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International Accounting Standards Board
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Direct dial	:	Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0279
Date	:	Amsterdam, 20 October 2004
Re	:	Exposure Draft ED7 Financial Instruments: Disclosure

Dear ladies and gentlemen,

We appreciate the opportunity to respond to your invitation to comment on the *"Exposure Draft ED7 Financial Instruments: Disclosures" (Further referred to as ED)*. Our response consists of general comments and answers to the questions raised in the ED.

1 General comments

We welcome and appreciate the exposure draft and agree with the objective of the IASB to propose principles based disclosure requirements for financial instruments. We furthermore agree to the objective to decrease the number of detailed requirements.

2 Answers to questions raised in the ED

Question 1: ***Disclosures relating to the significance of financial instruments to financial position and performance***

We agree to bring the disclosures of IAS 32 and the additional disclosures included in this ED together in one standard.
Whereas most of the disclosures from IAS 32 have been copied in this ED, some of the disclosures previously included in IAS 30 or IAS 32 have not been included in this ED. Especially disclosure in respect of off balance sheet items, such as loan commitments and guarantees, are lacking.

In general we welcome the decrease of the disclosure requirements. We have however identified a few instances where we do not agree with the decrease of detailed requirements:

- As a result of the proposal to require the disclosure of a sensitivity analysis, the requirement in current IAS 32 to provide disclosures of terms and conditions of financial instruments, has been deleted. In our view these disclosures would continue to provide important information to users, in particular in respect of terms and conditions of financial instruments that are not reflected in sensitivity analyses. The terms and conditions may be partly covered by the requirement in the ED (paragraph 32) to disclose the nature and extent of risks arising from financial instruments. To the extent, however, this requirement would not lead to the disclosure of all relevant and not otherwise disclosed terms and conditions, we propose that the requirement to provide this information is added.
- We believe that the requirement to disclose effective interest rate information for financial liabilities should be reinstated in the standard. We believe that this disclosure provides relevant information to users for estimating future interest cash outflows. We do not think that this disclosure is sufficiently captured by the requirements to provide sensitivity analyses.

The scope of the ED refers to 'recognised and unrecognised' financial instruments. Guarantees are included in the scope of IAS 39 according to the latest proposed amendment of IAS 39 and would be recognised when entered into. As a result these items would be part of the disclosure requirements of the standard. Some loan commitments however are out-scoped from IAS 39 and continue to be unrecognised. They would however be relevant in the consideration of the credit risk of an entity. We propose that this is addressed in finalization of the standard.

We agree that the scope of the ED includes all types of entities. However, the minimum disclosure necessary – given the nature and extent of financial risks and the significance of financial instruments for an entity – may differ from entity to entity. In our view the ED should clarify this better and it would be helpful if in the application guidance examples were provided for different types of entities (for example for different types of industry). The ED has taken a minimum disclosure requirements approach, which results in flexibility, for example in respect of enabling banks to comply with both this ED's requirements and the requirements form pillar 3 of the proposed Basle II solvency requirements without much additional effort. We welcome such an approach, however would therefore also encourage some more meaningful examples.

In respect of the disclosures added, we have the following general comment. IAS 32 refers to 'classes of financial instruments', leaving discretion as to what would be considered classes in the specific circumstances of an entity. The references to 'classes' is still included in the many paragraphs in this ED that are copied from IAS 32. In particular in paragraph 7 the notion of classes is discussed and described and elsewhere disclosure of information per class is required.
However in a number of the additional proposed paragraphs, reference is made to 'classification', referring to the IAS 39 classification for measurement. We think the use of both notions 'classes' and 'classification' is unclear and we would prefer to limit the use of the word 'classification' to the IAS 39 measurements. It could be clarified in this ED that where different measurements (resulting from IAS 39 classification) are applied in accordance with IAS 1 disclosure either on the face of the balance sheet or in the notes is required. This may include reference to the IAS 39 classification. However for some of the categories included in the IAS 39 classification, entities may wish to make further breakdowns or provide different names, since the classification may be different from the way the entities manage their financial instruments and/or identify portfolios of financial instruments.

Question 2: Disclosure of the fair value of collateral and other credit enhancements

In the view of the RJ, the disclosure as currently proposed may prove to be relatively costly. The disclosure of the fair value of collateral pledged as security as required in the paragraphs 39 and 40 of the ED is only relevant up to the amount of the maximum exposure which is also required to be disclosed. Limiting the disclosure in this way would increase the possibility of compliance with the requirement, without limiting its relevance and thereby achieving a better cost-benefit balance.

Question 3: Disclosure of a sensitivity analysis

We agree that the disclosure of a sensitivity analysis is a relevant disclosure for entities' exposure to market risk. Sophisticated entities, for example larger banks and corporates with significant treasury activities, are using this type of analysis for management purposes and will therefore be able to provide this information. However, we do not expect that all entities with an exposure to market risk will be able to meet the requirement. Some are managing their exposure to market risk using less sophisticated methods, such as for example gap analyses. In those cases, entities should be allowed to provide disclosures on the basis of another type of analysis than a sensitivity analysis.

Question 4: Capital disclosures

In our view, the information required on capital management as determined by management, is in line with the requirements in respect of the other financial risks. We however would not propose to require companies outside of regulated industries to provide the proposed information. Only when capital requirements are set internally, the information is relevant to users of financial statements.

We agree that information on compliance with external requirements and the consequences of non-compliance is relevant.

Question 5: Effective date and transition

We agree that the requirements in respect of the effective date and transition are appropriate. We recommend that the Standard should clarify when IAS 30 is withdrawn, particularly in the case of an early adoption. We suppose that IAS 30 is withdrawn simultaneously when the Standard is first applied by an entity. We would like that this clarification is added in the Standard to avoid misunderstanding because this has an effect on the comparative information to be provided.

Question 6: Location of disclosures of risks arising from financial instruments

We agree that the disclosure requirements included in this ED should be part of the financial statements. In our view, it should be added that the disclosures should not be included by reference in the financial statements. We would however, when there is a subsequent Standard on the MD&A, like to have the opportunity to reconsider the issue.

Question 7: Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)

We agree that the disclosure requirements for insurance contracts should continue to be consistent with the requirements for financial instruments.

Question 8: Implementation Guidance

Currently the examples included in the implementation guidance include repetition from the standard and the application guidance, rather than adding much value. In our view there should be more disclosures for various types of industries, such as banks, insurance companies etc.

Question 9: Differences from the ED of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board (FASB)

We agree that the requirements of this ED are adequate compared to the disclosure requirements in the US Exposure Draft.

Question 10: Other comments

Paragraph 12 — We wonder whether this paragraph should be included in the body of the standard or in the Application Guidance.

Paragraph 17 — When an allowance account is used certain information is required re the changes in the allowance account. Information on changes in (additional) write off's and/or subsequent recoveries during a period is equally relevant. It is not clear to us why the disclosure requirement is limited to the changes in the allowance account.

Paragraph 21 — We propose to add the requirement to disclose any ineffectiveness included in the profit and loss account (if material)

Paragraph 21 (d) — We wonder whether the types of activities mentioned under (d) are the only type of activities that could lead to generating fee income and expense. We propose that 'for example' is added after 'and from …" in the 3rd line.

Paragraph 23 — We note that (a) requires providing criteria for the designation of financial assets or financial liabilities as at fair value through profit and loss. The inclusion of this requirement is a substantial change in our view, as it is an accounting principle and therefore assumes the consistent application of the criteria for designation. Currently IAS 39 provides the possibility to on an individual basis designate instruments as at fair value through profit and loss. We have in previous comment letters indicated that we would prefer the designation to be determined by consistent application of certain criteria (selected by the entity) and therefore welcome this disclosure. We however recommend that the Basis for Conclusions more clearly points out that this is in fact a change in the requirements for designation of instruments at fair value.

Paragraph 35 In the summary quantitative information on risk exposure, attention should be given to the effect of hedges, where possible. We recommend that the requirement itself or the implementation guidance addresses how hedging activities should be addressed in these data. We note that this is specifically mentioned in the implementation guidance in respect of sensitivity analysis.

Paragraph 42 The requirements for liquidity risk do not address the mitigating effect of liquid assets. The implementation guidance clarifies that this may be addressed in the description of the management of liquidity risk. In our view, however, the quantitative information provided would benefit from a balanced analysis, including liquidity risk from liabilities and assets.

Paragraph 43 A sensitivity analysis is required for each type of market risk showing the effect of changes in the relevant risk variable on <u>profit and loss</u> and (where relevant) on equity. What is not clarified is whether it is the board's intention that the sensitivity in accounting profits and losses is provided, e.g. whether earnings-at-risk, rather than value-at-risk would be the sensitivity analysis figures that should be provided when the effect of changes in a risk factor are addressed for instruments that are measured at (amortised) cost.

We note that many enterprises (other than financial institutions) do not have sensitivity analysis information for activities other than their treasury ('trading') activities.

If you have any queries regarding our comments and responses, please do not hesitate to contact us.

Yours sincerely,

Martin Hoogendoorn
Chairman Council for Annual Reporting (CAR)