

Ref: 410-010 / #106094

20 November 2008

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Advance copy by electronic submission via [www.iasb.org](http://www.iasb.org)

Attention: Mr Alan Teixeira

Dear Alan

**EXPOSURE DRAFT *IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS – PROPOSED AMENDMENTS TO IFRS 7***

1. Please find attached the Securities Commission's submission on Exposure Draft *Improving Disclosures about Financial Instruments – Proposed Amendments to IFRS 7*.
2. If you wish to discuss further any of the matters raised in our submission, please contact Lay Wee Ng, Senior Accountant – Financial Reporting ([lay.wee.ng@seccom.govt.nz](mailto:lay.wee.ng@seccom.govt.nz)).

Yours sincerely



Jane Diplock AO  
Chairman

**SECURITIES COMMISSION'S SUBMISSION ON EXPOSURE DRAFT  
IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS – PROPOSED  
AMENDMENTS TO IFRS 7**

**General comments**

1. The Securities Commission supports the work of the International Accounting Standards Board (IASB) in seeking to enhance disclosures about fair value measurements and the liquidity risk of financial instruments, especially in the present market conditions.
2. The Securities Commission, like other similar market regulators, has an interest in ensuring that markets receive all material and relevant information so that market participants are not misled. We consider that enhancing disclosures about fair value measurements and the liquidity risk of financial instruments will assist in this regard.

**Specific Comments**

**Fair value disclosures**

3. We agree with the proposed amendment to paragraph 27 and the addition of paragraphs 27A-27C to IFRS 7. We agree with the proposals to require the disclosure of fair value information about financial instruments based on the fair value hierarchy. We consider that the proposed disclosures provide useful information to users about the fair value measurements that are used by an entity.

**Liquidity risk disclosures**

4. Proposed paragraph 39(b) requires an entity to disclose:

*“a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities for such financial liabilities. If the entity manages liquidity on the basis of expected maturities, it also shall disclose the remaining expected maturities for those financial liabilities.”*

5. We appreciate that IFRS 7 applies to all entities. We acknowledge that it is possible that where non-derivative financial liabilities do not form a significant part of an entity's capital structure or funding, the entity may not manage the liquidity risks of those liabilities on the basis of expected maturities. In that context, proposed paragraph 39(b) may be adequate by requiring entities to disclose an expected maturities analysis (in addition to a contractual maturities analysis) only if those entities manage the liquidity risks of their non-derivative financial liabilities on the basis of expected maturities.
6. However, for entities, especially financial institutions, where non-derivative financial liabilities form a significant portion of the entity's capital structure/funding, we consider that paragraph 39(b) is not adequate. For such entities, we would expect that they manage the liquidity risks of their financial liabilities on an expected maturities basis. We consider that for entities, especially financial institutions, where

non-derivative financial liabilities form a significant portion of the entity's capital structure, an expected maturities analysis should always be required to be provided (in addition to a contractual maturity analysis) where the information based on an expected basis is materially different from that based on a contractual maturities basis.

7. The IASB may be aware that the New Zealand equivalent to IFRS 7 (NZ IFRS 7) requires additional disclosures by financial institutions. These are contained in Appendix E *New Zealand-specific Additional Disclosure Requirements Applicable to Financial Institutions*.
8. Paragraph 20 of Appendix E to NZ IFRS 7 contains a similar requirement to that currently proposed by the IASB in paragraph 39(b) of its ED for an expected maturity analysis to be disclosed by a financial institution (in addition to a contractual maturity analysis) for both financial assets and financial liabilities. Like the proposed paragraph 39(b), the circumstances for when an expected maturity analysis is required to be disclosed is predicated on “[w]here a financial institution manages liquidity risk on the basis of expected maturity dates and where the disclosures required by this Standard (including this appendix) do not provide sufficient information for users of the financial institution’s financial statements to evaluate the nature and extent of liquidity risk arising from the financial institution’s financial instruments, ...”
9. In the course of our work, we have encountered a situation where a financial institution has disclosed the required contractual maturity analysis for its financial assets and financial liabilities and has alluded to some “other” basis for managing liquidity risk. As a result, it has not disclosed an expected maturity analysis notwithstanding that correspondence with us indicates that there is a material difference in timing and amounts of the inflows and outflows of financial assets and financial liabilities between the contractual and expected analyses. While we have not surveyed all financial institutions in New Zealand for compliance with paragraph E20, Appendix E, we suspect that there is widespread non-disclosure of expected maturity analyses.
10. We highlight our New Zealand experience to illustrate to the IASB that while the proposed amendment to paragraph 39(b) is an improvement over the existing requirements, the paragraph can be further improved through explicitly requiring the disclosure of an expected maturity analysis under the prescribed circumstance.
11. We consider the quantitative information on expected maturities to be a critical disclosure for those entities, especially financial institutions, where non-derivative financial liabilities form a significant portion of the entity’s capital structure/funding. We consider that its disclosure should be explicitly prescribed. If the disclosure requirement for an expected maturity analysis for such entities continues to be predicated on whether their liquidity risks are being managed on that basis, it is easy for an entity to opt out of disclosing the information.
12. We are making a similar submission to the Financial Reporting Standards Board (FRSB) in New Zealand on its proposals to amend NZ IFRS 7 as a consequence of IASB’s current proposals to amend IFRS 7. As Appendix E of NZ IFRS 7 contains

New Zealand-specific material applying only to financial institutions, we are urging the FRSB to consider our proposals and include the additional requirement for financial institutions to ensure that critical quantitative information on liquidity risk management is provided to users.

13. In the event that the IASB adopts proposed paragraph 39(b) substantially as proposed in the ED, we suggest that the paragraph at least be reworded for clarity to ensure that it applies to the management of liquidity risks of the non-derivative financial instruments, as intended. We propose the following, proposed additional words as underlined:

*“a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities for such financial liabilities. If the entity manages the liquidity risks of these liabilities on the basis of expected maturities, it also shall disclose the remaining expected maturities for those financial liabilities.”*

14. We note that in proposing to require entities to provide quantitative disclosures based on how they manage liquidity risk for derivative financial liabilities, the IASB states, in its Basis for Conclusions:

*“The Board was informed that most entities do not manage liquidity risk associated with derivative financial liabilities on the basis of remaining contractual maturities. Thus, the existing requirement to disclose derivative financial liabilities on the basis of remaining contractual maturities was difficult to apply and did not result in useful information for users on how many entities manage liquidity risk for such instruments.”* (para BC10)

15. We think that the above statement is even more pertinent for financial institutions. To this extent, in the event that proposed paragraph 39(b) is adopted substantially as proposed in the ED we suggest that IFRS 7 includes either commentary or application guidance to the effect that:
- (a) it is expected that financial institutions would manage the liquidity risks of their financial assets and financial liabilities on an expected maturity basis; and
  - (b) financial institutions are expected to disclose an expected maturity analysis for its financial assets and financial liabilities where those maturities are materially different from the contracted maturity analysis.
16. In relation to paragraph B11B, we suggest that the second sentence “*For example,...*” be move to the end of paragraph B11B as it is relevant only to those entities presenting an expected maturities analysis whereas the first and third sentences are relevant to entities presenting both contractual and expected maturities.
17. Our responses to the questions from the IASB Discussion Paper follow.

## Responses to IASB questions

### 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?*

We agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy.

#### **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?*

We agree with the three-level fair value hierarchy as set out in paragraph 27A.

#### **Question 3**

*Do you agree with the proposals in:*

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

We agree with the proposals in paragraphs 27B and 27C to require expanded disclosures about the fair value measurements recognised in the statement of financial position and 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.

### 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?*

We 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.

#### **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?*

See our comments in the section **Specific Comments** (paragraphs 4 to 16) above.

**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?*

We agree with the amended definition of liquidity risk in Appendix A.

**Effective date and transition**

**Question 7**

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

We agree with the proposed effective date.

**Question 8**

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

We agree that the transition requirements are appropriate.