NESTLÉ S.A.

HERMANN WIRZ
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INTERNATIONAL ACCOUNTING STANDARDS BOARD
Comment letters
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Attn. Ms Andrea Pryde,
Assistant Project Manager

Vevey, 21 October 2004

Ladies and Gentlemen,

ED 7 FINANCIAL INSTRUMENTS : DISCLOSURES

Please find below our comments on the above mentioned exposure draft. First we outline some general comments and we then follow by answering the specific questions of the exposure draft.

General Comments

We welcome the issue of ED 7 and the regrouping of all financial instrument disclosures in a future IFRS. In paragraph 8, the ED states that an entity "should determine how much emphasis it places on different aspects of the requirements and how it aggregates the information to display". While this approach could be viewed as pragmatic, it could result in lengthy discussions with the auditors concerning the level of detail of information to be disclosed on financial instruments. This is particularly the case for industrial and commercial enterprises that normally do not hold an entity acting as a financial institution. A great number of these enterprises are not sophisticated financial instrument users and need a basic disclosure framework.

Therefore we would rather prefer that the Board sets up some minimum requirements for industrial and commercial enterprises, and also identifies the requirements which concern exclusively financial institutions.

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Answers to specific questions

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

As stated in the introduction, we welcome the regrouping of all financial instrument disclosures in one standard but we consider that such standard should distinguish disclosures applicable to all enterprises from those applicable only to banks and financial institutions.

With regards to item (a) Financial Assets and Financial Liabilities by Classification and item (c) Income Statement Amounts by Classification, we recommend that such disclosures take place in the annexe. Requiring them on the face of the balance sheet and of the income statement would impair their readability. The same remarks also apply to the disclosure of impairment losses by class of financial asset in paragraph 22.

Concerning item (b) and paragraph 17, we agree with the disclosure requirements of the changes in the allowance account for credit losses.

We consider that item (d) Fee Income and Expenses as per paragraph 21 (d) is a typical example of a disclosure to be requested only from financial institutions.

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

Paragraph 39 (c) requires "information about the credit quality of financial assets with credit risk that are neither past due or impaired". Implementation guidance paragraphs IG 17 to 19 gives detailed examples that apply mainly to banks. We consider that for industrial and commercial companies the disclosure of the maximum credit risk exposure as requested by paragraph 39 (a) and a narrative explaining how the credit risk on trade receivables is monitored should be sufficient.

Question 3 – Disclosure of a sensitivity analysis

While we understand the users' needs for sensitivity analysis, we consider that the Board should recognise that such analysis is cumbersome to prepare for industrial and commercial enterprises that generally do not have the same sophisticated systems and staff nor the same analysis methods and formats as financial institutions. Therefore such disclosures should be limited to a summary of the sensitivity analysis prepared internally for management. If an enterprise does not prepare a sensitivity analysis, it should disclose this fact.

Concerning the methods to be applied, the ED mentions only sensitivity analysis. Other techniques such as value at risk are only mentioned in IG 35. We recommend that value at risk be explicitly mentioned in the text of the future IFRS and not only in the implementation guidance.

Question 4 – Capital disclosures

These disclosures should be required from financial institutions only.

Question 5 – Effective date and transition

The entities applying the future IFRS on its effective date of 1 January 2007 should not be requested to disclose comparative figures if they are not available in 2006. Requiring 2006 full comparative figures means that entities should be ready for implementing the future IFRS on 1 January 2006, which is not realistic with a publication date that is after 30 March 2005 as per the timetable posted on the IASB website.

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

Such disclosures should be placed in the financial statements. Placing them in the management report would complicate the audit and the issuance of the audit certificate.

However should the Board issue a standard on Management Discussion and Analysis then the location should be re-examined because some of them could be best placed in such document.

Question 7 – Consequential amendments to IFRS 4

This is not applicable to us.

Question 8 – Implementation Guidance

We consider that this guidance is sufficient.

Question 9 – Differences with proposed SFAS on Fair Value Measurements

We consider that the future IFRS to be issued out of ED 7 should be limited to financial instruments. Requirements concerning the fair value of non-financial assets required in the FASB's ED cannot be taken by the IASB as long as both Boards have not reached convergence on impairment of goodwill, and of tangible and intangible assets.

Question 10 – Other comments

The Board should clarify that the requirements of ***paragraph 11*** regarding financial instruments at fair value through profit or loss do not apply to derivatives.

The Board should examine whether some of the requirements of ***paragraphs 19 and 20*** related to defaults and breaches do not contradict legal requirements of many jurisdictions concerning privileged information.

Finally we consider that the Board should examine the ***future of IAS 32***, which will be reduced to presentation issues, treasury shares, distinction between debt and equity once the future IFRS on financial instrument disclosures is published. We would recommend to move those IAS 32 remaining requirements to IAS 39 and to repeal IAS 32. Thus the financial instruments requirements would concentrated in two standards, the future IFRS on disclosure and IAS 39 concerning recognition, measurement and presentation.

We thank you for allowing us to comment on this exposure draft and for your attention to the above.

Best regards,

N E S T L E S. A.

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