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Ms Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
London
UNITED KINGDOM

Dear Ms Pryde

SUBMISSION ON IASB EXPOSURE DRAFT 7: FINANCIAL INSTRUMENTS – DISCLOSURE

Thank you for the opportunity to make a submission on the IASB's Exposure Draft 7: Financial Instruments – Disclosure (ED7).

The Reserve Bank of New Zealand (RBNZ) – New Zealand's central bank – is making this submission in its capacity as the supervisor of banks in New Zealand and as an adviser to the New Zealand Government on financial sector matters. In that capacity, the RBNZ seeks to promote the maintenance of a sound and efficient financial system in New Zealand.

In New Zealand, financial disclosure forms a key part of the regulation of the financial sector. Robust disclosure by banks and other similar financial institutions plays an important role in fostering sound corporate governance and risk management within these entities. It is also essential to the promotion of well-informed investment decision-making, at both retail and wholesale levels. High quality financial and risk-related disclosure also performs a key role in promoting strong market disciplines on banks and other financial institutions. The RBNZ, among other government and private sector agencies in New Zealand, therefore attaches great importance to the maintenance of robust disclosure-focused accounting standards for banks and similar financial institutions.

In reviewing ED7, the RBNZ has had particular regard to the likely impact of ED7 on disclosure by banks and similar financial institutions, given that the promulgation of ED7 is intended to result in the withdrawal of IAS 30. In New Zealand's case, and possibly in other countries, this would result in a marked weakening of the quality of disclosure by

banks and other financial institutions, given that the proposed New Zealand version of IAS 30, and the existing equivalent New Zealand Financial Reporting Standard (FRS-33), form the core elements of disclosure by these entities and contain comprehensive disclosure requirements tailored to the business of banks and similar financial institutions. They require comprehensive disclosures in relation to: balance sheet composition; off-balance sheet positions; risk positions; risk management systems; income statement; capital; asset quality; and a range of other matters.

In contrast, ED7 is pitched at a more general level and is not designed to provide specific disclosure requirements for financial institutions. As a result, the disclosure required under ED7 is considerably less comprehensive than is currently required under New Zealand accounting standards applicable to banks and similar financial institutions. We would therefore be concerned if ED7 is promulgated in its current form in the absence of supplemental disclosure requirements for specific application to banks and similar financial institutions.

In the RBNZ's submission to the Institute of Chartered Accountants of New Zealand (ICANZ), we have identified the areas where ED7 would result in a significant weakening of disclosure requirements for financial institutions, based on the current New Zealand accounting standard applicable to these entities. The RBNZ submission to ICANZ is attached for your reference.

In our submission to ICANZ, we have recommended that the substantive content of NZ FRS-33 and NZ IAS 30 be preserved either by way of a schedule to the New Zealand version of ED7 or as a separate New Zealand financial reporting standard. However, we have noted that a first-best solution would be for robust disclosure requirements for banks and similar financial institutions to be mandated at a *global* level through a suitable International Financial Reporting Standard (IFRS). This would provide a broadly uniform minimum set of disclosure requirements for banks and similar entities on a global basis, thereby facilitating comparison across financial institutions in different jurisdictions, providing a broadly level playing field for disclosure, and simplifying group financial reporting for banks and similar entities operating in multiple jurisdictions. An IFRS focused on disclosure by financial institutions would also help to strengthen the incentives for sound corporate governance and risk management in the financial sectors of many countries at a time when the need for this is being increasingly recognised.

Our concern is that ED7 in its current form does not provide sufficiently comprehensive disclosure for financial institutions, given that ED7 has been designed for application across all sectors to include any entity whose business involves use of financial instruments. We support the proposal for a broad-based ED7 and have no desire to see non-financial entities being subject to comprehensive disclosure requirements akin to those to which banks and similar financial institutions might appropriately be subject. Retaining ED7 as a broad-based IFRS focused on disclosure of financial instruments makes good sense. However, we strongly believe that it is not sufficient for banks and similar financial institutions. In particular, we believe that ED7 (taken in the context of

other IFRS) does not provide for sufficiently comprehensive disclosure by financial institutions, particularly in respect of:

- balance sheet composition;
- off-balance sheet positions;
- composition of income statement;
- nature of capital;
- asset quality and provisioning;
- concentrations of assets and funding;
- financial derivatives and other contingencies;
- risk management systems and internal controls;
- governance arrangements;
- accounting policies; and
- market risks;

In the context of an increasing recognition of the importance of strong corporate governance and risk management practices in banks and similar financial institutions, and the vital role that market disciplines can play in promoting a sound financial system, we think it would be highly desirable for the IASB to develop a set of comprehensive disclosure requirements for specific application to banks and similar financial institutions. This would complement the increasing emphasis being placed on disclosure by the Basel Committee on Banking Supervision, including in respect of Pillar III of Basel II (which, as you will be aware, requires comprehensive disclosure by banks). An international financial reporting standard would also assist national authorities in many countries to develop robust disclosure arrangements for their financial sectors. And as noted above, an international financial reporting standard for banks and similar financial institutions would lay the basis for a broadly uniform set of minimum disclosures on a global basis.

The implementation of disclosure requirements tailored specifically to banks and similar financial institutions could possibly be done as a schedule to ED7, containing supplemental disclosure requirements covering the above areas for specific application to banks and other similar entities. However, it might be conceptually better and easier to incorporate such disclosure requirements into a separate IFRS for specific application to banks and similar financial institutions.

We appreciate that there are difficulties in defining “bank” and “financial institution” for the purpose of financial reporting standards – a point made by the IASB in relation to ED7. However, we do not think this is an insurmountable problem; many regulations at national and international levels contain workable definitions which could be incorporated either into a schedule to ED7 or into a new IFRS for specific application to banks and similar financial institutions.

The attached submission to ICANZ provides our thinking on the nature of the content that might appropriately be included in a stand-alone IFRS dedicated to banks and similar financial institutions or in a schedule to ED7, for disclosure by financial institutions.

We strongly encourage the IASB to develop a set of specific disclosure requirements for banks and similar financial institutions as a matter of high priority, desirably in conjunction with, or in parallel to, the advancement of ED7.

We would be happy to elaborate on this submission if that would be helpful.

Yours sincerely

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