CL 72

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Dear Sirs

ED 7 Financial Instruments: Disclosure

Please find attached our response to the exposure draft on "Financial Instruments: Disclosure.

We support the aim of the IASB of improving accounting and financial reporting internationally and believe that the principle of gathering together all the disclosure requirements with regard to financial instruments in place is sound. However, the new standard would impose disclosure requirements previously applied only to financial institutions on all entities and we are concerned that, without the issue of a standard for small and medium entities, the requirements would be beyond the resources of many affected. Additionally, we believe that the audit of some information, which would now be included in the financial statements, may be impractical. Lastly, we would like to see the implementation guidance extended, partly by expanding the detailed guidance itself and partly by moving elements of the standard.

These responses represent the views of AstraZeneca PLC. Should you have any queries or wish to discuss these responses further, please do not hesitate to contact me on +44 1625 517294.

Yours faithfully

Bill Hicks
Director, External Financial Reporting

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?

In principle, we agree with the proposed approach of incorporating all disclosures about financial instruments in one Standard. However, we are concerned that the practical effects will cause problems. Including disclosures that are mainly directed towards financial institutions within a standard that applies to non-financial institutions may result in inappropriate and voluminous information being published. More importantly, in the absence of a standard for SMEs, many entities will simply not have the resources to comply with the detailed disclosures.

Notwithstanding these general concerns, the specific proposals above seem appropriate. It is 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?

The proposal in paragraph 39 is appropriate for non-financial institutions to the extent (albeit unlikely) that an entity invests surplus resources in financial instruments with underlying collateral. For most non-financial institutions, the major exposure is likely to be through bad debts, and details of the bed debt provision and movements therein (in a similar way to the requirements of US GAAP) will be sufficient.

For financial institutions, particularly those with mortgage portfolios secured by the underlying properties, the fair value requirements may be onerous. Relief from such disclosures may not be available under the impracticality allowance and, therefore, costs of complying may be prohibitive.

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?

Once again, for non-financial institutions, we are concerned that the requirements may not be capable of practical application other than by the largest companies. Implementation guidance, which we address in question 8, may help to deal with this.

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?

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 (in particular, those entities that would fall within the scope of a standard on SMEs) 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.

We have doubts about the practicality of extending the disclosures on capital requirements to internal targets including, but not limited to, the feasibility of auditing the information.

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?

The proposed effective date and transition requirements appear 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?

We do not agree that all the disclosures should be in the financial statements, for a number of reasons:

- Audit of disclosures such as sensitivity analysis, particularly the underlying assumptions, would be difficult
- There is a risk that the disclosures would be voluminous and confusing, particularly in circumstances where disclosure of a fair value is followed by a range of fair values
- The difficulties in compliance faced by SMEs

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?

We have no comments in this area.

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?

The implementation guidance is not sufficient (and having only two implementation examples seems inadequate) particularly given our comments on the potential scope of entities affected by the standard. We believe an approach whereby the detailed requirements within the standard are moved to the implementation guidance (leaving a more principles focused standard) and the guidance is extended, would be a better approach.

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?

We believe that the requirements of the draft IFRS seem comparable with the FASB's exposure draft, whilst recognizing the limitations that result from the existing divergence in accounting for financial instruments under US GAAP and international accounting.

Question 10 – Other comments

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

Paragraph 12 appears to give measurement guidance in a standard that is supposed to restrict itself to disclosure.