parent providing a financial guarantee over its subsidiary's borrowings).
23. The SMEIG also met on 4–5 February 2021 to discuss the feedback from stakeholders on the Request for Information:

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<sup>4</sup> The Report on the SMEIG meeting, held via remote participation, on 4–5 February 2021 can be accessed [here](#).

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- (a) most SMEIG members said the feedback provided evidence for the IASB to introduce the definition of a financial guarantee contract from IFRS 9 into the Standard;
  - (b) some SMEIG members said entities should apply Section 21 to issued financial guarantee contracts because the requirements in Section 21 are simpler for SMEs; and
  - (c) one SMEIG member suggested aligning the requirements in the Standard for issued financial guarantee contracts with IFRS 9.

## Feedback on the Exposure Draft

### *Proposals in the Exposure Draft*

- 24. The Exposure Draft proposed to:
  - (a) introduce the definition of a ‘financial guarantee contract’ from IFRS 9; and
  - (b) require the issuer of a financial guarantee contract to initially measure the contract at the premium received (plus the present value of any future premium payments receivable) and subsequently measure it at the higher of:
    - (i) the expected credit losses; and
    - (ii) the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee.
- 25. The proposed requirements for issued financial guarantee contracts in the Exposure Draft were developed on the basis that all SMEs would apply an expected credit loss model to financial assets measured at amortised cost (other than trade receivables and contract assets).
- 26. Appendix A to this paper includes extracts from the Basis for Conclusions on the Exposure Draft that further explain the IASB’s considerations when developing the proposals for issued financial guarantee contracts.



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**Feedback on the proposals in the Exposure Draft**

27. The Invitation to Comment in the Exposure Draft did not ask a specific question about the proposed amendments for issued financial guarantee contracts. However, the Invitation to Comment asked a general question whether respondents have any comments on other proposed amendments in the Exposure Draft.
28. Most respondents either did not comment on the proposed amendments for issued financial guarantee contracts or they welcomed inclusion of specific requirements for issued financial guarantee contracts.
29. However, some respondents expressed concerns about the proposed requirements for issued financial guarantee contracts. Some respondents noted that it is common for SMEs to issue intragroup financial guarantee contracts at nil consideration. Applying the proposals there would be no entries on ‘day 1’, but on ‘day 2’ the SME would have a gain or loss from remeasurement of the liability to the amount of expected credit losses (a ‘day 2 loss’). An accounting firm said:
- ...However, as the most common occurrences of such guarantees are intra-group guarantees and they are normally entered into at zero transaction price, problems would arise if the proposals were implemented as currently worded. This is because the accounting for such a guarantee would result in no entries on ‘day 1’ but then on ‘day 2’ the reporting entity would have an immediate remeasurement due to the recognition of an ECL amount, which would need to be recognised in profit or loss (i.e. a ‘day 2 loss’)...
30. Respondents had the following suggestions on how to amend the proposals for issued financial guarantee contracts:
- (a) scope intragroup financial guarantee contracts or all financial guarantee contracts into Section 21.
- (b) require disclosure only as this would satisfy the information needs of financial statement users. A standard-setting body said:
- ...In respect of FGCs [financial guarantee contracts], users of financial statements would be primarily interested in the liquidity risk of the issuer and the credit risk of the borrower as well as the contingency surrounding the potential payments and

amount of exposure. The information needs of these users could be achieved by way of disclosure...

- (c) initially measure financial guarantee contracts at the transaction price if one is charged. If the transaction price is nil, the financial guarantee contracts should be initially measured at fair value.
- (d) subsequent measurement could be based on the higher of:
  - (i) the amount to be paid under the financial guarantee, where payment is probable (as defined in Section 21 for provisions); and
  - (ii) the amortised value of the initial cost.

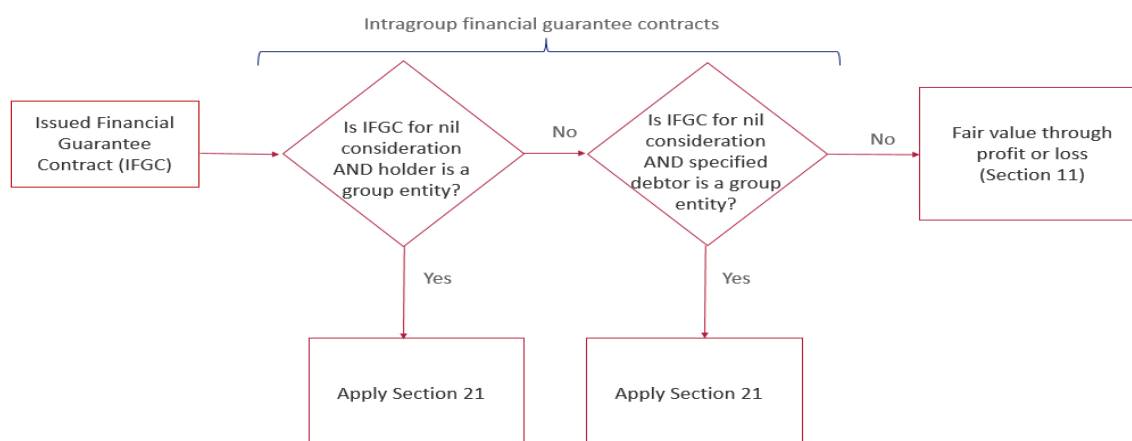
## IASB discussions in April 2024

31. At the April 2024 IASB meeting, the staff recommended that intragroup financial guarantee contracts issued at nil consideration be included in the scope of Section 21. The IASB tentatively agreed to explore measuring intragroup financial guarantee contracts issued at nil consideration by applying Section 21. However, some IASB members had the following concerns:

- (a) about concluding on the accounting treatment for a subgroup of financial guarantees (intragroup financial guarantees at nil consideration) in isolation, without also considering requirements for other issued financial guarantees.
- (b) about having multiple models for financial guarantees (arising from including intragroup financial guarantees in Section 21 and other financial guarantees in Section 11 *Financial Instruments*). These IASB members had a preference for having a single model for all issued financial guarantees, or at least having the requirements for all issued financial guarantees in one location in the Standard.
- (c) if intragroup financial guarantees are included in Section 21, there is a need for additional disclosures, such as the purpose of the guarantee and the maximum amount that might be paid.

## Staff analysis

32. At this meeting the staff recommend the following requirements for issued financial guarantee contracts be included in the Standard:



33. The staff analysis responds to the IASB members concerns set out in paragraph 31 of this paper and includes:
- why we recommend different requirements in the Standard for intragroup financial guarantee contracts issued at nil consideration from other issued financial guarantee contracts (see paragraphs 34–36);
  - why we recommend including intragroup issued financial guarantee contracts at nil consideration in Section 21 (see paragraphs 37–39);
  - additional disclosure requirements for intragroup issued financial guarantee contracts in Section 21 (see paragraphs 40–43);
  - transition requirements for intragroup issued financial guarantee contracts in Section 21 (see paragraphs 44–45).

***Why we recommend different requirements in the Standard for intragroup financial guarantee contracts issued at nil consideration***

34. Feedback during this comprehensive review provides evidence that:

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- (a) most financial guarantee contracts issued by SMEs are intragroup financial guarantee contracts; and
  - (b) measuring the fair value of these intragroup financial guarantee contracts can be difficult and subjective and the costs of recognising these contracts at fair value does not justify the benefits of the fair value information to users of the financial statements.
35. Feedback during the second comprehensive review has mostly related to intragroup issued financial guarantee contracts. We think SMEs are more concerned about simplified requirements for these intragroup contracts, than the Standard having a single model for all issued financial guarantee contracts.
36. Intragroup financial guarantee contracts are often issued at nil consideration. The staff think that if consideration is charged for these contracts, there will be a specific reason for doing so (for example, estimating a fair value amount for tax or legal requirements).

***Why we recommend including intragroup financial guarantee contracts at nil consideration in Section 21***

37. The staff recommend intragroup financial guarantee contracts issued at nil consideration are included in Section 21 for the following reasons:
- (a) *simplicity and familiar approach.* Feedback indicates that many SMEs are currently accounting for intragroup financial guarantee contracts applying Section 21. Furthermore, many SMEs have few financial instruments (typically only trade receivables/payables and simple loans/borrowings) and so may be more familiar with the Section 21 requirements than the requirements for financial instruments that are not accounted for as basic financial instruments in Sections 11 and 12.
  - (b) *approach best supported by cost–benefit.* Feedback indicates that measuring either fair value or expected credit losses of intragroup contracts for the purposes of applying the existing approach (fair value through profit or loss)

or applying the approach in IFRS 9 would be difficult and subjective.

Furthermore, some feedback indicates that these approaches would not provide better information for users of the financial statements than applying Section 21.

38. Including intragroup financial guarantee contracts issued at nil consideration in Section 21 also has the following advantages:
- (a) feedback indicates that most financial guarantee contracts issued by SMEs are intragroup financial guarantee contracts. Typical SMEs are unlikely to have both intragroup financial guarantee contracts at nil consideration (in Section 21) and other financial guarantee contracts (in Section 11). Therefore, most SMEs would not need to apply the requirements in both sections to their financial guarantee contracts.
  - (b) including intragroup financial guarantee contracts in Section 21 would simplify the drafting and understandability of the requirements by avoiding the need to ‘fit’ the requirements for these contracts into the initial measurement (typically transaction price) and subsequent measurement requirements (amortised cost or fair value through profit or loss) in Section 11. Adding a new model for financial guarantee contracts into Section 11 would also add complexity.
  - (c) including intragroup financial guarantee contracts in Section 21 would also prevent a ‘day 2 loss’ arising in a scenario where an outflow is probable at the time the guarantee is issued.<sup>5</sup> For example, a parent entity might guarantee a subsidiary’s borrowings even if on the date of issue it is probable that the subsidiary will default on its borrowings. Applying Section 21, the best estimate of the outflow would be recognised at day 1 and could be included as part of the investment in the subsidiary (asset). If instead intragroup financial guarantees are included in Section 11 and

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<sup>5</sup> The day 2 loss issue was also mentioned by respondents about the proposals in the Exposure Draft which would have recognised such guarantees at nil on initial recognition (see paragraph 29 of this paper)

recognised initially at a transaction price of nil, there would be a ‘day 2 loss’ on the remeasurement to the Section 21 amount.

- (d) Section 21 already includes disclosure requirements that would apply when an outflow is probable (paragraph 21.14), and when an outflow is less than probable but greater than remote (paragraph 21.15). Enhanced disclosure requirements for intragroup financial guarantee contracts could build on these existing disclosure requirements, rather than replicating and introducing new disclosures into Section 11.
39. The staff recommend including intragroup issued financial guarantee contracts in Section 21 to assist application for most SMEs and for the practical reasons identified above. However, as an alternative, we could include intragroup issued financial guarantee contracts in Section 11 and cross refer to the relevant paragraphs in Section 21 to describe their accounting treatment. We think this alternative would be clumsy, but it would result in a similar accounting outcome (except as noted in paragraph 38(c) of the paper regarding the ‘day 2 loss’). Nevertheless, although this alternative would not have the advantages in paragraph 38 of this paper, it would have the following advantages:
- (a) all issued financial guarantee contracts would be included in the scope of Section 11; and
  - (b) issued financial guarantee contracts meet the definition of a financial instrument therefore Section 11 is their appropriate location.

### ***Additional disclosures for issued financial guarantee contracts***

40. If intragroup financial guarantee contracts issued at nil consideration are included in the scope of Section 21, the disclosure requirements in paragraph 21.14 (outflow is probable) or paragraph 21.15 (outflow is not probable but is not remote) of the Standard would apply. The disclosure requirements in Section 33 *Related Party Disclosures* would also apply to intragroup issued financial guarantee contracts, in

particular paragraphs 33.9 and 33.10. Extracts of these disclosure requirements are in Appendix B of this paper.

41. Furthermore, the staff recommend adding the following disclosure requirement for intragroup financial guarantee contracts in Section 21:

21.15A An entity shall disclose the nature and business purpose of the financial guarantee contracts it has issued and the maximum amount the entity could have to pay if the guarantee is called on. An entity shall also provide the disclosures required by Section 33 *Related Party Disclosures* and, if applicable, the disclosures required by paragraphs 21.14 and 21.15.
42. We think this additional disclosure would inform users of the financial statements that such financial guarantees are in place, explain their nature and indicate the possible maximum effect on cash flows. Section 33 already requires some disclosures about intragroup contracts, but we think this additional disclosure requirement would clarify what SMEs should disclose about intragroup financial guarantee contracts.
43. Under the staff recommendation, other financial guarantee contracts would be measured at fair value through profit or loss and the fair value measurement disclosures in the new section on fair value measurement (Section 12 *Fair Value Measurement* in the third edition of the Standard) would apply. Therefore, we do not suggest additional disclosures for other financial guarantee contracts.

#### ***Transition requirements for issued financial guarantee contracts***

44. The *IFRS for SMEs* Accounting Standard requires retrospective application of new and amended requirements (subject to paragraph 10.12 of the Standard). Appendix A in the Exposure Draft proposed some relief to retrospective application for some of the amended requirements.
45. The staff do not think that relief would be needed from retrospective application of the Section 21 requirements for issued financial guarantee contracts at nil consideration because the adjustments to eliminate the fair value measurement and

apply Section 21 retrospectively would be straightforward. Therefore, the staff have not recommended any transition requirements in this paper.

## Staff recommendation and question for the IASB

46. The staff recommend that the IASB confirms its proposal in the Exposure Draft to add a definition of a financial guarantee contract to the Glossary of the Standard, but changes its proposals in the Exposure Draft for the accounting for issued financial guarantee contracts as follows:

- (a) intragroup financial guarantee contracts issued at nil consideration are included in the scope of Section 21 (and specifically scoped out of Section 11);
- (b) other financial guarantee contracts remain within the scope of Section 11<sup>6</sup> (measured at fair value through profit or loss);
- (c) the following disclosures are added to Section 21 for intragroup financial guarantee contracts:
  - (i) the nature and business purpose of the financial guarantee contracts; and
  - (ii) the maximum amount the SME could have to pay if the guarantee is called on.

### Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 46?

<sup>6</sup> As noted earlier in this paper, Section 11 of the third edition of the Standard will combine Section 11 and Section 12 of the second edition of the Standard.



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## Appendix A: Extracts from the Basis for Conclusions on the Exposure Draft

A1. The following extract summarises the considerations of the IASB when developing the proposals for issued financial guarantees.

BC100 To respond to feedback that the IFRS 9 requirements are too complex, the IASB is proposing these simplifications for SMEs:

- (a) the contract would be initially measured at the premium received (plus the present value of any future premium payments receivable). This simplification would respond to feedback that determining the fair value of an issued financial guarantee contract is difficult, particularly for related party contracts. The simplification is also consistent with the requirement in paragraph 11.13 of the Standard that a basic financial asset or liability is initially measured at the transaction price unless the arrangement constitutes a financing transaction.
- (b) the wording in paragraph BC99(b) would be simplified by referring to ‘the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee’. The IASB observed that usually the outcome of applying this wording would be similar to the outcome of applying paragraph BC99(b) for the types of financial guarantee contracts commonly issued by entities applying the Standard (although the amount initially recognised may not be fair value). Furthermore, this wording would be easy to apply and be understood by entities applying the Standard and users of their financial statements.

BC101 Some IASB members expressed concern about recognising the financial guarantee contract at the premium receivable because users of financial statements might lose useful fair value information. These IASB members observed that the premium might be nil for related party financial guarantee contracts, such as intragroup financial guarantee contracts. Some IASB members were also concerned that if the financial guarantee is recorded on initial recognition at nil, this would lead to the recognition of expected credit losses in the period in which the guarantee was issued. Nevertheless, the IASB observed that under the proposed requirements the liability would, at a minimum, at each reporting date be subsequently measured at the amount of the allowance for expected credit losses, which would provide useful information in the statement of financial position about the entity’s exposure to credit risk.

BC102 Some IASB members expressed concerns about the cost of measuring expected credit losses for the financial guarantee contract at each reporting date. However, the IASB observed that this cost was a consequence of incorporating an expected credit loss model into the Standard. It also observed that there was no good reason to have a specific exception for financial guarantee contracts.

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## Appendix B: Extracts from Section 21 and Section 33 of the Exposure Draft

### Section 21 *Provisions and Contingencies*

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#### **Disclosures about provisions**

21.14 For each class of provision, an entity shall disclose all of the following:

- (a) a reconciliation showing:
  - (i) the carrying amount at the beginning and end of the period;
  - (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;
  - (iii) amounts charged against the provision during the period; and
  - (iv) unused amounts reversed during the period.
- (b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
- (c) an indication of the uncertainties about the amount or timing of those outflows; and
- (d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

#### **Disclosures about contingent liabilities**

21.15 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

- (a) an estimate of its financial effect, measured in accordance with paragraphs 21.7–21.11;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

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## Section 33 *Related Party Disclosures*

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### Disclosure of related party transactions

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33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include:

- (a) the amount of the transactions;
- (b) the amount of outstanding balances, including commitments and:
  - (i) their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
  - (ii) details of any guarantees given or received.
- (c) provisions for uncollectable receivables related to the amount of outstanding balances; and
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales or transfers of goods or services; **leases**; guarantees; and settlements by the entity on behalf of the related party or vice versa.

33.10 An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:

- (a) entities with control, joint control or significant influence over the entity;
- (b) entities over which the entity has control, joint control or significant influence;
- (c) key management personnel of the entity or its parent (in the aggregate); and
- (d) other related parties.

...