

22 October 2004

The Chairman  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
UNITED KINGDOM

Dear Sir David,

**ED7 FINANCIAL INSTRUMENTS: DISCLOSURES**

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on ED 7 Financial Instruments: Disclosures, as set out in the accompanying pages.

We hope that you will find the comments useful in your deliberation of ED 7.

We thank you for the opportunity to give our comments.

Yours sincerely,

Dato' Zainal Abidin Putih  
Chairman

### **Question 1 – Disclosure 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 BC 14).
- (c) income statement amounts by classification (see paragraphs 21(a), BC 15 and BC16).
- (d) fee income and expense (see paragraphs 21(d) and BC17).

Are these proposals appropriate? If not, why not? What other disclosures would you propose?

**We have no objection to the proposals.**

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### **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 objectives?

**The proposal is appropriate.**

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### **Question 3 – Disclosure of a sensitivity analysis**

For an entity that has an exposure to the market risk arising from financial instruments, the draft IFRS proposes to require disclosure of a sensitivity analysis (see paragraphs 43, 44 and BC36-39).

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?

**We disagree for the disclosure of sensitivity analysis to be applied to all entities. We suggest such disclosure to be limited to financial institutions only.**

#### *Timeframe*

**If IASB decides to require all entities to disclose sensitivity analysis, a transitional period for compliance should be given to non-financial entities in order for them to put in place proper system as well as to familiarise themselves with the requirements of the standard.**

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#### **Question 4 – Capital disclosure**

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, BC45-54).

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 proposed?

**We disagree that the capital disclosure requirements are to be applied to all entities. We suggest that the requirements should be limited to financial institutions only.**

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#### **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 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?

**The proposals are appropriate.**

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**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 the financial statements prepared in accordance with IFRSs; rather they should be part of information provided by management outside the financial statements.

Do you agree that the disclosures proposed by this draft IFRS should be part of the financial statements? If not, why not?

**Yes, the disclosures proposed by this Standard should be part of the financial statements.**

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**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?

**We have no objection to the consequential amendments to IFRS 4.**

## **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?

**The Implementation Guidance should provide illustrative examples with regard to the disclosure of sensitivity analysis.**

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## **Question 9 – Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurement* published by the US Financial Accounting 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 end of 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 held at the reporting date.
- (b) For assets & 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 requirement in the draft IFRS provide adequate disclosure of fair value compared to those proposed in the FASB's Exposure Draft? If not, why not and what changes to the draft IFRS would you propose?

**The disclosures proposed are adequate.**

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#### **Question 10 – Other comments**

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

**No.**