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Dear Sirs

Exposure Draft 7 Financial Instruments: Disclosures

The Accounting Standards Committee of the Institute of State Authorized Public Accountants in Denmark ('FSR') is pleased to comment on the International Accounting Standards Board's Exposure Draft 7 Financial Instruments: Disclosures ('the Exposure Draft').

We generally support the Board's recommendation for the revision to IAS 32 and the withdrawal of IAS 30, according to which all disclosures on financial instruments is compiled in one standard and that unnecessarily onerous and duplicative disclosures are removed.

Appendix 1 sets out our answers to the questions raised in the Exposure Draft.

Our comments have been presented for the Danish Accounting Advisory Panel which consists of preparers and users of financial statements in Denmark.

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Should you need us to clarify any of the points raised in this letter, we would be happy to do so.

Yours sincerely

Eskild Nørregaard Jakobsen
Chairman of FSR's Accounting
Standards Committee

Ole Steen Jørgensen
Head of Department

Appendix 1 - Exposure Draft 7 Financial Instruments: Disclosures

Answers to questions 1 - 10 set out in the Exposure Draft

Question 1 - Disclosures relating to the significance of financial instruments to financial position and performance.

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?

FSR response
Generally, we find that all the above-mentioned non-risk disclosures are appropriate and that the disclosures are needed in order for users to understand the financial position of an entity's financial instruments.

We agree that the amendment to paragraphs 21(a) will provide the users of financial statements with a better basis for understanding the financial performance of an entity's financial instruments.

However, in our opinion, the accounting policies in paragraph 23 should continue to include disclosures about 'the basis on which income and expenses arising from financial assets and financial liabilities are recognised and measured' (old IAS 32.66c), as such information is important for the users of financial statements.

As it appears from EFRAG's draft for comments to IASB (draft for comments by 20 October 2004), EFRAG has identified other additional omissions of disclosure requirements as are required under the current IAS 32. We support the arguments described by EFRAG.

Question 2 - Disclosure of the fair value of collateral and other credit enhancements

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?

FSR Response
We find the proposal appropriate.

<u>Question 3 - Disclosure of the a sensitivity analysis</u>

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?

<u>FSR Response</u>
We agree that entities should perform sensitivity analyses in respect of their relevant market risks, and in our opinion that must apply to all entities as such information is essential for users of financial statements.

We agree to the supporting arguments described by the Board in BC37-38.

Question 4 - Capital disclosures

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?

<u>FSR Response</u>
We agree that both qualitative and quantitative disclosures as to what the entity regards as capital is important information for the user when assessing the risk profile of an entity and its ability to withstand unexpected adverse events, and that the information should be disclosed for all entities.

However, we believe that the disclosure requirement should be limited so as to include only information about externally imposed capital requirements, and thus not internally imposed capital.

We believe that these complex capital disclosures about internally imposed capital are not, basically, useful to users of financial statements and the disclosures are often highly sensitive for enterprises. It is also important that the disclosures in the financial statements are not too extensive and impossible to get an overall view of for the users of financial statements.

<u>Question 5 - Effective date and transition</u>

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 alternative would you propose?

<u>FSR Response</u>

We agree that entities which choose early implementation of the standard, i.e. before 1 January 2006, should be allowed not to include comparatives, as many entities will not be able to procure the new information for purposes of such comparatives.

Being allowed to exclude the comparatives in connection with early implementation, i.e. before 1 January 2006, more entities, we believe, will choose to implement the standard before its effective date at 1 January 2007.

Furthermore, first-time adopters in 2005 will probably consider it more efficient to implement the Exposure Draft already at 1 January 2005 rather than waiting until 1 January 2007.

<u>Question 6 - Location of disclosures of risk arising from financial instruments</u>

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 IFRS; 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?

FSR Response:

We agree that the disclosures of risks arising from financial instruments proposed by the Exposure Draft should be part of the financial statements.

<u>Question 7 - Consequential amendments to IFRS 4</u>

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?

FSR Response

Firstly, we recommend that the Board should limit the number of cases where newly issued standards are revised by proposed amendments shortly after e.g. IFRS 4.

However, it is our opinion that it is inappropriate to have two sets of rules in the period until phase II of the Insurance Project is completed.

Several insurance companies are implementing the existing IFRS 4, and we therefore recommend that IFRS 4 be updated in connection with the updating of the Exposure Draft as to ensure consensus between the disclosure requirements in these standards. In that way, the implementation work will become less of a burden.

Question 8 - Implementation Guidance

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?

FSR Response

Generally, we find that the Implementation Guidance is adequate. However, we believe that the Illustrative Examples should be expanded so as to include more illustrative examples, which could be used by non-financial enterprises.

Question 9 - Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board (FASB)

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.**

(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 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**

(i) **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 value compared with those proposed in the FASB's Exposure Draft? If not, why not, and what changes to the draft IFRS would you propose?

<u>FSR Response</u>

We believe that the fair value disclosures in the Exposure Draft are adequate and reasonable compared to FASB's Exposure Draft.

We have not in that connection made an actual in-depth analysis, but we find that we cannot, basically, predict any practical problems for entities that report both according to US GAAP and to IFRS.

Question 10 - Other Comments

None