FirstRand Bank

ED 7 Financial instruments: Disclosures

Questions

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

(a) Carrying amts of each of financial assets and liabilities by the measurement classifications in IAS 39 –

Yes, we agree, but there should be flexibility in how this is applied. We suggest that all items/classes of financial instruments should be covered as proposed but it should be up to the preparers to determine the most appropriate method. For instance, Banking disclosure should provide meaningful information to users to show classes per item e.g. advances with the proposed split in the various classes found in the relevant category and disclosure in order of liquidity.

(b) Information about any allowance account

Yes, we agree with this.

(c) Income statement amounts by classification

This disclosure is not practical or useful for users. It should be pertinent to show income by asset type, then, if necessary by the proposed classification. To aggregate income per broad classification is meaningless and would not provide any further useful information to users. The wording in this section is also not clear as to the exact requirements.

(d) Fee income and expense on financial assets/liabilities and from trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirements benefit plans and other institutions.

This is unnecessary disclosure as it is usually a very small portion of Banking Group income and would not add any value. It is therefore unnecessary.

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

We do not think that providing information on all collateral held provides useful information to users.

Our suggestion is to show collateral or broad class/sector/category only for non-performing loans. Showing collateral for performing loans has no relevance and will not enhance understanding.

3 Disclosure of a sensitivity analysis

In general agree, but, market risk is not necessarily managed separately on a component-by-component basis, i.e. It is managed holistically.

Information given in the financial statements should provide an integrated picture of total possible exposure to loss given market shocks, how risk is measured and controlled, etc.

It is also doubtful as to the practicality of separating or splitting of information and also of being able to test separately. We recommend that prepares be allowed discretion in determining the most appropriate basis of disclosure.

4 Capital disclosures

Yes, we agree with the proposals. It is also in line with the proposed disclosure envisaged in terms of Pillar III of Basel II.

5 Effective date and transition

Periods beginning on or after 1 January 2007.

No comment.

6 Location of disclosure of risks arising from financial instruments

It will become extremely cumbersome to pull all the required information into the financial statements.

We suggest that it would make more sense to provide the majority of qualitative and quantitative information outside of the financial statements with the appropriate cross references. This method also allows for a complete discussion of risk and risk management with all the relevant disclosure in one place.

7 Consequential amendments to IFRS 4

No comment.

8 Implementation guidance

The implementation guidance should be expanded to provide more practical examples of envisioned disclosure.

9 Differences from the exposure Draft of proposed Statement of Financial accounting standards Fair Value measurements published by the FASB

(a) (i) – This does not add any value.

(a) (ii) – Our feeling is that this will to some extent already be addressed by IAS 1 in the significant assumptions, as well as in IAS 32.

(a) (iii) – No comment.

(b) – We feel that this would not add any value for users.

10 Other comments

1. The wording should be simplified to be more precise around compound financial instruments with multiple embedded derivatives, para 18, i.e. exactly what is required, should the disclosure be per embedded derivative or for classes of similar hybrid instruments.

2. Hedges – What exactly is required for hedge accounting disclosure? The wording of the exposure draft is not clear in this respect.

For example, is disclosure required for each and every hedge cash flow hedge or is it for groups of classes of hedges? Is a description of instruments designated as hedges required for each instrument? This could lead to excessive disclosure if required on an individual basis.

3. Providing information of the timing of future cash flows for cash flow hedges could be problematic. This may not be practicable.

4. Disclosure for credit risk for assets that are not past due or impaired. What could be disclosed for this to enhance understanding of assets that are performing? This seems to not add any value. It is also not clear what is envisaged by the Board with the proposed disclosure.