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Andrea Pryde
International Accounting Standards Board
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CL 59

21 October 2004

Dear Ms Pryde

ED7 Financial instruments: disclosure

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft (ED) of a new accounting standard issued by the IASB. ED7 was considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

Overall comments

IAS32 was revised and published in December 2003, IFRS4 was published in March 2004 and both were part of the so-called stable platform of standards for 2005, which was then announced as complete. ED7, while building on the disclosure requirements of those standards, re-expresses those requirements and adds to them. Publishing new or revised standards and immediately proposing amendments to them, does not seem to us in principle a very satisfactory way for IASB to set standards. Change is costly and can have a negative impact on the reputation of the standards and the IASB. Many countries adopting IASB's standards do not have an expectation of rapid change and development in the financial reporting and accounting rules. We appreciate that IASB has been working to accommodate the European legal process and 2005 deadline. We hope, however, that in future standards once issued will

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be able to be left in place for a reasonable period of time without amendment.

Q1. Disclosures relating to the significance of financial instruments to financial position and performance

We support the additional disclosures which are proposed in ED7. We have noted under Q10 below, our comments on some of the other disclosures required.

Q2. Disclosure of the fair value of collateral and other credit enhancements

We support these disclosures. We have noted under Q10 below some reservations with the credit risk disclosures; the collateral disclosures help to put the maximum figures in context.

Q3. Disclosure of sensitivity analysis

We support these disclosures. Sensitivity analysis seems much more helpful disclosure for users than the current disclosures about typical terms of financial instruments. It will in effect synthesise much information about the financial assets and liabilities including the effect of derivatives.

Q4. Capital disclosures

We do not support these as requirements for the financial statements. The matters covered are not so much statements of historical fact, but more forward-looking and in the nature of management's perspective and intent. As such they are important, but seem more appropriate for a management review of the business, such as the MD&A for US companies or the UK's OFR. The usefulness of the information highlights the need for such statements under IFRS. We note the research project that IASB have on this subject and we would support a higher priority being given to progressing that.

Q5. Effective date and transition

We have noted that the timing of the proposed standard is not very satisfactory in principle. Given that context, the delay until 2007 for mandatory application with earlier adoption possible, seem appropriate. This should allow some companies that are part of the 2005 conversion to IFRS, to move directly to these disclosures or have a breathing space between transition to IAS32 and needing to implement further changes.

Q6. Location of disclosures of risks arising from financial instruments

We have some sympathy with the view that some of the disclosures would be better in a management review (see our response to Q4 above). While the description and quantification of risk exposure might be appropriate for the financial statements, the strategy for the management of those risks would be more appropriately dealt with in an MD&A or OFR type statement.

Q7. Consequential amendments to IFRS4

We agree with these proposals.

Q8. Implementation guidance

This seems helpful and adequate.

Q9. Differences with FASB's exposure draft on fair value measurements?

We consider that the disclosures proposed in ED7 seem adequate and comparable in relation to financial instruments re-measured regularly to fair value. The disclosures in part (b) of the question in relation to the use of fair value in other cases (e.g. impaired assets) seem helpful and should be covered.

Q10.Other comments

There are aspects of existing disclosures in IAS32 that we consider should be re-examined with ED7.

Paragraph 39(a) requires the disclosure of maximum credit risk and would seem to involve disclosing the gross value of all receivables in addition to guarantees and those from derivative contract counterparties. This is not a very helpful disclosure, as it implies a doomsday scenario of systemic failure and reflects no probabilities of default. The disclosure of significant concentrations of credit risk would be more helpful than the maximum.

Paragraph 27 is wrong. In most cases the carrying value of trade receivables will not equal the fair value as is implied here, because that ignores the risk premium that any other party will demand, for example to factor without recourse. Trade receivables should be simply excluded from the fair value disclosures, which is the clear intention of this paragraph, though its approach is defective.

The disclosure under Paragraph 26 of fair values for held to maturity instruments seem irrelevant and potentially misleading as there will be no intent and perhaps no ability, to realise such values.

Paragraph 11 requires certain balance sheet disclosures concerning the effect of credit risk changes on liabilities at fair value. The equivalent income statement disclosures should also be required, as this seems of equal significance.

Paragraph 40(a) requires disclosures of the age profile of overdue assets. This may be helpful information when it concerns bank loans for example, however we do not think that this would provide much helpful information in the case of trade receivables. The legal due date may be determined by the terms of trade of the vendor, but also those of the purchaser. Even where the legally due date is clear it may not always correspond to the reality of how business is conducted in a particular commercial relationship or jurisdiction. An exemption for trade receivables would seem appropriate.

If there are any matters arising from the above where further information would be helpful, please be in touch with me.

Yours sincerely

Richard Martin
Head of Financial Reporting