

# Department of Treasury and Finance

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Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
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UNITED KINGDOM

Dear Sir David

## **EXPOSURE DRAFT 169 IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS: PROPOSED AMENDMENTS TO IFRS 7**

Thank you for the opportunity to comment on the International Accounting Standards Board's Exposure Draft 169 *Improving Disclosures about Financial Instruments: Proposed Amendments to IFRS 7*. I am attaching for your information a copy of the Heads of Treasuries Accounting and Reporting Advisory Committee's comments on Exposure Draft 169. HoTARAC supports the proposal to enhance disclosures about fair value measurements and the liquidity risk of financial instruments.

HoTARAC notes however, that there needs to be greater clarity regarding the relationship between these proposals and the recently issued IASB Expert Advisory Panel Report *Measuring and Disclosing the Fair Value of Financial Instruments in Markets that are No Longer Active*. Although the Report states that it is only intended to be "educational" and not mandatory, HoTARAC believes that the IASB needs to carefully consider how issuing "expert" guidance that does not constitute a Standard or Interpretation fits within the accounting hierarchy.

If you have any queries regarding HoTARAC's comments, please contact Robert Williams on 612 9228 3019 or Dianne McHugh on 612 9228 5340 from the New South Wales Treasury.

Yours sincerely

D W Challen

**CHAIR**

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE**

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Encl

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## COMMENTS – EXPOSURE DRAFT *IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS*

### Background comments

HoTARAC supports the proposals to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. However, in doing so HoTARAC believes that there needs to be greater clarity regarding the relationship between these proposals and the recently issued IASB Expert Advisory Panel Report *Measuring and Disclosing the Fair Value of Financial Instruments in Markets that are No Longer Active* and the IASB Staff Summary of that Report.

Specifically, the Expert Advisory Panel Report includes a section on possible disclosures, some of which have been incorporated as part of the Exposure Draft and some of which have not. It is unclear whether all the disclosures discussed in the Report were reviewed by the IASB in issuing the Exposure Draft and on what basis some disclosures were included in the Exposure Draft and some were not. The IASB process in developing the ED, including the basis for including or excluding certain disclosures, should be made transparent in the IFRS 7 amendments. In HoTARAC's view, the onus should be on the IASB to demonstrate that any proposed disclosures are useful and appropriate (rather than just aligning with other guidance or US FASB requirements).

Also, the release of a document by the IASB Expert Advisory Panel alongside an Exposure Draft or Standard may lead to confusion regarding its status. Although it is clear that the Panel Report is only intended to be educational and not mandatory, the profile of the Report is such that there is a risk that it might be regarded as part of the hierarchy of accounting pronouncements. Commentators have already expressed concern that regulators and auditors will require the disclosures even though the document says they are not mandatory.

The IASB needs to very carefully consider how issuing expert guidance that does not constitute a Standard or Interpretation fits within the hierarchy. HoTARAC does not support, for example, the proliferation of pronouncements that exist in the United States (which includes Standards, Concepts, Interpretations, Staff Positions, Technical Bulletins and Abstracts).

Other detailed comments on the specific questions raised by the IASB are outlined below.

### Fair value disclosures

***Question 1: Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why not?***

In principle, HoTARAC agrees with categorising fair value based on the type of valuation inputs. However, HoTARAC is concerned that by referring to a "fair value hierarchy" and "levels 1, 2 and 3", this could increase confusion about the relationship between:

- the IAS 39 fair value guidance (which does not explicitly refer to levels 1, 2 and 3)
- the proposed IFRS 7 requirements which explicitly refers to levels 1, 2 and 3 (and uses IAS 39 terminology, even though IAS 39 does not explicitly refer to the levels), and

- the fair value hierarchy in the United States' Statement of Financial Accounting Standards SFAS 157 *Fair Value Measurements* (which uses levels 1, 2 and 3 but different terminology).

Instead, HoTARAC believes that a similar outcome can be achieved by describing the different measurement categories to be disclosed (e.g. quoted prices in active markets for the same instrument), without making any reference to "levels" and "fair value hierarchy", which has a strong SFAS 157 connotation. There should also be a reference in IFRS 7 to IAS 39, so the source of the different valuation techniques is made clear.

Ideally, any fair value hierarchy should be explicitly included in IAS 39, the Standard on recognition and measurement, and this should flow through to IFRS 7, the Standard on disclosures. It is acknowledged, however, that this is not currently possible without pre-empting other IASB projects.

**Question 2: Do you agree with the three level fair value hierarchy as set out in paragraph 27A? If not why? What would you propose instead, and why?**

See response to question 1 above. In addition, the requirement to classify each class into the level in the fair value hierarchy in which they are categorised "in its entirety" (paragraph 27A) may be confusing to understand. This could be clarified by stating that the level of the fair value hierarchy must be determined based on the lowest level input that is significant to the fair value measurement in its entirety (as is done in SFAS 157, paragraph 21).

**Question 3: Do you agree with the proposals in:**

- paragraph 27B to require expanded disclosures about fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?**
- Paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?**

Yes, subject to the comments made in response to question 1 above. In addition, clarification should be made whether the reference to "net" in paragraph 27B(b)(iii) is in regard to settlements only or whether the ED is referring to a net basis for purchases, sales, issues and settlements collectively.

## **Liquidity risk disclosures**

**Question 4: Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?**

HoTARAC agrees with the proposed derivative liquidity risk disclosure based on how the entity manages the liquidity risk. However, HoTARAC believes that the derivative disclosure requirement should be on a total derivatives basis (i.e. applicable to derivative financial assets and derivative financial liabilities). This is because from period to period, derivatives may move from being a financial asset to a financial liability, and vice versa. As such, derivatives are generally managed on an overall basis; i.e. the asset and liability positions together. Therefore, requiring disclosures only in respect of the financial liability derivatives would be incomplete.

**Question 5: Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?**

Yes. However, it is unclear why additional disclosure is required for non-derivative financial liabilities of the contractual maturities, even where the financial instrument is not managed on that basis. The difference in approach for non-derivatives compared to derivatives should be explained in the basis for conclusions.

**Question 6: Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?**

Yes.

#### **Effective date and transition**

**Question 7: Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?**

Yes.

**Question 8: Are the transition requirements appropriate? If not, why? What would you propose instead, and why?**

Yes.

#### **Other Comments**

##### ***Disclosures by class***

A number of the proposed disclosure requirements are by class. However, the illustrative examples are disclosed by category (e.g. “available for sale” etc - refer IG13A and IG13B). Although paragraph IG13A acknowledges that disclosures by class would also be required but are not included in the example, HoTARAC believes that illustrative disclosures should illustrate the requirements (i.e. by class and not by category, as required by paragraph 27B in the ED).

##### ***Liquidity risk – undiscounted cash flows***

The Appendix B application guidance clarifies that for disclosure of contractual maturities, the cash flows are undiscounted (paragraph B11D). However, there is no reference to whether the cash flows referred to in paragraph 39(b) of the ED are discounted or undiscounted where the disclosure relates to expected maturities. It is also unclear why Appendix B, paragraph B14 was omitted as it gives some good examples of contractual undiscounted cash flows, which are still relevant.