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CL 16

20 October 2004

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Exposure Draft 7 *Financial Instruments: Disclosures*

Grant Thornton International is pleased to comment on the International Accounting Standards Board (the Board) Exposure Draft 7: *Financial Instruments: Disclosures* (ED 7). We have considered ED 7 together with the Basis for Conclusion and Implementation Guidance. We support the issue of one standard, based on this Exposure Draft, which locates all disclosures on financial instruments in one place.

We would also like to applaud the principle set out in the last sentence of ED 7 paragraph 8, to the effect that an entity should not obscure the understanding of the users of financial statements by disclosing over much detail. We think that this is such an important concept that it should be given more prominence in the ensuing standard. We are aware of the Board's own concern about the negative effects of too many disclosures.

Detailed comments are as follows:

Question 1 - Disclosures relating to the significance of financial instruments to financial position and performance

The additional minimum disclosures set out in paragraphs 10, 17, 21(a) and 21(d) are appropriate to understanding performance and are considered useful in helping users to estimate future cash flows and income from the entity. We believe that the categories are appropriate as they follow from the different measurement bases in IAS 39. However, the Board should try to avoid creating new duplicative disclosures between IAS 18.35(b) (ii) and (v) and ED 7.21(a) (in connection with ED 7.21(b)).

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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 the collateral pledged as security and other credit enhancements unless impracticable. We do not consider this to be appropriate disclosure. The key issue is to provide the user with information pertaining to loss in the event of default, as acknowledged in BC27 by the Board In our opinion the disclosure requirement goes well beyond that and the cost of compliance can not be justified. The draft IFRS effectively requires the disclosure of the excess of collateral, when the key information element is disclosure of the shortfall in collateral for loans in the event of default. We recommend that the Board delete the requirements of 39(b) and reword the proposed disclosure requirements in 40(c) to any shortfall in fair value of collateral pledged as security and other credit enhancements.

BC 28 states that "the Board acknowledged that the fair value of collateral is not always readily available …….Therefore, the Board concluded that disclosure of the fair value of collateral pledged should not be required when impracticable". We would concur with the proposed exemption from disclosure if this would permit non-financial institutions (in particular) to take that exemption if fair value information regarding collateral pledged was "not always readily available". However, we believe impracticability to be a much tougher test, according IAS1.11, than "not always readily available". We recommend that the Board clarify its intention with regard to the application of the exemption.

Question 3 – Disclosure of a sensitivity analysis

For an entity that has exposure to market risk arising from financial instruments, the draft IFRS proposes to require disclosure of a sensitivity analysis. We accept that a sensitivity analysis would prima facie provide useful information. However, we believe that such disclosure would be impractical, if not irrelevant, for entities which do not use a sensitivity analysis as part of their internal management process.

Furthermore, we doubt whether consistency would be achieved in interpretation of what are reasonably possible changes in relevant risk variables. It is not clear whether the information should be based on the historic result or estimated future results. While we acknowledge the Board's reluctance to include examples that might be inappropriately copied, we believe that an example or further implementation guidance is necessary.

Question 4 – Capital disclosures

The draft IFRS proposes disclosure of information that enables users of an entity's financial statements to evaluate the entity's capital. While that proposal seems to have merit on the face of it, we believe that the requirements are more appropriate for entities

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that are regulated, where one of the regulators main purposes is to ensure solvency and capital adequacy (such as is appropriate for insurance companies and banks). We do not believe the extent of the disclosures required in paragraphs 47 and 48 are appropriate for the vast majority of entities that will comply with this proposed IFRS. Where an entity is regulated the regulator can require disclosures to itself or to the market. We consider it inappropriate for the Board to conclude that because such disclosures are required by some regulators or that some industries have developed norms, that the disclosure is appropriate for all entities.

If these disclosure requirements are retained we believe that the required disclosure should be restricted to situations where the entity has externally imposed capital requirements.

Question 5 – Effective date and transition

We consider the effective dates and transition requirements appropriate.

Question 6 – Location of disclosures of risks from financial instruments

If it is considered that disclosures of risks arising from financial instruments are required in order to achieve fair presentation in the financial statements, then such disclosures should be included in the financial statements. We would generally consider the disclosures necessary for fair presentation. But we acknowledge the Board's project on Management Discussion and Analysis and believe that this question could be reconsidered as that project progresses.

Question 7 – Consequential amendments to IFRS 4

We consider that risk disclosures for insurance contracts and financial instrument should be amended to make them consistent with the requirements proposed in this draft IFRS. We believe that the Board's arguments for amending IFRS 4 *Insurance Contracts* at this time are persuasive. Only a very timely completion of phase II of the Insurance project would warrant no amendment to IFRS 4 at this time.

Question 8 – Implementation guidance

While we acknowledge the Board's concerns that examples are sometimes copied inappropriately, we believe that the implementation guidance would be enhanced by including examples on credit risk, liquidity risk and market risk, (particularly sensitivity analysis).

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Question 9 – Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards Fair Value Measure ments published by the US Financial Accounting Standards Board (FASB)

We believe that the requirements in the draft IFRS provide adequate disclosure of fair value compared with those in the FASB Exposure Draft.

Question 10 – Other comments

We believe that many of the disclosure requirements in ED 7 will be inappropriate for small and medium sized entities. This is so even if it is argued that such entities typically do not have sophisticated financial instruments. We urge the Board to act swiftly on its project on small and medium sized entities.

If you have any questions on our response, or wish us to amplify our comments, please contact our Director of International Financial Reporting, Ms April Mackenzie (april.mackenzie@gt.com or telephone +1 212 624 5428).

Yours sincerely

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