



December 5, 2008

CLIFF #: 182761
Website: www.iasb.org
280-20

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David Tweedie:

RE: Exposure Draft re Improving Disclosures About Financial Instruments

Thank you for the opportunity to comment on the Exposure Draft regarding Improving Disclosures about Financial Instruments. Please see the attached document for our response to the specific questions posed in the exposure draft.

General Comments

Although we agree with the expanded note disclosure requirements of financial instruments in the supplementary notes to the financial statements, we would like to reiterate our concern that we stated in our response letter on September 19, 2008, regarding Reducing Complexity in Reporting Financial Instruments.

The Accounting Standards Board of Canada has approved the adoption of International Financial Reporting Standards (IFRS) effective for year ends beginning on or after January 1, 2011. The Public Sector Accounting Board (PSAB) also confirmed that government business enterprises (GBE) and other government business type organizations (GBTOs) must adopt IFRS effective January 1, 2011. The adoption of IFRS will directly affect the government financial reporting of the Province of British Columbia as GBE's financial statements are consolidated in the public accounts on the modified equity basis.

The Province of British Columbia does not engage in speculative trading activities. Derivative instruments are used to hedge interest rate and currency risks associated with

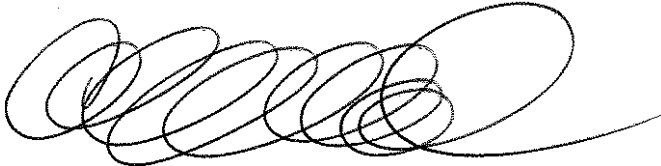
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the existing debt portfolio and new borrowings. Most of the governments' financial instruments are held to maturity. Immediate recognition of unrealized gains and losses in the GBE's financial statements could lead to artificial volatility on the government's bottom line. This could mislead the public in terms of the government's performance and funding ability. For example, in a year where substantial unrealized gains are recognized, it could be interpreted that the government has funding available for new programs when it does not. These inflated surpluses or deficits could lead to poor decision-making by readers and stakeholders.

We recognize that fair value is useful information, and therefore we believe that the appropriate place to identify market risk is in the notes to the financial statements. We also recommend that financial instruments should be recorded at the lower of cost or market in the financial statements as this is a more conservative approach for measuring financial instruments that are held by the government and public sector entities.

Should you have any comments or questions, please contact me at (250) 387-6692 or by e-mail: Cheryl.Wenzecki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at (250) 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

Sincerely,



Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General

cc: Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Chris Trumpy, Deputy Minister
Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board
Ministry of Finance

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?

Although we agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy in the supplementary notes of the financial statements, we do not agree with the requirement that would require the recognition of the unrealized gains and losses of financial instruments in the financial statements, especially the proposals¹ with respect to financial instruments that are held-to-maturity.

We would like to reiterate that the Province of British Columbia and its government business enterprises (GBE) do not engage in speculative trading activities, and most of the governments' financial instruments are held-to-maturity. The recognition of unrealized gains and losses in the GBE's financial statements will result in the introduction of artificial volatility in the government's financial statements as their financial statements are consolidated in the government financial reporting on a modified equity basis.

The inflated surpluses or deficits could mislead the public in terms of the government's performance and funding ability; and therefore, this will provide misleading information to readers and stakeholders of the government financial reports. We recommend that financial instruments should be recorded at the lower of cost or market in the financial statements as this is a more conservative approach for measuring financial instruments that are held by the government and public sector entities.

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?

Yes. We agree that the three-level fair value hierarchy, as set out in paragraph 27A, is an appropriate format for expanded fair value disclosure in the notes of the financial statements.

Question 3

Do you agree with the proposals in:

(a) paragraph 27B to require expanded disclosures about the fair value measurements

¹International Accounting Standards Board, "Discussion Paper: Reducing Complexity in Reporting Financial Instruments", IASC Foundation publications Department, March 2008, <http://www.iasb.org/NR/rdonlyres/A2534626-8D62-4B42-BE12-E3D14C15AD29/0/DPReducingComplexity_ReportingFinancialInstruments.pdf>

recognised in the statement of financial position? If not, why? What would you propose instead, and why?

Although we agree with the proposal to require expanded disclosures about the fair value measurements recognized in the statement of financial position, we do not agree with the requirement requiring the recognition of the unrealized gains and losses of financial instruments in the financial statements, especially the proposals² with respect to financial instruments that are held-to-maturity.

We would like to reiterate that the Province of British Columbia and its GBE do not engage in speculative trading activities, and most of the governments' financial instruments are held-to-maturity. The measurement of financial instruments at fair value in the GBE's financial statements will result in the introduction of artificial volatility in the government's financial statements as GBE's financial statements are consolidated in the government financial reporting on a modified equity basis.

Recognizing unrealized gains and losses on investments will compromise the credibility and reliability of public sector reporting. The added volatility could result in misleading results that create false expectations for funding government programs and adversely affect decisions made in an effort to maintain balanced budgets.

As an alternative, we believe that the three-level fair value hierarchy could be used to expand the supplementary note disclosure of the fair value information in the notes to the financial statements. Note disclosure would allow the government's intent in holding investments to maturity to be reflected in the financial statements while still enabling the users of financial statements to evaluate the significance of the fair value disclosures, their exposure to risks and how the risks are managed.

(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?

Yes. We agree with the proposals in 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.

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?

²*Ibid.*, <http://www.iasb.org/NR/rdonlyres/A2534626-8D62-4B42-BE12-E3D14C15AD29/0/DPReducingComplexity_ReportingFinancialInstruments.pdf>

The exposure draft does not clearly specify the valuation method of the maturity analysis in paragraph 39(a); however, we believe that the maturity analysis of derivative financial liabilities that are intended to be held to maturity should be measured using a cost-base method. Since the vast majority of the governments and GBE's derivative financial liabilities are hedge instruments that are held to maturity, it would be misleading to disclose the market value of only half of the financial instruments in a hedging relationship that is intended to be held maturity.

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?

The exposure draft does not clearly specify the valuation method of the maturity analysis in paragraph 39(b); however, we believe that the maturity analysis of non-derivative financial liabilities that are intended to be held to maturity should be measured using a cost base method.

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 believe that the wording of "encounter difficulty" from the amended definition is too subjective to apply. We suggest amending the "Liquidity Risk" definition with the following wording changes:

"The risk that an entity will not be able to meet its obligations, either expected or unexpected, associated with financial liabilities that are settled by delivering cash or another financial asset."

Question 7

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

Yes. 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 believe that the transition requirements are appropriate.