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RESPONSE OF THE ASSOCIATION OF BRITISH INSURERS TO IASB EXPOSURE DRAFT (ED7) FINANCIAL INSTRUMENTS: DISCLOSURES

1 EXECUTIVE SUMMARY

1.1 We support the overall objective of moving to a principles based approach to disclosure of financial instrument information.

1.2 The requirement to provide sensitivity analyses of net income and equity is too prescriptive, contradicting the underlying principles based approach of allowing companies to disclose risk information according to how they are managed internally.

1.3 The sensitivity disclosures are onerous and do not make sense in the context of insurance risk. The requirement to provide sensitivity information should not be extended to insurance risk until the phase II debate has had time to consider their relevance and the work on solvency being undertaken by the EU commission is finalised.

1.4 The proposal to use a single factor analysis basis for sensitivity information will not take into account the interaction of differing risks, nor of management intervention to mitigate the effect of movements in individual risk factors. In practice the interactions are complex, and therefore the proposed disclosure may give a misleading impression.

1.5 We support the approach of aligning disclosure of capital information with externally imposed targets, however some latitude is required since in certain jurisdictions regulators have specifically requested that certain information is not made publicly available.

1.6 We support the approach of bringing together the disclosures relating to financial instruments in one standard and easing a number of existing disclosure requirements. However this creates certain practical implementation issues as companies are faced with the need to make expensive systems changes to collect IAS 32 information that may be required for only one year. The ability to early adopt certain of the ED 7 proposals would solve this problem, however companies are unlikely to be in a position to early adopt the standard its entirety. Careful thought in drafting the transitional provisions to allow companies to early adopt certain of the requirements of the new standard but not others would save companies considerable expense.

2 COMMENTS ON THE QUESTIONS RAISED IN THE EXPOSURE DRAFT

Q1 Disclosures relating to the significance of financial instruments to financial position and performance

We believe that generally these proposals are appropriate.

Q2 Disclosure of the fair value of collateral and other credit enhancements

This proposal is appropriate but the requirements relating to collateral held will only be of limited relevance to insurers.

Q3 Disclosure of a sensitivity analysis

The requirements for sensitivity analysis for insurers are not relatively easy to understand and calculate as implied by BC36 (b) of the Basis for Conclusions. In fact they are likely to be very onerous for an insurer because, if they are to be meaningful to accounts users, it will be necessary as envisaged in paragraph 44 to take into account any interdependencies between variables, and the impact of management action in response to changes in risk variables.

We would therefore prefer sensitivity analysis to be based on key market risks only. We also believe the proposals should not be extended to insurance risk as this will be covered under phase II of the IASB insurance project.

Q4 Capital disclosures

We agree with the proposal that entities should be left to determine how to make the required capital disclosures in ways that best meet the requirements of accounts users and protect the entity's proprietary information.

We do not consider it appropriate to require disclosure of internal capital targets. These are commercially sensitive and in any case are not relevant to an understanding of the financial statements.

We do not consider it appropriate to require disclosure of compliance or breaches of compliance with internal or external capital requirements and their consequences. The financial statements are not the correct place for this type of disclosure.

On the other hand, while we do not consider it particularly relevant in financial statements, we would not object to a requirement to disclose any externally imposed capital requirement but excluding any information that a regulator has requested should not be made publicly available. Even though externally imposed capital requirements may not exist in all countries, there is no reason why, where they do exist and subject to the above caveat, IASB should not require their disclosure.

Q5 Effective date and transition

While the proposed effective date is appropriate, we welcome the intention to encourage earlier adoption. Companies are unlikely to be able to early adopt the ED7 proposals in their entirety. Considerable expense could be saved however if the transitional provisions allow a partial early adoption that removes any need for expensive systems changes to collect information required under IAS 32 that will not longer be required under ED 7.

Q6 Location of disclosures of risks arising from financial instruments

We think there should be an option to include information on risk in a section on financial risk management in the Operating and Financial Review where this is produced. Note disclosure in the financial statements should only be a requirement where there is no OFR. This is because sensitivity analysis in particular might be very difficult and expensive to audit.

Q7 Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)

Generally, we believe it is logical to amend the disclosures in IFRS 4 to make them consistent with the requirements proposed in ED7. The requirements for sensitivity analysis however go beyond US Regulation where the SEC's market risk disclosures exclude insurance contracts from sensitivity analysis. We believe that IASB should adopt a similar approach pending completion of phase II of the insurance project.

Q8 Implementation Guidance

We do not think any additional implementation guidance is necessary.

Q9 Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board (FASB)

We believe that the requirements in ED 7 provide adequate disclosure of fair value compared with those proposed by the FASB.

Q10 Other comments

We have no other comments on the draft proposals.