28 October 2004

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International Accounting Standards Board
30 Cannon Street
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UNITED KINGDOM

Dear Ms Pryde

Financial Instruments: Disclosures

The Group of 100 (G100) is pleased to provide comments on the exposure draft. While G100 supports the proposals to include the disclosure requirements relating to financial instruments in a single standard there is some concern that specific industry related disclosures and guidance in respect of financial institutions is not also included.

Q1 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 BC 13).
b. Information about any allowance account (see paragraphs 17 and BC 14)
c. Income statement amounts by classification (see paragraphs 21(a), BC 15 and BC 16)
d. Fee income and expense (see paragraphs 21(d) and BC 17).

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

As indicated above the G100 supports the inclusion of the disclosure requirements in a single standard together with the proposed additional disclosures.

Q2 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, BC 27 and BC 28).*

Is this proposal appropriate? If not, why not? What, if any, alternative disclosures would you propose to meet the stated objective?

The G100 supports this proposal subject to retention of the 'impracticable' relief. The disclosure of fair values of collateral pledged as security provides relevant and useful information to users about the entity's effective exposure to credit risk.

Q3 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 BC 36 – BC 39).*

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?

The G100 supports the disclosure of a sensitivity analysis. However, guidance on the application of sensitivity analysis would help ensure that comparability between entities is achieved. This would be particularly so for entities engaged in the financial services sector of the economy.

Q4 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 quantitative 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 BC 45 – BC 54).*

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?

The G100 supports disclosure of information relating to the financial capital of the entity. However, the G100 does not support the disclosure relating to internally imposed/determined capital targets as these are used primarily in assisting management in performing its duties and assessing performance. The proposals do not identify why such disclosure is relevant in respect of capital when other performance targets are not required to be disclosed. Whether such targets are disclosed and performance in relation to them assessed should be a matter for management to determine in the context of the circumstances of the entity. For example, in some cases the specification of such targets and performance in relation to them may be central to the strategic initiatives of the entity and, as such, be commercially sensitive. In other cases the capital targets may not have a strategic imperative and management may consider that the disclosure may provide useful information to users without impacting on commercial sensitivity.

Q5 ***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 BC 62 – BC 67).*

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?

The G100 supports this approach to the application date and the provision of comparative information.

Q6 ***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 BC 41). 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?

In the absence of a general requirement for a management report including discussion of the entity's risk exposures, including those relating to financial instruments and risk management strategies and activities, the G100 supports the inclusion of requirements relating to risk disclosures in the exposure draft.

Q7 ***Consequential amendments to IFRS 4 (Paragraph B 10 of Appendix 4):*** *Paragraph B 10 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 BC 57 – BC 61.*

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 11 of the Board's Insurance project?

The G100 believes that the risk disclosures required should be consistent irrespective of the nature of the entity's activities and acknowledge that the expectations of financial reports of users of entities engaged in finance and insurance activities is likely to be greater than it would be for other entities.

Q8 ***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 BC 19, BC 20 and BC 42 – BC 44).*

Is the Implementation Guidance sufficient? If not, what additional guidance would you propose?

The G100 considers that the guidance is adequate.

Q9 ***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?

The G100 considers that an objective of the IASB/FASB convergence program should be to achieve the same recognition, measurement and disclosure requirements particularly in respect of new projects and where existing standards are being revised. As such, the G100 believes that disclosure of the impact of changes in fair values on earnings should be considered in the context of the project on reporting financial performance and not as part of this project. In this case the relevance and consistency of disclosures in general relating to performance reporting is best determined as a package rather than on a piecemeal basis.

***Q10 Other Comments**: Do you have any other comments on the draft IFRS, Implementation Guidance and Illustrative Examples?*

- **Paragraph 31(c): Because of the stringent requirements relating to classifying investment securities as held to maturity, entities, particularly financial institutions, are likely to classify such securities as available for sale. A consequence of this is that the disclosure load associated with explaining valuation assumptions and variants for a wide range of debt and equity securities (changes in fair value of which are recognised in equity not periodic earnings) will be extremely onerous and costly in relation to the benefits to users.**

- **Paragraph 40(a): The proposal to show amounts 'past due' is onerous and impractical and is likely to require entities to modify systems to generate the information as at a reporting date. In this regard the definition of 'past due' is too restrictive and should take account of normal commercial and industry practice in identifying past due amounts.**

Yours sincerely

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National President

c.c. Mr David Boymal, Chairman AASB