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IMPROVEMENT OF FINANCIAL REPORT STRUCTURE TO DISCLOSE INFORMATION RELATING INVESTMENT ACTIVITY RESULTS

The article focuses on the research of changes in financial instruments classification and rules of accounting information disclosure as two main factors, affecting the structure of banking reports. The necessity to modify balance sheet assets and notes, dedicated to investments in securities, is justified, as a result of introduction of new financial instruments classification. Information, which must be disclosed in financial report due to IFRS, is determined. A new structure of balance sheet and notes, which satisfy requirements, is suggested.

Key words: financial report, Balance Sheet, IFRS 9, IFRS 7, investments in equity securities, investments in debt securities.

Амбарчян В.С.

ВДОСКОНАЛЕННЯ СТРУКТУРИ ФІНАНСОВОЇ ЗВІТНОСТІ З МЕТОЮ РОЗКРИТТЯ ІНФОРМАЦІЇ ПРО РЕЗУЛЬТАТИ ІНВЕСТИЦІЙНОЇ ДІЯЛЬНОСТІ БАНКУ

В статті досліджується вплив змін в класифікації фінансових інструментів та правилах розкриття облікової інформації на структуру фінансових звітів банку. Обґрунтовано необхідність модифікації статей активів та приміток, присвячених інвестиціям у цінні папери, що пов'язано із введенням нової класифікації фінансових інструментів. Визначено перелік інформації, що має бути подана у звітних формах за міжнародними правилами обліку. Запропоновано вдосконалену структуру Звіту про фінансовий стан та приміток, що відповідають висуненим вимогам до визнання, оцінки та розкриття інформації щодо фінансових інвестицій банку.

Ключові слова: фінансова звітність, Звіт про фінансовий стан, МСФЗ 9, МСФЗ 7, інвестиції в боргові цінні папери, інвестиції в пайові цінні папери.

Амбарчян В.С.

СОВЕРШЕНСТВОВАНИЕ СТРУКТУРЫ ФИНАНСОВОЙ ОТЧЕТНОСТИ С ЦЕЛЮ РАСКРЫТИЯ ИНФОРМАЦИИ О РЕЗУЛЬТАТАХ ИНВЕСТИЦИОННОЙ ДЕЯТЕЛЬНОСТИ БАНКА

В статье исследуется влияние изменений в классификации финансовых инструментов и правилах раскрытия учетной информации на структуру финансовых отчетов банка. Обоснована необходимость модификации статей активов и примечаний, посвященных инвестициям в ценные бумаги, что связано с введением новой классификации финансовых инструментов. Определен перечень информации, которая должна быть подана в финансовых отчетах согласно с международными правилами учета. Предложено усовершенствованную структуру отчета о финансовом состоянии и примечаний, которые отвечают выдвинутым требованиям по признанию, оценке и раскрытию информации относительно финансовых инвестиций банка.

Ключевые слова: финансовая отчетность, отчет о финансовом состоянии, МСФО 9, МСФО 7, инвестиции в долговые ценные бумаги, инвестиции в долевые ценные бумаги.

Formulation of the Problem and its connection with important scientific and practical goals. Changes in financial instruments classification due to IFRS 9 have caused the necessity to change methods of both operating and final accounting for financial investment in debt and equity securities. Requirements and recommendations to financial report disclosures by the principles of IFRS 9, claimed in IFRS 7 "Financial instruments: disclosures". Information, recommended to be disclosed due to IFRS 7, covers large volume of financial data relating financial investment transactions comparing to those required to be disclosed in Instruction № 373. Practical implementation of IFRS

Committee recommendations concerning information disclosures in financial reports due to IFRS 7 and IFRS 9 has become a strong argument on behalf of changes in rules of financial information presentation due to Instruction № 373.

Latest researches analysis, relating Problem solution. Financial report structure and general requirements of international standards relating disclosures of financial information were researched in papers of many scientists and researchers, among which are L.P. Snigurska [1], O.V. Nebiltsova, R.S. Korshicova, L.I. Lukianenko, V.V. Chodzitska [2], P.A. Kondrashev [3], J.K. Nesterenko, N.S. Sivets [4]. P.A. Kondrashev paper is devoted to financial statements concepts and principles research, while J.K. Nesterenko work explains practical aspects of financial and segment reporting presentation. O.V. Nebiltsova, R.S. Korshicova, L.I. Lukianenko and V.V. Chodzitska pay their attention to principles and methods of financial statements preparation and also to the structure of statements and notes. L.P. Snigurska analyzes changes in IFRS relating information disclosures in financial reports and considers new structure of financial reports. Papers of the authors, mentioned above, are dedicated to the research of principles and methods of financial statements preparation and presentation for all classes of assets, liabilities and equities without reference to certain groups. Changes in financial instruments classification as well as new claims to financial instruments disclosure, have caused the necessity to modify the structure of financial statements of Ukrainian banks relating financial investments to improve qualitative and quantitative characteristics to answer international requirements.

The aim of the article. The aim of investigation refers to improvement of financial statements in accordance with rules and standards, determined in IFRS 7, taking into consideration changes in financial instruments classification, declared in IFRS 9.

The statement of the research with the scientific results grounding. The third phase of investments accounting in debt and equity instruments, which follows initial and subsequent accounting, is final accounting. This phase provides disclosure of accounting information, relating financial investment transactions, in financial report states. The procedure of financial statements preparation and reporting on securities transactions is determined in Instruction on financial statements preparation and reporting procedure for Ukrainian banks № 373. Summary information concerning financial investment is disclosed in states of Balance Sheet, Income statement, Cash flow statement and Notes.

To determine direction, taken to modify financial statements, first of all it's important to turn to factors, which affected such modifications. According to IAS 39 "Financial instruments: recognition and measurement", investments in securities are divided into three groups – held-to-maturity investments, financial assets at fair value through profit or loss and available for sale financial assets [5, p.9], which, according to Ukrainian methodic, determined in Instruction № 358, equal securities in held-to-maturity portfolio, securities in trading portfolio and securities in available-for-sale portfolio [6, p.3.1]. But according to IFRS 9 "Financial instruments", which replaces IAS 39, financial instruments are classified as "subsequently measured at either amortized cost or fair value" [7, p.4.1.1]. Changes in financial instruments classification has lead to necessity to change requirements to financial information, which must be disclosed in financial statements and thereby modify IFRS 7 "Financial instruments: disclosure". And since native banks followed Instructions №373 [8] rules, based on IAS 39 and IFRS 7 principles, to disclose information concerning investment operations, replacement of certain rules of financial information disclosure has lead to replacement of certain statements of this instruction.

Principal attention must be paid to Balance Sheet as the main source of information concerning bank investment transactions. According to IFRS 7, Balance sheet should disclose information on balance value of financial assets, measured at fair value through profit or loss [9, p.8a], balance value of financial assets at amortized cost [9, p.8d], balance value of financial assets at fair value through other comprehensive income [9, p.8e], fair value hierarchy for financial assets [9, p.27A], character and the level of risks, appearing after financial assets [9, p.33-42], information concerning financial assets, which are past due or impaired [9, p.37].

To comply new financial instruments classification and certain additional rules, determined in IFRS 9, investments in securities are proposed to classify by two groups: debt securities investments, measured either at amortized cost or fair value through profit or loss, and equity securities investments, measured at fair value through either profit or loss or other comprehensive income. According to new classification, it is proposed to replace four true states of Balance Sheet by two new states (Figure 1). It must be noted, that suggested notes and states are not assigned with serial number, as such specification

is not significant, so instead of fixed numbers they are assigned with symbols x_1 , x_2 and y_1 , y_2 accordingly.

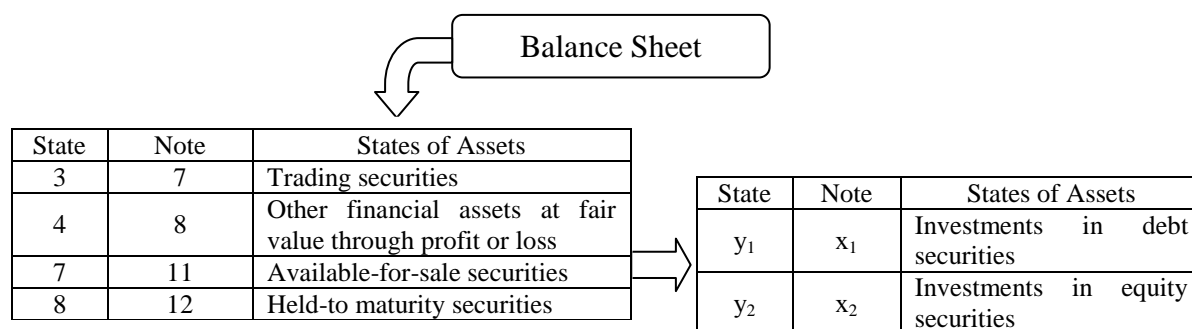


Figure 1. Suggested modifications of Balance Sheet states concerning investments in debt and equity securities

Every note, which refers to investment transactions, consists of several tables, which provide detailed information on results of investment operations with securities by different classification attributes (Table 1). Notes 7 “Trading securities” and 8 “Other financial assets, at fair value through profit or loss” include 3 tables each. The first table of both notes (Tables 7.1 and 8.1) provides information concerning the volume of purchased debt and equity securities for reporting and previous periods, while two following (7.2 and 7.3 and 8.2 and 8.3) show the results of debt securities creditworthiness for reporting and previous periods. Note 11 “Securities, available for sale” consists of 6 Tables, which provides information about issuers, creditworthiness (not past due and not impaired, past due but not impaired and impaired) and allowance accounts for securities impaired by credit losses. Note 12 “Securities, held to maturity” discloses information by similar to the previous one breakdowns, excluding one characteristic – shares in available-for-sale portfolio are considered on issuer breakdown in Table 11.6 “Basic investments in shares and other variable-income instruments in available-for-sale portfolio”. Note 12 doesn’t consist such information, as variable-income securities are not placed in held-to-maturity portfolio.

Table 1

The structure of Balance Sheet notes concerning investment activity results due to Instruction № 373

Note	Table
Note 7 “Trading securities”	Table 7.1 «Trading securities»
	Table 7.2 «The analysis of trading securities creditworthiness in reporting period»
	Table 7.3 «The analysis of trading securities creditworthiness in previous period»
Note 8 “Other securities at fair value through profit or loss”	Table 8.1 «Other securities at fair value through profit or loss»
	Table 8.2 «Creditworthiness analysis of other securities at fair value through profit or loss in reporting period»
	Table 8.3 «Creditworthiness analysis of other securities at fair value through profit or loss in previous period»
Note 11 “Securities in available-for-sale portfolio”	Table 11.1 «Securities in available-for-sale portfolio»
	Table 11.2 «Creditworthiness analysis of debt securities in available-for-sale portfolio in reporting period»
	Table 11.3 «Creditworthiness analysis of debt securities in available-for-sale portfolio in previous period»
	Table 11.4 «Allowance changes for impaired securities in available-for-sale portfolio in reporting period»
	Table 11.5 «Allowance changes for impaired securities in available-for-sale portfolio in previous period»
	Table 11.6 «Basic investments in shares and other variable-income instruments in available-for-sale portfolio»

1	2
Note 12 «Securities in held-to-maturity portfolio»	Table 12.1 «Securities in held-to-maturity portfolio»
	Table 12.2 «Allowance variance for impaired securities in held-to-maturity portfolio in reporting period»
	Table 12.3 «Allowance variance for impaired securities in held-to-maturity portfolio in previous period»
	Table 12.4 «Creditworthiness analysis of debt securities in held-to-maturity portfolio in reporting period»
	Table 12.5 «Creditworthiness analysis of debt securities in held-to-maturity portfolio in previous period»

Accordingly, the structure of Balance Sheet notes, determined in Instruction № 373, does not correspond with requirements for financial instruments disclosure, determined in IFRS 7. In turn, suggested notes «Investments in debt securities» and «Investments in equity securities» are composed considering requirements, determined in international accounting standards.

Suggested to introduction state y_1 «Investments in debt securities» contains information concerning investments in debt securities with breakdown in 8 Tables (Table 2).

Table 2

Suggested to introduction structure of Balance Sheet notes concerning investment activity results of the Bank due to IFRS 7 and IFRS 9

Note	Table
Note x_1 «Investments in debt securities»	Table $x_{1.1}$ «Investments in debt securities: issuer breakdown»
	Table $x_{1.2}$ «Investments in debt securities for reporting period: listing and method of measurement breakdown»
	Table $x_{1.3}$ «Investments in debt securities for previous period: listing and method of measurement breakdown»
	Table $x_{1.4}$ «Investments in debt securities due to levels of inputs, used to measure fair value»
	Table $x_{1.5}$ «Debt securities creditworthiness analysis for reporting period»
	Table $x_{1.6}$ «Debt securities creditworthiness analysis for previous period»
	Table $x_{1.7}$ «Analysis for allowance variance for impaired investments in debt securities in reporting period»
	Table $x_{1.8}$ «Analysis for allowance variance for impaired investments in debt securities in previous period»
Note x_2 «Investments in equity securities»	Table $x_{2.1}$ «Investments in equity securities: issuer breakdown»
	Table $x_{2.2}$ «Investments in equity securities for reporting period: listing and method of measurement breakdown»
	Table $x_{2.3}$ «Investments in equity securities for previous period: listing and method of measurement breakdown»
	Table $x_{2.4}$ «Investments in equity securities due to levels of inputs, used to measure fair value»
	Table $x_{2.5}$ «Analysis for allowance variance for impaired investments in equity securities in reporting period»
	Table $x_{2.6}$ «Analysis for allowance variance for impaired investments in equity securities in previous period»
	Table $x_{2.7}$ «Analysis for investments in equity securities by impairment criteria in reporting period»
	Table $x_{2.8}$ «Analysis for investments in equity securities by impairment criteria in previous period»
	Table $x_{2.9}$ «Information about basic issuers of equity securities»

Theoretically tables of the note x₁ “Investments in debt securities” are divided into two groups – tables 1-4 contain information concerning debt securities investments for several classification features (Table 2).

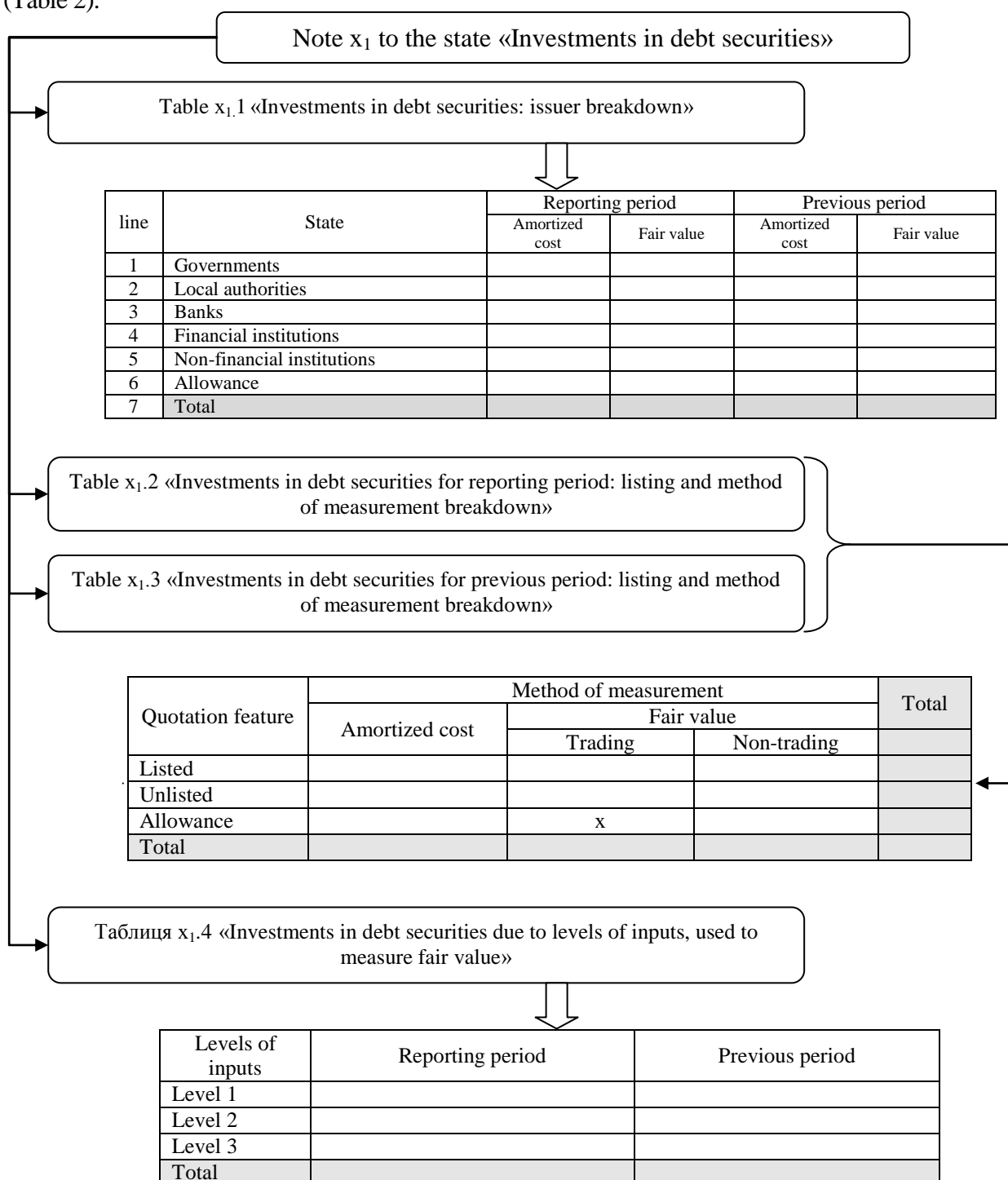


Table 2. The structure of Tables 1-4 to the Note x₁ «Investments in debt securities» of the Balance Sheet

Table x_{1.1} «Investments in debt securities: issuer breakdown» represents information concerning all issuers of these securities, determined in Chart of accounts, indicating method of subsequent measurement – amortized cost or fair value – for each issuer: governments, local authorities, banks, non-banking financial institutions and non-financial companies. Information in this table is represented in reporting and previous period breakdown. In Tables x_{1.2} and x_{1.3} investments are considered by their quotation on the stock exchange (listed or unlisted) and method of subsequent measurement, moreover instruments, measured at amortized cost, are classified as trading and non-trading securities (mentioned classification has become important since trading instruments are not analyzed for

impairment and are not the subject for allowances). The only difference between these two Tables is in reporting periods - table x_{1.2} contains information for reporting period, while table x_{1.3} is devoted to the previous one. Table x_{1.4} «Investments in debt securities due to levels of inputs, used to measure fair value» is composed with references to requirements of IFRS 13 «Fair value measurement» concerning classification of inputs, used to determine fair value of financial assets, by 3 levels [46, p.72-90], and standards of IFRS 7 «Financial instruments: disclosure» concerning requirements to disclose this classification in financial statements [44, p. 27A].

The second group of Tables discloses information concerning consequences of risk effect on investments impairment and volume of allowances. Table x_{1.5} and x_{1.6} (Table 3) are devoted to creditworthiness analysis of investments in reporting and previous periods by issuers and methods of measurement breakdown. Investments are analyzed by past due and impairment criteria and are divided into three groups: not past due and not impaired, past due but not impaired and impaired. Separate state of the Table is devoted to the sum of allowance to cover impairment losses.

Table3

Structure of the Table 5(6) «Debt securities creditworthiness analysis for reporting (previous) period» of the Note x₁

line	State	Issuer				
		Governments	Local authorities	Banks	Financial institutions	Non-financial institutions
for investments, measured at fair value:						
1	Not impaired and not past due					
2	Past due:					
2.1	delayed payments to 31 days					
2.2	delayed payments to 32-92 days					
2.3	delayed payments to 93-183 days					
2.4	delayed payments to 184-365(366) days					
2.5	delayed payments over 366 (367) days					
3	Impaired:					
3.1	delayed payments to 31 days					
3.2	delayed payments to 32-92 days					
3.3	delayed payments to 93-183 days					
3.4	delayed payments to 184-365(366) days					
3.5	delayed payments over 366 (367) days					
4	Allowances					
5	Total					
for investments, measured at amortized cost:						
4	Not impaired and not past due					
5	Past due:					
5.1	delayed payments to до 31 days					
5.2	delayed payments to 32-92 days					
5.3	delayed payments to 93-183 days					
5.4	delayed payments to 184-365(366) days					
5.5	delayed payments over 366 (367) days					
6	Impaired:					
6.1	delayed payments to до 31 days					
6.2	delayed payments to 32-92 days					
6.3	delayed payments to 93-183 days					
6.4	delayed payments to 184-365(366) days					
6.5	delayed payments over 366 (367) days					
7	Allowances					
8	Total					

Tables x_{1.7} and x_{1.8} are devoted to the disclosure of information concerning analysis of allowance changes for impaired debt instruments in reporting and previous periods (Table 4). Analysis is performed for investments, measured at amortized cost or fair value by issuer breakdown. Remainder at the end of the period equals difference between the sum of remainder at the beginning of the period and variance during the period, and written offs by allowance sum.

Table 4

Structure of the Table 7(8) «Analysis for allowance variance for impaired investments in debt securities for reporting (previous) period» of the Note x_1

line	Issuer	Allowances variance			
		Reminder at the beginning of the period	Variance during the period	The sum, canceled by allowance	Reminder at the end of the period
for investments, measured at fair value:					
1	Governments				
2	Local authorities				
3	Banks				
4	Financial institutions				
5	Non-financial institutions				
for investments, measured at amortized cost:					
6	Governments				
7	Local authorities				
8	Banks				
9	Financial institutions				
10	Non-financial institutions				

Principles, applied to build Note x_1 , are also used in creation of Note x_2 to the state “Investments in equity securities”. Table $x_{2.1}$ contains information concerning investment operations with equities for three groups of issuers (banks, financial institutions, other issuers) disclosing the method of measurement for each issuer (fair value through profit or loss and fair value through other comprehensive income). Tables $x_{2.2}$ та $x_{2.3}$ are devoted to investment results disclosure by characteristics of listing on the stock exchange, methods of measurement and trading features for reporting and previous periods consequently (Figure 3). Requirements to disclose information concerning investments in equities separately for instruments, measured through profit or loss and through other comprehensive income, are determined in paragraph 8 of IFRS 7.

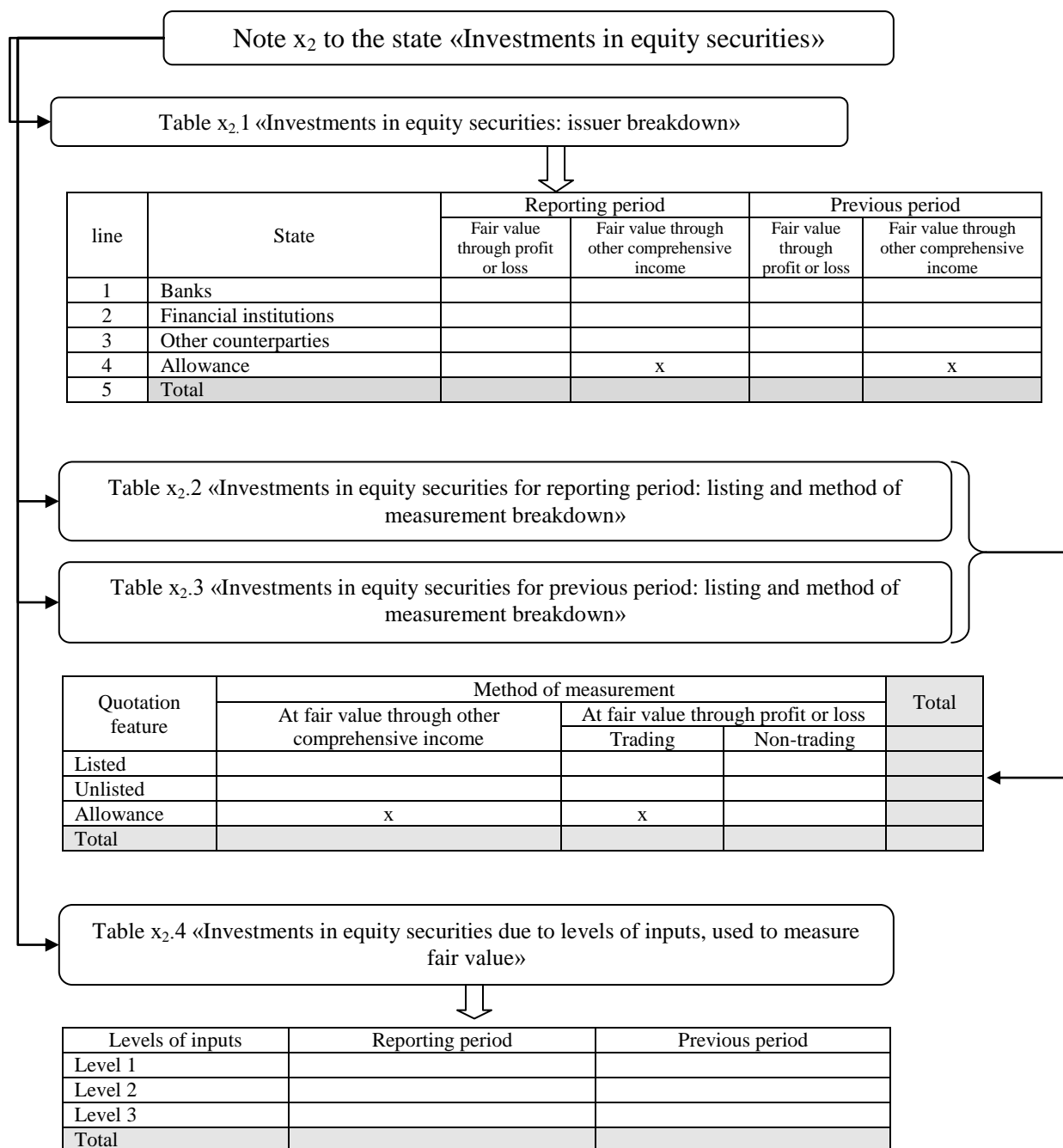


Рис. 3. The structure of Tables 1-4 to the Note x₂ «Investments in equity securities» of the Balance Sheet

Information in Tables x_{2.5} and x_{2.6} (Figure 4) characterizes allowance variance for non-trading equity instruments through other comprehensive income. In Table x_{2.7} «Analysis for investments in equity instruments for criteria of impairment in reporting period» and x_{2.8} «Analysis for investments in equity instruments for criteria of impairment in previous period» investments are divided into two groups – those not reviewed for impairment and the one, been impaired. Moreover, the second group is considered with reference to the sum of allowances, build to cover credit losses.

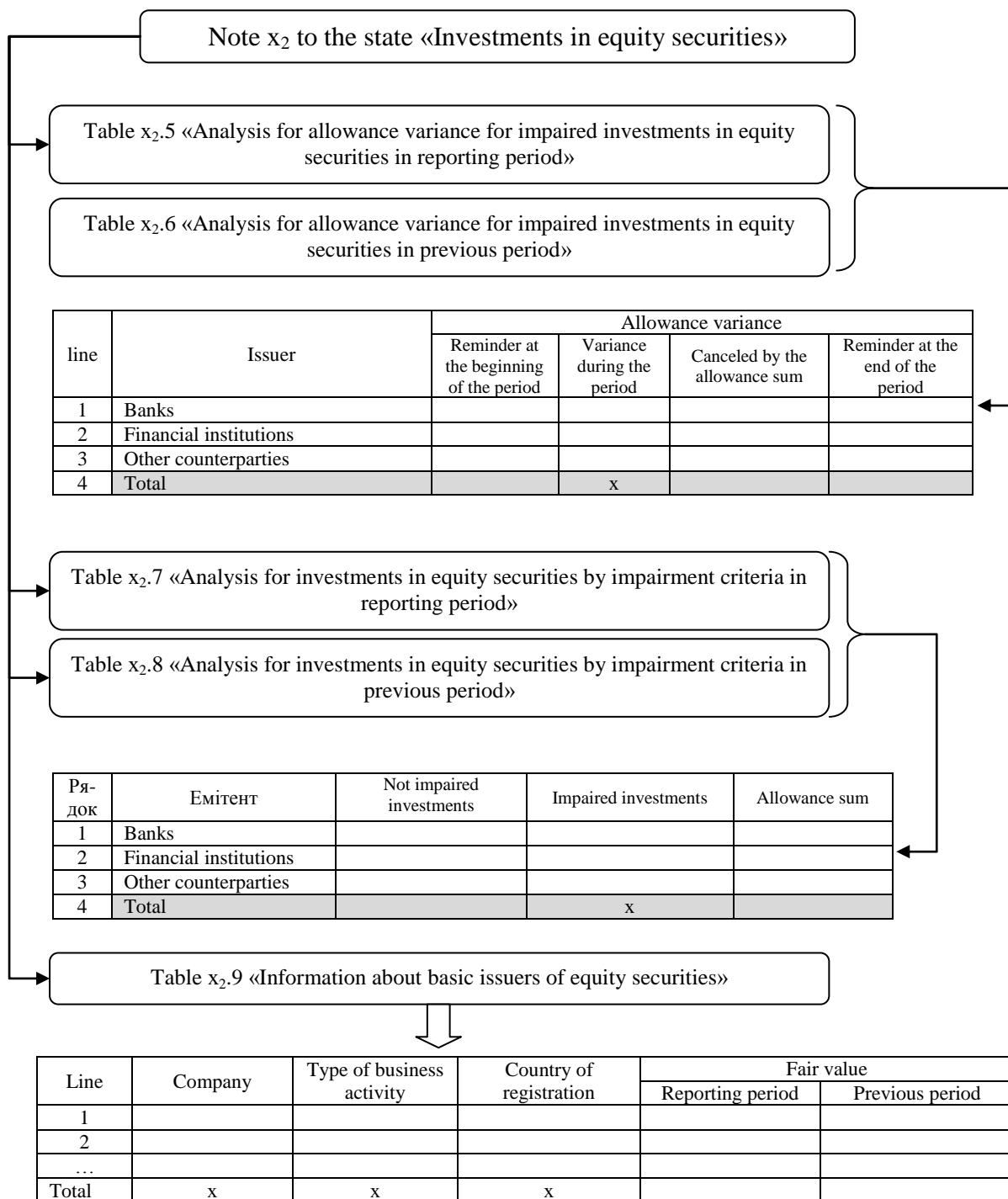


Figure 4. The structure of Tables 5-9 to the Note x₂ «Investments in equity securities» of the Balance Sheet

It must be noticed, that Table x_{2.9} «Information about basic issuers of equity securities» and 11.6 «Basic investments in shares and other variable-income instruments in available-for-sale portfolio» of actual Note 11 have similar structure.

Thereby, requirements to information disclosure in financial statements, determined in IFRS 7, can be implemented only by changing the structure of actual financial reports. Suggested in the article structure of Balance Sheet states and Notes is build in accordance with all standards and requirements to reporting information disclosure (Table 5).

Performance of the requirements concerning financial information on investment transaction disclosure due to IFRS 7

p. IFRS 7	Requirement to disclosure	Requirement performance
1	2	3
8a	Disclosure of the balance value of financial assets, measured at fair value through profit or loss	Note x ₁ «Investments in debt securities»: Table x _{1.1} , Table x _{1.2} , Table x _{1.3} Note x ₂ «Investments in equity securities»: Table x _{2.1} , Table x _{2.2} , Table x _{2.3}
8д	Disclosure of the balance value of financial assets, measured at amortized cost	Note x ₁ «Investments in debt securities»: Table x _{1.1} , Table x _{1.2} , Table x _{1.3}
8е	Disclosure of the balance value of financial assets, measured at fair value through other comprehensive income	Note x ₂ «Investments in equity securities»: Table x _{2.1} , Table x _{2.2} , Table x _{2.3}
27A	Disclosure of fair value hierarchy for financial assets	Note x ₂ «Investments in equity securities»: Table x _{1.4} , Table x _{2.4}
37	Disclosure of information concerning past due or impaired financial assets	Note x ₁ «Investments in debt securities»: Table x _{1.5} , Table x _{1.6}

Conclusion. The article focuses on the main requirements to information disclosure concerning financial instruments. The author suggested improved structure of Balance Sheet, which answers all requirements of IFRS 7 to qualitative and quantitative disclosures concerning financial investment results. Four states of Balance Sheet - state 7 «Trading securities», 8 «Other financial assets at fair value through profit or loss», 11 «Securities in available-for-sale portfolio» and 12 «Securities in held-to-maturity portfolio» are suggested to be replaced by two states - «Investments in debt securities» and «Investments in equity securities», which correspond with requirements to financial instruments classification due to IFRS 9. Similar modifications refer to notes, which are suggested to be build in accordance with new reporting standards.

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