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THE INSTITUTE OF Chartered Accountants IN IRELAND

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**CL 14**

20th October 2004

Dear Ms Pryde,

**Exposure Draft ED7 Financial Instruments: Disclosures**

The Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland considered the ED at its meeting on September 16th, 2004.

**General Comment**

While AC agrees with the objectives of the ED in relation to providing better information on financial instruments, and associated risks, to users of financial statements, AC has substantial concerns about the objectivity and reliability of the proposed disclosures, particularly the qualitative aspects, the auditability of that information and the appropriateness of including it in the financial statements, rather than elsewhere in the document provided to investors. AC requests the Board to read the comments below to the questions asked in the light of this overriding concern.

**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?**

AC agrees that all disclosures regarding financial instruments should be located in one Standard.

**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?**

AC agrees with the requirement to disclose the fair value of collateral pledged as security unless impracticable.

**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?**

AC agrees with these proposals.

**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?**

AC agrees with the proposals for capital disclosures, other than those relating to whether the entity has complied with capital targets set by management. All entities have capital at risk and therefore disclosures regarding the policies and processes for managing capital are important. As a result, AC does not believe that the disclosures should be limited to only those entities that are subject to external capital requirements as all entities' capital is exposed to risk.

However, AC has concerns about the proposals in relation to internal capital targets, including reliability of measurement (particularly in relation to consequences) and price-sensitivity.

**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?**

AC agrees with the proposed effective date and transition requirements.

**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?**

AC considers that entities should have a choice as to where they wish to present information about risk, i.e. either in the financial statements or in the OFR/MD&A. Users of financial information are more used to seeing such disclosures in the OFR/MD&A. While the nature of information included in financial statements has widened under IFRS to deal with judgments and uncertainties, AC considers that, in general, the more mechanistic the information, the more appropriate it is to be included in the financial statements.

**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?**

AC agrees.

**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?**

AC proposes that the implementation guidance should be extended to provide illustrative disclosures for both financial and non-financial institutions.

**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?**

AC agrees that the requirements in this draft IFRS provide adequate disclosures of fair value.

**Question 10 - Other comments**

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

AC suggests that the Board should provide clarification as to whether the minimum disclosures for balance sheet and income statement in paragraphs 10 & 21 are mandatory line items for the face of the balance sheet and income statement or whether they can be included in the notes to the financial statements. Paragraph 43 of IAS 1 implies that in the absence of an explicit statement, an entity can select the most appropriate location for any disclosure.

Yours faithfully,

Simon Magennis
Secretary
Accounting Committee
Institute of Chartered Accountants in Ireland