CNB CZECH NATIONAL BANK
NA PRIKOPE 28
115 03 PRAGUE 1
CZECH REPUBLIC
e-mail: josef.jilek@cnb.cz
phone: +420 / 2 / 2441 3017
fax: +420 / 2 / 2441 2239

CL 46

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

22 October 2004

Dear Sir or Madam,

Czech National Bank would like to express sincere thanks the Board for this opportunity to comment on the Exposure draft ED 7 Financial Instruments: Disclosures. In general, we support the Board's efforts to more closely align disclosure, presentation, recognition and measurement of financial instruments with true and fair view / fair presentation.

We have one comment: it is necessary to clarify the definitions in Appendix A as the current definitions are misleading:

Currency risk – the risk that the fair value ~~or future cash flows~~ of a financial instrument will fluctuate because of changes in foreign exchange rates

Interest rate risk – the risk that the fair value ~~or future cash flows~~ of a financial instrument will fluctuate because of changes in market interest rates. It includes prepayment risk.

The reason is that there is only one kind of currency risk and interest rate risk. The "cash flow currency risk" and "cash flow interest rate risk" are not considered as a risk. **"**Cash flow currency risk" and "cash flow interest rate risk" are not any risks as any cash flow does not have any influence on income statement. Thus fluctuation of future cash flows of a financial instrument because of a change of foreign exchange rates and interest rate is not a risk. Interest rate risk is in Basle Capital Accord measured either by maturity method or duration method. In any case, fair value is at risk. **For example under the current definition bond with floating coupons could be considered as the financial instrument**

with interest rate risk (there is fluctuation of future cash flows because of changes in market interest rates). But in fact such a bond does not bear interest rate risk.

Hedging of interest rate risk should mean the lower interest rate risk, i.e. the compensation of interest rate positions in gaps. Such compensation means that there will be offset of gains and losses (changes of fair values) between the hedged items and hedging instruments (derivatives).

Prepayment risk is generally considered as a part of interest rate risk, as prepayments depend on market interest rates.

Yours sincerely,

Josef Jílek

Professor in Economics