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03 NOV 2004

DCP/CRG/ED7RESP

Ms Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

2 November 2004

Dear Ms Pryde,

Financial Instruments: Disclosures (ED7)

We have reviewed the above document, issued in July of this year, and would make the following comments.

As you will see from our comments below, we have some concerns over the Board's proposal to merge the disclosure requirements of IAS32 with IAS30. In trying to apply IAS30's extensive disclosure to financial instruments held by entities who are not financial institutions, we believe that such disclosures are not necessarily commensurate with the risks that such entities have in this regard. In other words, because financial instruments are not their mainstream assets and liabilities, the risks they pose will normally form only a relatively small proportion of all the risks associated with the business activities of such entities. Thus we believe that the extent of the disclosures should be considered more explicitly in the standard itself, in the light of the relative importance of its holding of financial instruments by the particular entity.

Our responses to the specific questions raised by the Board are set out below:

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

While we sympathise with the Board's view that there should be a single standard to cover the disclosures required by all types of entities, we believe the Board has taken the easy option (for them) of ignoring the relevance of various items for different types of entities. The approach being taken by the Board, in covering all possible scenarios for all types of entities means that the document becomes more difficult to interpret and onerous to implement for those entities that have few financial instruments, with no commensurate benefit for users.

Whilst we agree that disclosures about risks associated with financial instruments are useful to users, we are concerned that the inability to define deposit-taking, lending and securities activities appears to have led the Board to decide that there has to be a comprehensive disclosures standard for all entities. In addition we are not convinced that the other arguments set out in paragraph BC7 of the Basis for Conclusions such as the need for improvements to IAS32's current requirements provide justification for a single disclosure standard.

It may be the "most straightforward way to implement its decision" for the Board but that should hardly be the basis for a standard regardless of the consequences for those who must implement the standard and appropriate recognition of the costs/benefits of the proposed changes.

If the final decision is to go for one standard then that standard should distinguish between entities and allow flexibility to concentrate on those aspects that are material and those that are not. In particular this should address the differing relevance of some requirements between an industrial and a financial entity. We accept that paragraph 8 does attempt to provide some latitude. This is further emphasised in the introduction and materiality sections of the Implementation Guidance, although this is not part of the standard, and paragraphs BC42/44. However we remain concerned that, in practice, without some further distinctions in the standard itself, entities will still be forced into unnecessary work and disclosure.

As regards the proposed additional disclosure requirements, the analysis of financial assets and liabilities set out in paragraph 10 would seem to represent information in addition to the balance sheet classifications set out in IAS1. If the analysis set out in paragraph 10 is the Board's preferred version, then shouldn't the Board be considering a revision of IAS1 to eliminate competing analyses of the same assets and liabilities?

The inclusion of paragraph 17's requirement regarding allowance account for credit losses provides an example of the effect of producing one single disclosures standard. Whilst we can appreciate that the disclosure is likely to be of relevance to banks and similar entities, we do not believe that this will be material for many entities in other industries and would question whether its inclusion could be justified on cost/benefit considerations.

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

As we assume that this disclosure is only relevant to financial institutions, we do not offer comments on its appropriateness. However the inclusion of the requirement demonstrates that a single standard becomes more complex and thus difficult to use if it includes areas that are only applicable to certain categories of entities.

Question 3 – Disclosure of a sensitivity analysis
For entities which are not financial institutions and which hold relatively few financial instruments, the proposed disclosure of a sensitivity analysis is unlikely to add significant additional usefulness to the existing disclosures. We do not share the Board's view that such analyses are relatively easy to calculate and provide simpler and more suitable disclosure than other approaches.

Question 4 – Capital disclosures
We consider the proposal on capital disclosures to be an unnecessary addition to the standard for entities that are not subject to externally imposed capital requirements. In practice entities may look at financial capacity by reference to debt/equity ratios, and/or cash flow and/or interest cover etc. If the table included in IE1 in the Implementation Guidance is representative of the expected disclosure, this contains boilerplate disclosure that adds nothing to the usefulness of the accounts, with figures that can be easily calculated by an interested user from the accounts. Indeed, if any of these numbers are of specific relevance to an entity, they are likely to be disclosed anyway.

Question 5 – Effective date and transition
We see no reason to disagree with the proposed effective date being for periods beginning on or after 1 January 2007 provided that the Board can finalise the proposals early in 2005. In addition we are not against the principle of encouragement of the early adoption of new or revised standards. Given the exemption already granted regarding comparatives in IAS32, it would seem reasonable to make a similar exemption available for this standard.

Question 6 – Location of disclosures of risks arising from financial instruments
We would agree that disclosures that provide additional information on the amounts included in the primary statements (income statement, balance sheet, statement of changes in equity and cash flow statement) should form part of the financial statements. However sensitivity analyses, to the extent provided, should, we believe, be included within information provided by management outside the financial statements.

Question 7 – Consequential amendments to IFRS4
We can understand the wish for consistency between the draft standard and IFRS4 but, while this is not an area of specific relevance to us, we also have a general sympathy with entities facing frequent changes in requirements. We therefore agree with the approach reflected in the last sentence of paragraph BC61.

Question 8 – Implementation Guidance
If the Board wish to continue with a single disclosures standard, then we believe that it should seriously consider expanding the draft Implementation Guidance to provide guidance for disclosures by types of entity. As a minimum separate guidance should

be provided for financial institutions and other entities. In this regard, the Board may wish to refer to the UK standard on disclosures (FRS13) which deals separately with the following three types of entity:

- Reporting entities other than financial institutions and financial institution groups;
- Banks and similar institutions and banking and similar groups; and
- Financial institutions and financial institution groups, other than banks and similar institutions and banking and similar groups

Question 9 – Differences from the FASB ED on Fair Value Measurements
We would agree that the requirements in the draft IFRS provide adequate disclosure of fair value compared to those proposed in the FASB's exposure draft.

Question 10 – Other comments
We are concerned about the extent of disclosures required by the proposed standard by entities that are not financial institutions. By way of example, we would mention the following:

- Paragraph 40 requires disclosure of information on financial assets that are either past due or impaired. We presume that this requirement would cover amounts receivable from customers for the sale of goods. We would question the need to provide an age analysis of such items, in addition to disclosures on provision for non-collection of such debts.
- Paragraph 42 requires disclosure of a maturity analysis for financial liabilities. IG27 states that the maturity analysis should disclose undiscounted cash flows. This will presumably mean, for instance, in the case of derivative financial instruments that the analysis will not agree with the amount included in the balance sheet (as the fair value of such instruments is based on discounted cash flows).

Conclusion
If the Board is not to reconsider its decision to merge the disclosure requirements of IAS32 with IAS30, they should give more specific regard in the standard itself to the relevance of the risks posed by financial instruments to the particular entity. Moreover the Implementation Guidance should be expanded to provide separate guidance for financial institutions and entities that are not such institutions.

We hope that you find our comments useful and thank you for the opportunity of being able to comment on the Board's proposals.

Yours sincerely

D C POTTER
Head of Finance and Accounting