

11 December 2008

International Accounting Standards Board
30 Cannon Street
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UNITED KINGDOM

commentletters@iasb.org.uk

Dear Sir/Madam

“Improving Disclosures about Financial Instruments”

The Finance & Treasury Association (FTA) is an association representing the views of finance and corporate treasury professionals in Australia. The FTA is pleased to provide comments on the Exposure Draft.

The FTA is concerned about the volume, detail and complexity of the disclosure requirements in IFRSs and believes that the IASB should assess its disclosure regime against a set of principles developed for the purpose rather than to continue the present practice of adding disclosure requirements in isolation.

The FTA considers that the IASB should reassess whether the full requirements of IFRS 7 Financial Instruments: Disclosures are appropriate for all companies. The genesis of IFRS 7 as an industry-based disclosure standard for financial institutions continues to raise questions about the relevance and usefulness of the disclosures to the operations of other companies. A number of members that have implemented Australian IFRS consider the level of disclosure required by IFRS 7 are unwarranted for companies not engaged in the financial services industry. Whilst IFRS 7 requires a number of good disclosures, especially in volatile markets, we believe that the board should reassess the relevance of each IFRS 7 disclosure to entities that are not financial institutions.

While the FTA finds Application Guidance to the Standard useful, the Board should be cognisant that contrary to the status of Application Guidance, examples such as that included in paragraph B11 tend to become requirements in their own right. The FTA is concerned that guidance such as that provided in paragraph B11 prevents “through the eyes of management” disclosure and recommends that the Board reconsider the inclusion of this guidance.

Fair value disclosures

Q1. *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?*

Yes. An analysis of reported fair values, reflecting the significance of inputs used to measure fair value, enables the presentation of financial assets and liabilities to meet the following objectives: (i) sufficient

granularity is provided to enable readers to understand the “quality” of reported fair values; combined with (ii) a structured approach to grouping information in a manner which is understandable to users with varying degrees of familiarity with valuation issues.

The proposed additional disclosures which are consistent with the current practice of banks and financial institutions and other entities that are US registrants also contributes to the objective of convergence with the US requirements.

Further, the standardised presentation proposed in paragraph 27A also enhances comparability (see question 2 below).

Q2. *Do you agree with the three-level value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?*

The standardised presentation enhances comparability while contributing to the objective of achieving convergence with the US requirements.

Q3. *Do you agree with the proposals in:*

a. paragraph 27B to require expanded disclosures about the fair value measurements recognized in the statement of financial position? If not, why? What would you propose instead, and why?

The FTA does not support the requirement in paragraph 27B(b) to provide a reconciliation in respect of instruments measured under Level 3 of the fair value hierarchy because the cost and burden of collecting and presenting such a reconciliation far outweighs its potential to provide useful information to users. Paragraph 27B(c) should provide users with sufficient information to ascertain the impact/exposure in the income statement of unrealized valuation gains based on unobservable inputs.

The FTA also considers that the requirements of paragraph 27B (e) will impose burdens as this information is not presently collected and analysed. The continuous tracking of every financial instrument's fair value hierarchy basis, so as to disclose each financial instrument's movement between different levels of the hierarchy, introduces an unnecessarily burdensome level of complex disclosure that adds little value to the existing balance sheet disclosures.

All new requirements in paragraph 27B will result in an incremental administrative burden associated with collecting and presenting the required information, without providing sufficient benefits to the users of the financial statements to justify the cost. On balance, a preferred approach would be for the entity to determine the appropriate granularity of disclosures accompanying L3 items, based on its particular facts and circumstances.

In addition, the FTA notes that illustrative example IG13A which addresses paragraphs 27 and 28 may be potentially confusing and, as such, create uncertainty in practice. IFRS 7 requires disclosures to be made by "class" of financial instrument. IG13A provides a tabular disclosure by balance sheet categories and states that "disclosure by class of financial instrument would also be required, but are not included in the following example". Thus IG13A could appear to imply that a preparer is also required to present the information by balance sheet category of financial instrument, which is currently not included in the standard.

- b. *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?*

The FTA does not support the requirements in paragraph 27C to extend the detailed fair value hierarchy disclosures to include instruments which are not measured at fair value. The level of sophistication and modeling techniques required to produce hierarchy-specific fair values for the significant portion of financial instruments which are not measured at fair value, will create an unreasonable burden, and may result in unreliable disclosures. The unnecessary, yet costly, additional disclosures would be of little relevance to users. In addition, these disclosures conflict with the fundamental approach of IFRS 7 to present risks "through the eyes of management". With regard to assets and liabilities carried at amortised cost, management is concerned predominantly about assets not losing value through impairment, and about the ability to meet obligations on the financial liabilities as they fall due.

Liquidity risk disclosures

- Q4.** *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?*

Yes. The FTA believes that making disclosures based on how the entity manages its liquidity risk better communicates its activities and aspects of its performance to users than requirements that do not take account of how the business is managed.

Therefore, if an entity manages liquidity on the basis of contractual maturities the maturity profile should be presented on that basis. Similarly, for those cases where liquidity risk is managed on the basis of fair value or expected maturities then this basis should be used for disclosure purposes.

- Q5.** *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. The FTA believes that making disclosures based on how the entity manages its liquidity risk better communicates its activities and aspects of its performance to users than requirements that do not take account of how the business is managed.

Q6. *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

Q7. *Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?*

Australian entities with annual reporting periods ending 30 June are already half way through the comparative financial period and because of the complexity of certain requirements, such as the reconciliations of movements, it may not be feasible to determine the split between realised and unrealised gains and losses, for this period.

The FTA proposes that the effective date be delayed, or that comparative data not be required for disclosures where it is not practical to obtain the comparative data.

Q8. *Are the transition requirements appropriate? If not, why? What would you propose instead, and why?*

The provision of comparative information is likely to impose a cost burden on entities with little benefit from the information being provided. This would be particularly so for the vast majority of Australian entities that have annual reporting periods commencing on 1 July 2009 because the beginning of the comparative period predates the issue of this Exposure Draft.

Yours sincerely



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