Consiglio Nazionale Dottori Commercialisti
Consiglio Nazionale Ragionieri
Commissione per i Principi Contabili

Rome, 6 October 2004

CL 61

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
GB – LONDON EC4M 6XH

Email: commentletters@iasb.org.uk

Re: <u>comment letter on IASB ED 7 "Financial Instruments: Disclosure".</u>

Dear Sir,

The Italian accountancy profession represented by the Consiglio Nazionale dei Dottori Commercialisti and the Consiglio Nazionale dei Ragionieri (thereinafter "we"), which takes advantage of the "Commissione per i principi contabili", is pleased to submit its comments on the IASB ED 7 <u>"Financial Instruments: Disclosure"</u>.

We support the IASB in its objective to systemize financial instruments disclosure and to reduce existing relative requirements.

At the same time, we underline some omissions and we proposed modifications to some specific points in order to provide users with a more understandable and useful disclosure.

In arriving in our comments, we also addressed EFRAG Draft response.

We enclose our answers to the questions raised in the IASB's Exposure Draft.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

Antonio Tamborrino
Presidente del Consiglio Nazionale dei Dottori Commercialisti

William Santorelli
Presidente del Consiglio Nazionale dei Ragionieri

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Response on IASB Exposure Draft 7 “Financial Instruments: Disclosure”.

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?

Response
We agree in general terms with IASB proposal. As EFRAG pointed out in its draft response, IASB (ED 7.22) no longer requires disclosure on the nature of impairment loss (IAS 32.94). We believe this information very useful to users to express a prospective evaluation about future corporate affairs and to external auditors and Authorities to address the financial statements “fair view”.
At the same time, we believe it is significant to require disclosure on effective interest rate included in old IAS 32.

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?

Response
We agree with the proposal. Due to the fact that fair value of collateral pledge as security is based on management evaluations and not on historical based data, it is appropriate to illustrate logic and technical assumptions taken into account to measure it.

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?

<u>Response</u>
We agree with the proposal that entities disclose a sensitivity analysis to explain their exposure to market risk. However, because it is still significant that entities provide users with comparable disclosure in order to present useful information, it would be necessary a specific reference to the Implementation Guidance, where users could find a guideline and exemplifications.

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>Response</u>
We do not support the proposal to disclose information on qualitative information about the entity's objectives, policies and processes for managing capital.
In any case, if IASB required to expose this information, it should include disclosure on the externally set capital targets only and a definition of what has to be meant with "external" and "internal" capital targets.
Otherwise, if IASB required to present disclosure on the internally set capital requirements, it should expose specific guidelines to measure capital targets.

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?

Response
We agree with the proposed requirements.

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?

Response
We support that disclosures about risk should be part of the financial statements and the arguments described by the IASB in BC41. At the same time, we believe that this subject should be reconsidered under the MD&A project. In addition, European companies will have in the near future to adapt their accounts to the Accounting directives modernization project (Directive 2003/51/EC), so that they will have to provide users with additional information regarding financial risks in their Annual Report.

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?

<u>Response</u>
We agree with the IASB proposal.

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?

<u>Response</u>

We believe that the implementation guidance is in general terms sufficient. In relation to the sensitivity analysis, please, see our response to Question 2.

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?

No comment.

Question 10 – Other comments

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

Response
We do not have any other comments.