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ED 7 *Financial Instruments: Disclosures*

Memorandum of comment submitted in October 2004 by the Institute of Chartered Accountants in England & Wales to the International Accounting Standards Board on the Consultation Document 'ED7 Financial Instruments: Disclosures'

Contents **Paragraphs**

INTRODUCTION

1. The Institute of Chartered Accountants in England & Wales welcomes the opportunity to comment on the consultation document ED 7 *Financial Instruments: Disclosures* ('the ED') published for comment in July 2004 by the International Accounting Standards Board'. The Institute is the largest accountancy body in Europe, with more than 126,000 members operating in business, public practice and within the investor community. The Institute operates under a Royal Charter, working in the public interest.

2. We support the objective of bringing the financial instruments disclosure requirements together in a single standard, but consider that many of the proposed disclosures would be onerous, and more relevant for banks than other entities. We set out our comments below, dealing first with significant matters before commenting on the specific issues raised in the paper and other matters of detail.

MAJOR POINTS

Basel II Disclosures Not Relevant for Non Banks

3. The ED appears to be attempting to be consistent with Basel II Pillar 3 requirements, for example, in the proposed disclosures of credit quality. While we support consistent requirements, it may be difficult for insurers and non financial services entities to understand the requirements, particularly as the implementation guidance and illustrative examples are not detailed and the guidance is drafted in terms of more relevance to banks. We do not consider it the job of a financial reporting standard setter to address regulatory reporting requirements. General purpose financial statements are not required to meet the information needs of one particular user group, particularly when that user can obtain information in other ways. Furthermore, it is inappropriate to extend the scope of regulatory disclosure requirements beyond the regulated sector. This will result in significant additional costs for a large number of companies without providing useful information.

Location of disclosures

4. Financial statements are no less incomplete and potentially misleading without disclosures about risks arising from assets and liabilities other than financial instruments. Risk disclosures are often made in the Management Discussion and Analysis (MD&A). While we understand that the IASB's remit extends only to financial statements, and it may be thought appropriate to start with financial instruments in developing standards about risk disclosures, we question whether such wide-ranging disclosures about financial instruments alone should be required in financial statements at this time. One of the biggest risk areas for many entities, pension liabilities, is outside the scope of the ED, for example. Financial

statements could be made unbalanced and potentially misleading for entities that have significant risks from non-financial instruments. The required disclosures should be reviewed and those that are more appropriate for an MD&A discussion should be deleted.

5. While it will be possible to audit most of the required disclosures if they are included in the financial statements, the audit of some of the more narrative and forward looking disclosures may result in considerable additional expense for entities. We question whether, on cost/benefit grounds, it is necessary to specify that they are included in the financial statements either directly or by cross-reference. In addition, where entities present a coherent and complete risk management section outside the financial statements as part of their MD&A, the cross referencing could be difficult to understand, particularly when the more specific disclosure requirements of Basel II Pillar 3 are mixed with the ED's requirements. This supports limiting the disclosures required in financial statements to those that are necessary for an understanding of the current financial position and performance.

Differentiation of disclosure by type of financial instrument

6. A one-size-fits-all approach is not necessarily appropriate for the disclosures proposed in the ED. The level of disclosures appropriate for listed and regulated entities is not appropriate for others. Similarly, many of the risk based disclosures are inappropriate for wholly owned subsidiaries. Although the IASB has not in the past included exemptions, it would be unacceptable to have a standard with this level of detailed disclosures without some exemptions. An exemption should be granted from some of the detailed disclosures for entities that are neither listed nor regulated, and for wholly owned subsidiaries meeting the following criteria: risk is managed on a group-wide basis; the disclosures are provided on a consolidated basis in publicly available group financial statements; and a reference is made in the subsidiary financial statements to where this information can be found.

7. The ED is made more difficult to understand and apply because it sets out disclosures without reference to the type of financial instrument and insurance contract involved. For example, market risk disclosures are more relevant and understandable in the context of trading instruments and credit risk disclosures are more relevant and understandable in the context of loans and receivables. If the required disclosures were tailored by IAS 39 financial instrument classification, this would make the standard easier to apply by preparers and may assist users to better understand the nature of the risks involved.

Capital disclosures

8. These disclosures are meaningless for companies not subject to regulatory capital supervision. For regulated entities, we agree that some additional disclosures of capital as defined for regulatory purposes are appropriate. However, this should be limited to a quantification and description of the components of the capital base and their movements in the year.

9. It is not appropriate for internal capital targets to be included in the financial statements as this is forward looking information and would be equivalent to publishing budgets in the financial statements. While in theory it might provide interesting information, the financial statements are not the appropriate place for such disclosures, if they are to be given. While it might be possible to audit a capital target in absolute terms (i.e. this is a number set by the regulator or an internal budget number), it would be impossible to audit the calculation of that target. It should not, therefore, be provided in the financial statements. As noted above, a more sensible disclosure which might be included in the financial statements would be of the actual regulatory capital held and its components.

10. Furthermore, we do not agree that it is appropriate to disclose compliance with or breaches of internal or external capital requirements and their consequences. We question the relevance of disclosing a breach of internal capital requirements and note that disclosure of breaches of external capital requirements might be specifically prohibited by the regulator. Neither regulatory targets nor breaches of these targets are public information at present and nor should they be. Disclosure of even minor breaches of regulatory targets which have since been remedied might have a disproportionate effect upon both capital markets and policyholder behaviour.

11. If disclosures of capital targets are to be provided, these should be provided in the MD&A or an equivalent statement. The content of the MD&A is normally set in company legislation or by securities regulators. Financial services supervisors also have the power to require certain information to be disclosed in the MD&A. Any suggested disclosure of capital targets would therefore appear to fall within the remit of bodies such as the Committee of European Securities Regulators or its sister bodies for banking and insurance supervisors, rather than the IASB.

RESPONSES TO SPECIFIC QUESTIONS

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?

12. Taken as a whole, the proposed disclosures appear reasonable. Some of the classifications in paragraph 21 might create difficulties for some of the more complex trading businesses by being too inflexible.

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?

13. We do not support the proposed disclosures of the fair value of collateral.

14. These disclosures appear to be based upon Basel II disclosures. While we recognise that some analysts might be interested in information regarding the quality of assets held as security over loans, it will often be difficult, if not impossible, to provide this information in a way that will be meaningful in allowing users to assess the loss an entity expects to incur in the event of default. We therefore question whether it is appropriate to require these disclosures as part of the general purpose financial statements for all types of financial instrument

15. The proposed disclosures are overly simplistic and likely to be meaningless unless the disclosures are provided in far greater detail than is proposed. There are different levels of security between retail and corporate portfolios. Taking the example of a mortgage book, to properly understand collateral, it would be necessary to break down a portfolio by loan-to-value ratios and geographically,

given that property price movements often vary by region. Such detailed disclosures might be overly voluminous and disproportionate to the value of disclosures to users.

16. The value of collateral only becomes relevant where there are problems in a loan portfolio. This will be highlighted by the impairment provisions. Additional disclosure of collateral values is duplicative and may therefore be misleading. It may also be misleading to disclose the aggregate fair value of the assets held as security when they significantly exceed the value at risk of the underlying loans. The actual value of any security will be affected by the quality of underlying loan. The presence of collateral is more important and hence more valuable on a loan where there is a real risk of default than where the risk of default is low. Aggregate disclosure of the fair value of collateral may therefore create a false sense of security.

17. We see no particular problems in providing a description of collateral pledged as security as proposed in 39(b). The real difficulty lies in the disclosure of their fair value "unless impractical". It would often be hugely costly and of little value to disclose the fair value of collateral. Taking one of the simpler examples of a mortgage portfolio, property valuations are taken when the mortgage is first taken out. A typical mortgage valuation will not provide a best estimate of the property value, but an opinion that the property can be sold on for not less than a particular value. While valuations might be adjusted using property price indices, the estimated value will become less reliable over time. Maintaining reliable estimates of the fair value of collateral over corporate loans with a floating charge would be even more complex and difficult.

18. A related issue is that the ED assumes that there is a single standard of enforceability of collateral. This is not true. There can be significant differences between the ease with which collateral can be called upon. This can have a significant impact upon the fair value.

19. We therefore suggest that narrative disclosure on collateral policy should be provided. If further information is to be provided, a sensitivity analysis around the impairment figure would provide more useful information to users.

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?*

20. A sensitivity analysis might provide useful information but would often require significant work to provide. For the analysis to be meaningful, it will be necessary to divide the balance sheet into different financial instrument types and separate income statement and equity movements.

21. The analysis appears most useful in the context of a trading type portfolio. It is less relevant on held to maturity and loan classes, where the impairment provisions would provide similar information to users. The Board should consider introducing different levels of disclosures for different categories of assets and liabilities. The existing categories may not be the most appropriate since much of the available for sale category may be intended to be held to maturity, but does not meet the strict criteria for this classification. We would suggest a lower level of disclosure should be required for non-trading assets and liabilities, with the analysis based upon an internal assessment of the most appropriate disclosure.

22. The disclosures may difficult from a non-banking, corporate perspective. The proposed disclosures will pick up only financial risks. Corporates may be exposed as significantly to non-financial risks, such as property prices or the prices of future commodity transactions. A manufacturer, for example, may have significant exposure to the price of steel for future transactions. A sensitivity analysis of this exposure would only be required if this exposure is hedged by derivatives and then only on the derivative portfolio.

23. A sensitivity analysis only provides good information if it is comprehensive. One of the most significant risks facing many companies is the size of the pension scheme surplus or deficit. A pension scheme is just one example of a significant risk facing companies where a sensitivity analysis is not required. Operation risk is another. We would question why it should be necessary to provide a sensitivity analysis for financial instruments if it is not considered necessary for other types of risk. We note that paragraph 116 of IAS 1 *Presentation of Financial Statements* requires disclosure of information about key assumptions and sources of uncertainty where significant. The proposed sensitivity analysis should either be made consistent with the requirements of IAS 1.116 or be replaced with a cross reference to that paragraph.

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?

24. The proposed capital requirements do not appear to have much meaning or relevance for companies that are not subject to regulatory capital supervision. The financial concept of capital is defined in the IFRS Glossary as the entity's net assets or equity. While some unregulated sectors may have industry norms, this is not common. In the EU, the rules on distributable profits are linked for some entities to net assets, but information about capital alone would not be sufficient to explain the entity's ability to pay dividends. Therefore, we question the rationale for requiring qualitative and quantitative information about capital for all companies. For unregulated companies, the existing disclosures of the components of equity and their movements in the year, as required by IAS 1, should be sufficient. In addition, IAS 1 requires that management make an assessment of the entity's ability to continue as a going concern and disclose any uncertainties that cast doubt on this ability. This disclosure should be sufficient to address any concerns about the quantity or quality of capital.

25. For regulated entities, we agree that some additional disclosures of capital as defined for regulatory purposes are appropriate. However, we believe that this should be limited to a quantification and description of the components of the capital base and their movements in the year. While we can accept that the disclosure of the existence and level of entity-specific capital requirements may be of interest to users because it informs them about the risk assessment of the regulator, we do not agree that this information is relevant to an understanding of the financial position and financial performance of an entity or of sufficient relevance to the amount, timing and uncertainty of future cash flows as to be required to be generally disclosed. Disclosures that would improve transparency and market discipline are within the remit of Basel II may not be appropriate for the audited general purpose financial statements.

26. As noted in our major points above, it would be inappropriate for internal capital targets to be disclosed in the financial statements since this would be providing a budget to actual comparison within the financial statements. This might, indeed, encourage boiler plate type disclosures which might not reflect the true targets. If it is to be provided, it should be through the MD&A. These disclosures appear to be aimed at regulated businesses with external capital requirements, where in many jurisdictions there are legal barriers to disclosure of regulatory capital requirements. The disclosures would add little value for corporates.

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?

27. The timetable and transition requirements appear reasonable.

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?

28. We agree that some of the disclosures in the ED should be required in financial statements, but do not agree that it is appropriate for certain other disclosures to be included in the financial statements. For example, it would be appropriate to include our proposed alternative of a reconciliation of capital movements for regulated entities in the financial statements and the disclosures in paragraphs 10 – 18. Paragraphs 21 – 31 are clearly part of the financial statements.

29. The disclosures in paragraphs 19 – 20 on defaults and breaches and in paragraphs 46 – 48 should not be included in the financial statements, unless they are relevant to an assessment of going concern. It may instead be appropriate for this type of information to be included in the MD&A as part of the discussion of what happened in the year or may happen in the future.

30. Many entities would wish to provide the disclosures in paragraphs 32 – 45 in one place, perhaps as a coherent and complete statement of risk. While it will be possible to audit all the required disclosures if they are included in the financial

statements, the audit of some of the more narrative and forward looking disclosures may result in considerable additional expense for entities, not to mention regulatory constraints on auditing forward looking information. We question whether, on cost/benefit grounds, it is necessary to specify that they are included in the financial statements either directly or by cross-reference. In addition, where entities present a coherent and complete risk management section outside the financial statements as part of their MD&A, there could be practical difficulties with cross referencing, particularly when the more specific disclosure requirements of Basel II Pillar 3 are mixed with the ED's requirements. The required disclosures should be reviewed and those that are more appropriate for an MD&A discussion should be removed from the ED.

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?

31. In principle, we consider it appropriate for the proposed changes to be made and subject to the comments below.

32. Paragraph 39(a) of the ED, combined with Paragraph 39(c) of the revised IFRS 4, would require the "amount" of risk exposure to be disclosed. For insurance contracts, disclosure of absolute amounts will provide users of the accounts with theoretical maximum exposure limits (which for some classes may be unlimited). This will provide little in the way of quality information for users of the accounts since it ignores the effects of diversification, for example, which means that the theoretical maximum exposure might differ significantly from the maximum probable loss. The wording on quantitative disclosures is different to that used in paragraph 35 of the ED for other financial instruments which requires quantitative data about the extent to which an entity is exposed to risk. This disclosure is directly linked to the entity's own basis of measurement of such exposure through the requirement to use as a basis for the disclosure the information provided internally to its key management personnel. We believe that a similar requirement should be used for insurance contracts. This could be achieved by using the

wording in paragraph 35 to the ED or by omitting the words "the amount of" from the proposed wording in IFRS 4 paragraph 39 (b)(iii).

33. In the proposed new guidance for IFRS 4 contained in IG62A, we presume that the reference in paragraph 50(a) should be to paragraph to 42(a) of the ED. The new paragraph makes the assertion that "the maturity date of insurance liabilities depends on when the insured event occurs". This is not the only factor influencing the timing of cash flows. Others will include:

- whether the insured event occurs or has already occurred;
- whether the insurance contract has a payout if an insured event does not arise;
- whether there are amounts payable on the lapse or surrender of the policy; and
- the settlement terms of a claim arising under the insurance contract.

34. Each of these factors may impact upon the timing of the maturity of the insurance liabilities and any estimate of such timing would involve assumptions of the ultimate claims settlement.

35. We believe that for some classes of insurance contract (and in particular general insurance contracts) a disclosure of estimated maturities will not provide meaningful information prior to the occurrence of an insured event covered under the contract (i.e. a maturity analysis of the provision for unearned premiums). Insurers do not know when claims maturities will hit, although they may be able to provide an estimate of expected maturities. We therefore do not believe that the information should be provided for the insurance liabilities representing the deferred income for periods of unexpired risk. Disclosure of the expected earnings pattern for unearned premium might be provide a suitable alternative disclosure. For incurred claims that are unpaid at the balance sheet date there may be a greater argument for the provision of maturity information.

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?

36. The implementation guidance appears insufficient, particularly for non-financial services entities. The implementation guidance does not add much information to the body of the ED. Further illustrative examples would be helpful, particularly on

how disclosure might be broken down by products and classifications. They would add to consistency of disclosures across entities.

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?

37. We agree that the requirements in the ED are sufficient compared with those proposed by FASB. In particular, it seems unnecessary to require disclosure of the percentage of assets and liabilities that are measured at fair value as a percentage of total assets and liabilities when the measurement basis of the assets and liabilities is clear in the analysis and accounting policies provided.

Question 10

Other comments

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

Group Exemptions

38. Where risks are managed on a group basis, disclosures made by individual companies in the group are likely to be incomplete and misleading. It would be useful to exclude subsidiaries and parent companies from providing some, if not all, disclosures when consolidated disclosures are publicly available.

Disclosures by Class of Financial Instrument

39. Paragraph 7 could be usefully expanded to address which types of disclosure are likely to be more relevant for which class of financial instrument. Following from this expansion, the disclosure requirements themselves should be better focussed on financial instrument types.

40. The requirements in paragraph 31 are not clear. *Prima facie*, it seems reasonable to distinguish between classes of financial assets and financial liabilities where fair values are determined by reference to published prices or rates in an active market and those where fair values are estimated using a valuation technique (31 (b)). However, a better distinction would be to classify between those instruments in an active market and those not, since this would then be consistent with the fair value measurement guidance itself. We agree that, where valuation techniques are used, it may be appropriate to disclose assumptions underlying the technique (31 (a)), although one assumes that this is not necessary where published prices or rates are

used. It would be helpful to reorder sub-sections (a) and (b) and make it clear that assumptions are not relevant where market prices or rates are used.

41. The meaning and intention of paragraphs 31(c) and (d) are even less clear. Where a financial asset is measured using a valuation technique that includes assumptions that are not supportable by observable market prices or rates, in accordance with IAS 39 paragraph AG 76 then the best evidence of its fair value on initial recognition is the transaction price rather than the valuation technique. Paragraph AG 76A of the recent exposure draft amending the transition and initial recognition aspects of IAS 39 would limit gains or losses recognised on subsequent measurement to changes in a factor that market participants would consider in setting a price. Subject to our comments in response to that recent exposure draft, where the transaction price has been used in the financial statements and no gain recognised, then it seems illogical to require disclosure of either the fair value that has not been recognised or another fair value determined using a different alternative assumption. If paragraph 31(c) applies and the valuation technique would include an assumption not supported by observable market prices or rates, then paragraph 31(d) is irrelevant since no change in fair value would be recognised in the profit or loss during the period.

Own Credit Risk & Unit Linked Contracts

42. While we agree with the idea behind paragraph 11 of disclosing the amount of change in fair value attributable to changes in own credit risk on a financial liability designated as at fair value through the income statement, we do not believe this paragraph achieves this aim in all cases, for example where the financial liability is being designated at fair value because it is contractually linked to the fair value of financial assets. The detailed guidance in paragraph 12 is more appropriate for the implementation guidance section of the standard. We suggest that the aim of paragraph 11 is more clearly stated and that paragraph 12 is included in the implementation guidance as one way of performing the calculation.

Age Analysis and Past Due Loans

43. The ED is unclear as to what is meant by the proposed age analysis and we have doubts over the usefulness of this proposed disclosure. We question whether, when financial instruments are assessed for impairment on a portfolio basis, it will be possible to provide an age analysis of those instruments that are past due as at the reporting date but not impaired as required by paragraph 40(a). Similarly paragraph 40(b) seems to be merely asking for a repeat of the list of objective evidence of impairment as set out in paragraph 59 of IAS 39. This should be included in the accounting policy, rather than in the analysis.

44. According to the defined terms, a loan is "past due" when there is a breach of contract, ie a failure to make payment when contractually due. The loan will no longer be past due when the breach is rectified. This seems a matter of fact and not policy. Therefore we question why paragraph 23(f) introduces a requirement to disclose policy in this area.

Collateral Called

45. Where an entity obtains collateral pledged, it seems pointless to disclose the fair value of the assets obtained less costs as per paragraph 41(b) since the expected cash flows in relation to these assets are already included in the impairment calculation.

IAS 30 Formats

46. We would like to see the formats currently included in IAS 30 retained going forward. We propose that IAS 1 should be amended to include these formats to ensure that they are not lost when IAS 30 is withdrawn.

Suggested Deletions from IAS 30

47. The maturity analysis on assets currently required under IAS 30 appears to have disappeared from the ED (although the disclosure would still be required if significant under paragraph 35). We welcome this deletion, although note that it is not entirely clear whether this was intentional. If this is intentional, the disclosure requirement should be withdrawn immediately from IAS 30, since the ED duplicates the requirements currently in IAS 32.

48. The disclosures of directors' loans currently required under paragraph 58 of IAS 30 are more detailed than the disclosures required for other companies under IAS 24. It appears excessive to require greater disclosures in this area for banks than for other entities and we note that disclosure requirements for directors' loans are often covered by local laws and regulations in any case. Paragraph 58 should be removed immediately from IAS 30.

Master Offsetting Agreements

49. The interaction of paragraph 50 of IAS 32 and paragraph 39 of the ED is not clear with respect to master netting agreements. IAS 32 requires assets and liabilities subject to many of these agreements to be shown gross on the balance sheet and paragraph 50 refers back to ED 7 for the disclosure of the effect of the agreements on the entity's exposure to credit risk. Paragraph 81 of IAS 32 currently allows for

the true credit position to be indicated via disclosure. This provision is not carried over into the ED. Is it the intention that the disclosure in paragraph 39 of the ED is of the net exposure even though the amounts are shown gross in the balance sheet or should the disclosure analyse the amounts shown in the balance sheet? If the intended disclosure is of the amounts shown in the balance sheet, this will not reflect the credit risk position where a master offsetting agreement is in place.

50. We have no other comments.

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