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Ms Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

EMAIL: CommentLetters@iasb.org

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Dear Andrea

IASB EXPOSURE DRAFT: ED 7 FINANCIAL INSTRUMENTS: DISCLOSURES

The Institute's Accounting Standards Committee has considered the above Exposure Draft and I am pleased to set out its comments below.

Response to Detailed Questions

Our responses to the specific questions in the Exposure Draft are set out below.

(i) *The draft IFRS incorporates disclosures at present contained in IAS 32* Financial Instruments: Disclosure and Presentation *so that all disclosures about financial instruments are located in one Standard. It also proposes to add the following disclosure requirements:*
- *(a) Financial assets and financial liabilities by classification (see paragraphs 10 and BC13).*
- *(b) Information about any allowance account (see paragraphs 17 and BC14).*
- *(c) Income statement amounts by classification (see paragraphs 21(a), BC15 and BC16).*
- *(d) Fee income and expense (see paragraphs 21(d) and BC17).*

Are these proposals appropriate? If not, why not? What alternative disclosures would you propose?

Overall, we support the proposal to locate disclosures about financial instruments in one Standard. However, we are concerned about the prescriptive nature of some of these requirements. Instead, we would prefer a more principles-based approach which ensures that the disclosures provided are meaningful to users. For example, paragraph 21 requires net gains or losses to be disclosed by class of financial instrument, whereas a more meaningful disclosure would be by business line.

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0105
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 -235 • EMAIL: randerson@icas.org.uk

(ii) *For an entity's exposure to credit risk, the draft IFRS proposes to require disclosure of the fair value of collateral pledged as security and other credit enhancements unless impracticable (see paragraphs 39, 40, BC27 and BC28).*
Is this proposal appropriate? If not, why not? What, if any, alternative disclosures would you propose to meet the stated objective?

We are broadly supportive of these proposals, although again it will be important to ensure that the resultant disclosure is meaningful to users.

(iii) *For an entity that has an exposure to market risk arising from financial instruments, the draft IFRS proposes to require disclosure of a sensitivity analysis (see paragraphs 43, 44 and BC36 – BC39).*
Is the proposed disclosure of a sensitivity analysis practicable for all entities?
If not, why not and what, if any, alternative disclosures of market risk would you propose to meet the stated objective of enabling users to evaluate the nature and extent of market risk?

We agree in principle that groups should disclose a sensitivity analysis, although consider that it is not appropriate to include such analysis within the audited financial statements. As for US GAAP preparers, it would be more appropriate to include the information in Management's Discussion and Analysis or similar. We consider that, for subsidiaries, there should be an exemption from these disclosures where this information is provided as part of the consolidated accounts of the company's parent.

(iv) *The draft IFRS proposes disclosure of information that enables users of an entity's financial statements to evaluate the nature and extent of its capital. This includes a proposed requirement to disclose qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance (see paragraphs 46 – 48 and BC45 – BC54).*
Is this proposal appropriate? If not, why not? Should it be limited to only externally imposed capital requirements? What, if any, alternative disclosures would you propose?

We do not agree with this proposal. In our view, it is questionable whether disclosures on capital requirements should be made in the audited financial statements at all.

(v) *The proposed effective date is for periods beginning on or after 1 January 2007 with earlier adoption encouraged (see paragraphs 49 and BC62 – BC67).*
Entities adopting IFRSs and the draft IFRS for the first time before 1 January 2006 would be exempt from providing comparative disclosures for the draft IFRS in the first year of adoption (see Appendix B, paragraph B9).
Are the proposed effective date and transition requirements appropriate? If not, why not? What alternatives would you propose?

We agree with this proposal.

CA HOUSE • 21 HAYMARKET YARDS • EDINBURGH • EH12 5BH
PHONE: 0131 347 0100 • FAX: 0131 347 0110
E-MAIL: enquiries@icas.org.uk • WEB: www.icas.org.uk

DIRECT LINE: 0131 347 0235 • EMAIL: randerson@icas.org.uk

(vi) *The disclosure of risks arising from financial instruments proposed by the draft IFRS would be part of the financial statements prepared in accordance with International Financial Reporting Standards (see paragraph BC41). Some believe that disclosures about risks should not be part of financial statements prepared in accordance with IFRSs; rather they should be part of the information provided by management outside the financial statements.*
Do you agree that the disclosures proposed by the draft IFRS should be part of the financial statements? If not, why not?

Given their high subjectivity, we believe it is more appropriate to include the risk disclosures relating to financial instruments as part of the information provided by management outside the financial statements.

(vii) *Paragraph B10 of Appendix B proposes amendments to the risk disclosures in IFRS 4* Insurance Contracts *to make them consistent with the requirements proposed in the draft IFRS. The requirements in IFRS 4 were based on disclosure requirements in IAS 32 that would be amended by the draft IFRS. The Board's reasons for proposing these amendments are set out in paragraphs BC57 – BC61.*
Do you agree that the risk disclosures in IFRS 4 should be amended to make them consistent with the requirements proposed in the draft IFRS? If not, why not and what amendments would you make pending the outcome of phase II of the Board's Insurance project?

We agree that this would be appropriate.

(viii) *The draft Implementation Guidance accompanying the draft IFRS suggests possible ways to apply the risk disclosure requirements in paragraphs 32 – 45 (see paragraphs BC19, BC20 and BC42 – BC44).*
Is the Implementation Guidance sufficient? If not, what additional guidance would you propose?

Additional illustrative examples would be helpful.

(ix) *The FASB's Proposed Statement of Financial Accounting Standards* Fair Value Measurements, *which is open for public comment at the same time as this Exposure Draft, proposes guidance on how to measure fair value that would apply broadly to financial and non-financial assets and liabilities that are measured at fair value in accordance with other FASB pronouncements. That Exposure Draft proposes disclosure of information about the use of fair value in measuring assets and liabilities as follows:*

(a) *For assets and liabilities that are remeasured at fair value on a recurring (or ongoing) basis during the period (for example, trading securities)*
   i. *the fair value amounts at the end of the period, in total and as a percentage of total assets and liabilities,*
   ii. *how those fair value amounts were determined (whether based on quoted prices in active markets or on the results of other valuation techniques, indicating the extent to which market inputs were used), and*
   iii. *the effect of the remeasurements on earnings for the period (unrealised gains or losses) relating to those assets and liabilities still held at the reporting date.*

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(b) For assets and liabilities that are remeasured at fair value on a non-recurring (or periodic) basis during the period (for example, impaired assets), a description of

i. the reason for the remeasurements,

ii. the fair value amounts,

iii. how those fair value amounts were determined (whether based on quoted prices in active markets or on the results of other valuation techniques, indicating the extent to which market inputs were used), and

iv. the effect of the remeasurements on earnings for the period relating to those assets and liabilities still held at the reporting date.

Disclosures similar to (a)(ii) above are proposed in paragraph 31 of the draft IFRS (and are currently required by paragraph 92 of IAS 32) and disclosures similar to (a)(iii) are proposed in paragraph 21(a).

Do you agree that the requirements in the draft IFRS provide adequate disclosure of fair values compared with those proposed in the FASB's Exposure Draft? If not, why not, and what changes to the draft IFRS would you propose?

We agree that the requirements in the draft IFRS provide adequate disclosure of fair value compared with those proposed in the FASB's Exposure Draft. More fundamentally, we also believe it is important for the IASB and FASB to achieve convergence on the accounting for financial instruments at fair value.

(x) Do you have any other comments on the draft IFRS, Implementation Guidance and Illustrative Examples?

We have no further detailed comments. However, we would reiterate our preference for a principles-based approach which ensures that the disclosures provided are meaningful to users. To this end, it may be helpful to include some of the more detailed requirements as supporting guidance rather than in the main text itself.

If you wish to discuss our comments further, please do not hesitate to contact me.

Yours sincerely

RICHARD ANDERSON
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee

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