The Hundred Group
of Finance Directors

Financial Reporting Committee

Ms Andrea Pryde
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International Accounting Standards Board
30 Cannon Street
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Dear Ms Pryde

ED7 “Financial instruments: Disclosures”

I am pleased to submit the 100 Group’s comments on ED7 “Financial instruments: Disclosures”. Our overall comments are set out below. Reponses to your specific questions are dealt with in the Appendix.

Many of the disclosures seem to be directed at financial institutions. While we support consistent requirements, many other entities find it difficult to understand the requirements and may find it difficult to comply with them.

The more appropriate place for these disclosures may be in the MD&A, where a full discussion of risks can be provided. For example, in many entities the pension plan is the major risk.

It should be made clear that the disclosures are only required when they are relevant to the risks undertaken by the entity. Entities not subject to regulation should be exempted from the capital disclosures. Also, the disclosures should not be required by wholly owned subsidiaries where there is adequate disclosure in the consolidated accounts.

Yours sincerely

Ken Lever

Ken Lever
Chairman, 100 Group - Financial Reporting Committee

APPENDIX

RESPONSES TO SPECIFIC QUESTIONS

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); and

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?

A. The proposals are appropriate. It may be worth noting that some of the requirements from IAS 32 have not been carried over, but that we presume this is because the IASB believes some or all of the new disclosures provide adequate alternatives.

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?

A. We do not support the extent of disclosure this proposal may mean for non-financial institutions, except to the extent that surplus resources are invested in various financial instruments. Generally, the major exposure of a non-financial institution will be through its trade debtors and provisions for bad debts made in the accounts will normally be sufficient. Where a material matter exists, it should be disclosed.

For financial institutions, this is a difficult disclosure. Information about collateral is not kept up to date. Rather, there should be qualitative discussion about the adequacy of collateral or other credit enhancements and an indication of whether there have been material shortfalls in the current period. Although the IASB do seem to recognise the problem in their implementation guidance, mortgage portfolios would be particularly affected by this unless the impractical exemption is applied.

Question 3

Disclosure of a sensitivity analysis

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?

A. These disclosures may be particularly onerous for non-financial institutions and we question their usefulness. In particular, we are concerned that the requirements will extend to all entities; whilst a large corporate will probably have the resources to perform the work to produce the disclosures, this will not always be the case. Given potential audit difficulties (around the adequacy/appropriateness of the measures rather than the calculations themselves) we believe the disclosures would be better left in the MD&A as part of a more general discussion of risks.

For financial institutions the requirements are reasonable.

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?

A. Once again, we are concerned about the appropriateness of the requirements for non-regulated entities. The requirements seem to cover an entity's own equity capital, an area out of scope of IAS 32 and IAS 39. For most non-regulated entities, the requirements of IAS 1 are sufficient.

We believe that such disclosure by regulated entities would be appropriate, provided the financial statements were not to be regarded as a substitute for regulatory disclosure commitments nor the meeting of those commitments in full.

Question 5

Effective date and transition

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?

A. The timetable is appropriate.

Question 6

Location of disclosures of risks arising from financial instruments

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?

A. Given the concerns we have raised in our reply to question 3, we believe, in general, that these disclosures should be in the MD&A. However, we would not object to entities being given the option to include them in their financial statements.

Question 7

Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)

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?

A. We agree.

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?

A. The implementation guidance for non-financial institutions is inadequate and improvements in this area would help address, in part, some of the concerns raised in previous points. In particular, improvements need to be made in addressing the sensitivity analysis requirements when there are multiple interdependent risk variables, for but the largest corporates would have access to models such as those based on Monte-Carlo simulation techniques. These issues could be solved by lessening the requirements for non-financial institutions. Although we recognise that the IASB would wish to avoid the risk of boiler plate disclosures, limiting the guidance to only two implementation examples seems inadequate.

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

(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 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?

A. We agree.

Question 10

Other comments

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

A. As noted in the answers to the points above, we have concerns about the ability of non-financial institutions to meet the requirements of this proposed standard and the appropriateness of the information. Although the 100 Group represents the largest companies in the UK, we do believe that introduction of these requirements before a standard for SMEs is in place (which would, presumably, exclude much of this guidance) would not be appropriate.