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30 September 2004

Andrea Pryde
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH, UNITED KINGDOM

Dear Ms Pryde,

Request for comment on IASB ED 7 Financial Instruments: Disclosures

We provide responses to the request for comments in relation to the above exposure draft released in July 2004. These responses are attached as Appendix 1

Yours faithfully

N.G. Drabsch

Chief Financial Officer

APPENDIX 1 - RESPONSES TO QUESTIONS RAISED ON ED 7 BY THE IASB

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?

We agree with the proposals.

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?

Clarification is required as to the application of this section to insurance such as credit insurance and financial guarantee business. As insurance contracts these types of business give rise to liabilities which are substantially valued at fair value and it would not be meaningful to also disclose the fair value of collateral inherent in these contracts. Also refer comments on IFRS 4 in question 7 below.

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?

Our understanding is that an entity will have discretion as to how exactly the sensitivity analysis will appear, e.g. whether as part of a narrative or as a numerical table. We believe such discretion is important, especially as the nature of risks, and their cross-correlation, will vary between companies and industries, especially in insurance, and will make narrative disclosure of sensitivities more useful to the users of accounts.

Clarification is required as to the application of the market risk disclosures to residual value insurance contracts. Such a risk is an inherent part of valuing the insurance liabilities at fair value.

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?

We agree with the requirement to disclose compliance with externally imposed capital requirements, which is of importance to the users of the accounts, and with the other requirements proposed, except for the following paragraph.

We disagree with the requirement to disclose compliance with internally generated targets for capital. It is unclear to us what useful information this will impart as part of the annual accounts and there will be little or no comparability between companies. It is also unclear as to how this information can be audited.

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?

We agree with the proposals.

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 agree with the proposals.

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 agree that the risk disclosures in IFRS 4 should be amended to make them consistent with the requirements in the draft IFRS.

We also agree that it is appropriate to give insurance companies the choice for the next two financial years (2005 and 2006) as to whether to early adopt this standard, or to continue with the existing ‘stable platform’ 2005 standards.

It is unclear as to how the new wording, which asks for ‘sensitivity analysis, showing the effect on profit or loss and equity’ fits in with the retained IG 52 of IFRS 4, which states that ‘Sensitivity analysis might be qualitative, and preferably also quantitative.’ The addition of the words ‘showing the effect on’ can be interpreted to require quantitative disclosures whereas IG 52 of IFRS 4 clearly allows qualitative information.

The proposed amendments to IFRS 4 need to clarify the extent to which the disclosures re credit risk need to be applied to insurance contracts which have credit risk as an inherent insurance risk, such as credit insurance and financial guarantee. Clarification is also needed re the application to market risk disclosures to residual value insurance contracts.

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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 appears sufficient.

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 agree with the IASB proposals.

Question 10 — other comments

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

Consideration should be given to reducing the disclosures required from wholly, or nearly wholly owned subsidiaries, where the consolidated group financial statements are publicly available. In addition, consideration should be given to providing the parent entity of a consolidated group some relief from applying the disclosure requirements proposed where the parent entity financial statements are presented with those of the consolidated group.