National Housing Federation

CL 86

FRED 33: Financial Instruments: Disclosures

The Federation represents nearly 1400 independent, not for profit housing providers. Our members include Registered Social Landlords, Housing Associations, Co-ops, Trusts and transfer organisations. They manage more than 1.8 million homes provided for affordable rent, Supported Housing and Low Cost Home Ownership as well as delivering a wide range of community and regeneration services.

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The Federation is please to have the opportunity to respond to the Accounting Standards Board on the exposure draft entitled *FRED 33: Financial Instruments: Disclosures.*

Introduction

This Financial Reporting Exposure Draft (FRED) is issued as part of the Accounting Standards Board's (ASB's) programme to bring about convergence between UK Accounting Standards and International Financial Reporting Standards (IFRSs). It sets out for comment a proposed UK accounting standard, based on a proposed IFRS.

The ASB is proposing that the UK Standard in this FRED should be implemented at the same date as the proposed IFRS (accounting periods beginning on or after 1 January 2007) and that the option for early adoption should also be available to UK entities implementing the UK Standard. This would offer the possibility of a single change to disclosures in 2005 rather than making disclosures based on [draft] FRS.

The ASB is proposing that the disclosure requirements in this FRED should also apply to all entities reporting under UK accounting standards (other than those falling within the scope of the Financial Reporting Standard for Smaller Entities (FRSSE)).

Specific questions asked by the ASB

ASB(i) *The ASB does not propose any exemptions from the disclosure requirements in this Standard other than for entities applying the FRSSE. Do you agree?*

The Federation agrees with this proposal on the basis that compliance with the proposed FRS would represent best practice for all social landlords. The SORP Working Party is considering separately whether registered social landlords should apply a FRSSE to smaller entities. An alternative response would be to request the ASB for exemption for public benefit entities in general or for registered social landlords specifically. This would allow for more flexibility for the SORP to make requirements for social landlords.

ASB(ii) *The ASB is proposing to retain the new capital disclosure requirements within this Standard as it believes that these represent an improvement in financial reporting. The effect of this would be that the capital disclosure requirements apply to all entities, including those that do not have any significant financial instruments. Do you agree with this proposal?*

Again, the Federation supports this proposal as representing best practice for all social landlords.

Specific questions asked by the IASB

IASB(i) The draft IFRS incorporates disclosures at present contained in IAS 32 *Financial Instruments: Disclosure and Presentation* so that all

(a) financial assets and financial liabilities by classification (see paragraphs10 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?

IASB(ii) 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?

We are concerned as to the burden that this requirement may place on small and medium sized social landlords to obtain fair value information.

IASB(iii) 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?

We consider that this disclosure should only be required in circumstances where the potential risk is judged to be material or significant. This would reduce the burden on organisations in preparing such disclosures in circumstances where exposure to risk is not considered to be material.

IASB(iv) 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?

We agree that this proposal is appropriate.

IASB(v) The proposed effective date is for periods beginning on or after

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?

We agree with the proposed effective date and transition requirements.

IASB(vi) 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 consider that it is important to provide this information to users of financial statements. We are concerned as to the potential additional burden in audit costs that disclosure within the financial statements may create in respect of disclosures relating to risks. We therefore support the inclusion of information regarding risks as information provided by management outside the financial statements. Alternatively, clear auditing standards would need to be developed to guide auditors and management in a realistic assessment of the disclosure of risks.

IASB(vii) Paragraph B10 of Appendix B proposes amendments to the risk disclosures in IFRS4 *Insurance Contracts* to make them consistent with the requirements proposed in the draft IFRS. The requirements in IFRS4 were based on disclosure requirements in IAS32 that would be amended by the draft IFRS. The Board's reasons for proposing these amendments are set out in paragraphs BC57 - BC61.

Do vou aaree that the risk disclosures in IFRS4 should be amended to make

No comment as not applicable to the social housing sector.

IASB(viii) 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?

We consider that the guidance within the IFRS is sufficient however expect that it will need to be supplemented in the UK social housing sector by the SORP for Registered Social Landlords providing specific application guidance for social landlords.

IASB(ix) 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 inparagraph31 of the draft IFRS (and are currently required by paragraph 92 of IAS32) and disclosures similar to (a)(iii) are proposed in paragraph21(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 consider that the requirements in the draft IFRS provide adequate disclosure of fair value.

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

No further comments.