

12 December 2008

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

Dear David

**IASB Exposure Draft *Improving Disclosures about Financial Instruments***

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants (the Institute) is pleased to submit its comments on the IASB Exposure Draft of proposed amendments to IFRS 7 *Financial Instruments: Disclosures*—Improving Disclosures about Financial Instruments (ED). As part of its normal process, the FRSB has sought the views of New Zealand constituents on the ED.

We reiterate our support for the objective of a single set of high quality, international financial reporting standards for general purpose financial statements and agree that the current market conditions justify the need for easy to comprehend qualitative and quantitative disclosures about the risks associated with financial instruments. We support revisions to the IFRS 7 requirements to address deficiencies and to require additional disclosures where such disclosures add to the understandability of the risks associated with financial instruments. Where we believe the proposals in the ED do not meet these objectives, we recommend revisions to the proposals in the ED as detailed in our responses to the specific questions in the Appendix. Further, we note constituents' concerns that the current IFRS 7 disclosures are too complex and voluminous.

*Disclosures for Banks and Other Financial Institutions*

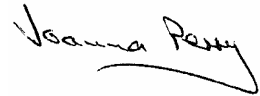
Current market conditions and the complexity of some of the disclosures proposed in the ED raise again the question of whether there should be separate disclosure requirements or guidance for entities with significant exposure to the risks associated with financial instruments and whose roles are significant in the functioning of an economy (eg financial institutions, including banks and insurers). The statement of financial position for these entities typically includes financial assets that are held for the payment of financial liabilities. Consequently, it will be useful to require disclosure of a matched expected maturity analysis of both financial assets and financial liabilities for these financial institutions. In contrast, non-financial institutions (eg manufacturers) typically fund the payment of financial liabilities through the future operations of the entities (eg selling inventory, providing future services). Such fundamental differences in operations and use of financial instruments, in our view, warrants different disclosures.

*FRSB response to questions*

The Appendix to this letter contains our responses to the specific questions raised in the ED.

If you have any queries or require clarification of any matters in this submission, please contact Patricia McBride ([patricia.mcbride@nzica.com](mailto:patricia.mcbride@nzica.com)) in the first instance, or me.

Yours sincerely

A handwritten signature in black ink that reads "Joanna Perry". The signature is written in a cursive style with a long, sweeping underline.

**Joanna Perry**

Chairman – Financial Reporting Standards Board

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## Appendix: Specific 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?*

#### 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?*

#### 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 do not agree with the proposed three-level fair value hierarchy in paragraph 27A and the proposed disclosures in paragraph 27B because it pre-empts the completion of the IASB's standard on fair value measurements. We note that an exposure draft on fair value measurements is expected within six-months. Therefore, this appears to embed the disclosure of fair values of financial instruments using a fair value hierarchy and brings into question the IASB's intentions on the forthcoming exposure draft on fair value measurements—Will constituents' comments be taken into account in the finalisation of the IFRS on fair value measurements?

We note that the three-level fair value hierarchy does not use the same terminology as that of SFAS 157 *Fair Value Measurements* (SFAS 157), which is the basis for the forthcoming exposure draft on fair value measurements. Instead, the terminology used is consistent with IFRSs. We are concerned that users will not understand the differences, if any, between the three-level fair value hierarchies (1) proposed here, (2) in SFAS 157, (3) in the forthcoming IASB exposure draft on fair value measurements and (4) in the finalised IFRS on fair value measurements.

It appears that one of the motivations for this proposal is convergence with US GAAP. While we support this objective, we believe that convergence would be better achieved in the finalisation of the IASB fair value measurements project.

Also, the benefits of the proposed disclosure of the reconciliation in paragraph 27B(b) is unclear. Such disclosures do not allow the user to determine whether the fair value measurements are faithfully represented.

Instead we recommend the separate disclosure of fair value measurements (including for financial instruments that are not remeasured at fair value) determined using (a) quoted prices in an active market (without modification or repackaging) and (b) valuation techniques. We believe that this is more consistent with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. (We note that entities may voluntarily disclose further information on fair value measurements using a valuation technique based on observable and unobservable market data.) We also recommend disclosure of the amount, timing and reasons for the change in the determination of the fair value measurements of an instrument from quoted prices in an active market to valuation techniques, and vice versa.

For fair value measurements determined using a valuation technique, we recommend disclosure of method and assumptions used. If there has been a change in the valuation technique, we recommend that the entity should disclose the change and the reasons for the change. We also recommend disclosure of a sensitivity analysis for each significant assumption. This disclosure will provide users with information to judge the faithful representation and relevance of those fair value measurements.

## **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 that the maturity analyses should be based on how the entity manages the liquidity risk associated with such instruments because we believe that the benefits outweigh the costs of this proposal. The cost to preparers should be minimal as the information disclosed is based on the entities' management practices.

We further recommend the disclosure of a maturity analysis for both derivative financial liabilities and derivative financial assets to provide further information of the entity's ability to settle its financial liabilities. This information is especially useful for derivative financial instruments because these instruments can be reclassified from assets to liabilities, and vice versa, depending on whether these instruments are in or out of the money from one reporting period to the next. Consequently, we believe that the disclosure of a maturity analysis for derivative financial liabilities only is deficient and potentially misleading.

On an editorial issue, we believe that it would be clearer to redraft paragraph 39(a) to state that the disclosure also extends to derivatives that would meet the definition of a financial liability if they were recognised, as required in paragraph B11C.

### **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?*

We agree in substance with this proposal. The majority of entities do not manage liquidity risk of non-derivative financial liabilities based on contractual maturities. However, from our experience, some entities will not comply with the spirit of this proposal even though these entities manage liquidity risk based on a basis other than contractual settlement dates. Instead we recommend the disclosure of a maturity analysis based on expected maturities when there are significant differences between the expected settlement and contractual dates. Another alternative is to require a maturity analysis for non-derivative financial instruments based on how the entity manages the liquidity risk associated with such instruments consistent with the requirement in the proposed paragraph 39(a) for derivative financial instruments.

In our view useful disclosures to ascertain an entity's liquidity risk fall into two broad categories:

1. The amount and timing of the payment of obligations; and
2. The availability of funds to satisfy those obligations when payment is due.

The current and proposed amendments to liquidity risk disclosures do not adequately provide information about the second category above.

We note that for financial institutions in particular the majority of assets held for the settlement of financial liabilities are financial assets recognised on the balance sheet. The following disclosures would be useful information about the entity's ability to meet its financial obligations:

1. the disclosure of a matched expected maturity analysis of both financial assets and financial liabilities; and
2. where there are significant variances between the expected maturities of the entity's financial assets and financial liabilities, the disclosure of the entity's policy on managing the liquidity risks arising from those variances.

We also note that the drafting of the requirement (and its associated application guidance) is more consistent with the drafting of the non-mandatory implementation guidance where it was originally located. Further revisions to the drafting may be necessary to reflect that it is now to be a mandated requirement.

We also recommend that the IASB consider further guidance on the disclosures intended by paragraph 39(c), especially for corporate entities. We recommend that the intentions of the guidance in paragraph B11E be made clearer.

**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 because the revised definition is clearer.

**Effective date and transition**

**Question 7**

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

**Question 8**

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

We do not agree with the proposed effective date and transitional provisions because we believe that the majority of the disclosures will require system changes and therefore, be costly to implement retrospectively from the proposed operative date of 1 July 2009.

We agree that current market conditions are a global concern. However, we note that jurisdictions around the world are impacted differently. Therefore, a more urgent response on fair value disclosures is needed in some, but not all, jurisdictions as a result of current market conditions. Instead, we suggest an operative date of 1 January 2010, with early application permitted. Jurisdictions for which the disclosures would be more useful could bring the amendments in early. We also note that entities that trade globally could choose to early adopt the amendments before the operative date.