

Dear Sir / Madam

Please find below comments from the Reserve Bank of New Zealand on the above-mentioned IASB Exposure Draft. These are adapted from comments recently submitted to the New Zealand FRSB (Financial Reporting Standards Board) – we have removed a few comments on the New Zealand-specific Appendix E to NZ IFRS 7 which are not relevant to the IASB ED. The FRSB suggested that we forward these comments to the IASB direct.

Fair Value Disclosures

We are in favour of the expanded disclosure of financial instruments measured at fair value, based on the three-level fair value hierarchy. The three levels appear to provide a helpful categorisation of fair value methodologies by degree of reliability. If such a hierarchy is to be introduced, then the three levels proposed seem to be the minimum that is worth doing and look like the right ones, while more than three would be going into an unnecessary level of detail.

Our answers to Questions 1 , 2 and 3 in the Exposure Draft are thus all “yes”.

We have no other, more specific comments to make.

Liquidity Risk Disclosures

ED Question 4: yes. We think it is helpful that the maturity analysis for derivative financial liabilities must now be given separately from that for non-derivative financial liabilities, and that it must be based on how the entity manages the liquidity risk associated with such instruments.

ED Question 5: yes. We are strongly in favour of financial institutions providing a maturity analysis of both financial assets and liabilities on an expected maturity basis, if they manage liquidity risk in that way. We note that NZ IFRS 7 paragraph E20 already requires this (“where the disclosures required ... do not provide sufficient information for users ... to evaluate the ... liquidity risk ...”). However, we welcome the IASB’s proposed changes to IFRS 7 which appear to go a considerable way towards requiring this in the international standard as well: we note that the previous suggested possible disclosure of an expected maturity analysis in IG30 has been replaced with the new requirement (relating to non-derivative liabilities) in paragraph 39(b) and the application guidance (relating to financial assets held for managing liquidity risk) in B11E.

ED Question 6: yes. We have no problem with the proposed revised definition of liquidity risk.

The reorganisation and revision of the material from existing paragraphs B11-B16 and IG30-31 into new paragraphs B11-B11E appears sensible.

We have only two minor comments on the proposed revisions to Appendix B –

- The subheading “Maturity analyses (paragraph 39(a) and (b))” does not reflect B11E which comes under it, since B11E talks about 39(c) and also goes further than just being about maturity analysis.

- Paragraph B11C gives guidance on Paragraph 39(a), the maturity analysis of derivative financial liabilities. But sub-paragraph B11C(c) deals with the treatment of loan commitments and financial guarantees – am I right in thinking that these do not fall within the definition of derivatives, in which case they should (preferably) be covered elsewhere?

Yours faithfully,

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