XX December 2008

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

**DRAFT COMMENT LETTER**

**Comments should be sent to Commentletter@efrag.org by 4 December 2008**

Dear Sir/Madam

**Re: Exposure Draft of proposed Amendments to IFRS 7.**

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the Exposure Draft *Improving disclosures about financial instruments (Proposed amendments to IFRS 7)*. This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive interpretations/amendments on the issues.

Our detailed comments on the ED are set out in the appendix to this letter. To summarise, we agree with most of the proposals related to fair value measurements, but we would like to make a slightly different proposal as to liquidity risk disclosures:

- Concerning fair value measurement disclosures, we wonder whether the level 3 sensitivity analysis of Paragraph 27B (d) should be extended to instruments that are not measured at fair value in the statement of financial position.

- Concerning liquidity risk disclosure, we are unsure about the appropriateness of eliminating the requirement of disclosing a contractual maturity analysis for derivative financial instruments and we are currently discussing several options.

Our detailed comments are set out in the appendix to this letter.

We hope that you find our comments helpful. If you wish to discuss them further, please do not hesitate to contact Emmanuel Gagneux or me.

Yours sincerely

Stig Enevoldsen
**EFRAG, Chairman**

## Appendix — Responses to the invitation to comment

### FAIR VALUE MEASUREMENTS

***Question 1: Use of a fair value hierarchy****—Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?*

1 The proposed amendment to IFRS 7 would require classifying the valuation techniques of financial instruments according to a fair value hierarchy.

2 EFRAG agrees with the proposed amendment. The use of this hierarchy would help users to assess the reliability of the fair value measurements by providing information about the content of valuation technique in terms of entity-specific ("judgemental") assumptions.

***Question 2: Proposed three-level hierarchy****—Do you agree with the three level hierarchy as set out in paragraph 27A? If not, why? What would you propose instead and why?*

3 The proposed amendment to IFRS 7 sets out the following hierarchy:

(a) Level 1: quoted prices in an active market for the same instrument (i.e. without modification or repackaging).

(b) Level 2: quoted prices for similar instruments or other valuation techniques for which all significant inputs are based on observable market data.

(c) Level 3: valuation techniques for which any significant input is not based on observable market data.

4 EFRAG agrees with the proposed three level hierarchy.

***Question 3: Required disclosures****—Do you agree with the proposals in:*

(a) *Paragraph 27B to require expanded disclosures about the fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?*

(b) *Paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?*

5 Paragraph 27B would require expanded disclosure about the fair value of financial instruments that are measured at fair value in the statement of financial position. These disclosures would include (i) a break-down of the fair value of these financial instruments by valuation technique level, (ii) a reconciliation from the beginning balance to the ending balance of the fair value measurements using level 3 techniques, (iii) an analysis of the sensitivity to the significant inputs that are not directly observable market data, and (iv) the movements between the levels of the fair value hierarchy and the reason for such movements (e.g. quoted prices are no longer available).

6 Paragraph 27C would require limited disclosure about the fair value of financial instruments that are not measured at fair value in the statement of financial position. These disclosures would principally consist in a break-down of the fair value of these financial instruments by valuation technique level.

7 EFRAG agrees with the proposed disclosures about the fair value measurements recognised in the statement of financial position.

8 EFRAG agrees with the proposed disclosures about the fair value measurements of financial instruments that are (i) not recognised in the statement of financial position (such as loan commitments) and (ii) recognised in the statement of financial position but not measured at fair value (such as liabilities carried at amortised cost or financial guarantees to which IFRS 4 is not applied).

9 EFRAG thinks that the disclosure of a sensitivity analysis for level 3 measurements set out in paragraph 27B (d) is important information which allows users to better understand what could be the result of using different assumptions in the determination of fair value.

**Question for EFRAG's constituents**

Some members of EFRAG's User Panel suggested that the proposed additional sensitivity disclosures, which the ED proposes should apply only to those instruments measured at fair value, should also apply to instruments that are not recognised in the statement of financial position and to instruments that are recognised in the statement of financial position but not measured at fair value. In their view, the proposed disclosures make fair value information more useful, regardless of whether the fair value appears in the statement of financial position or in the notes (as would be the case for instruments not recognised in that statement and instruments measured at amortised cost).

However, some EFRAG members believe that the benefit of such additional disclosure would not justify its cost.

EFRAG would particularly welcome constituents' views on this issue.

## LIQUIDITY RISK

***Question 4 and question 5: Maturity analyses****—Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?*

10 The current version of IFRS 7 requires the disclosure of a maturity analysis of financial liabilities based on the remaining contractual maturities.

11 Because most reporting entities do not manage the liquidity risk associated with derivative financial liabilities on the basis of contractual maturities, the IASB proposes to replace this maturity analysis by another one based on how an entity manages the liquidity risk associated with these instruments.

12 The IASB also proposes to require, in addition, a maturity analysis based on expected maturity for non-derivative financial instruments, while maintaining the current contractual maturity analysis.

13 The proposed changes are summarised in the table below:

| Type of financial instrument | Current IFRS 7 | Proposed amended IFRS 7 |
|---|---|---|
| **Non-derivative liabilities** | Contractual maturity analysis | Contractual maturity analysis and expected maturity analysis |
| **Derivative liabilities** | Contractual maturity analysis | Maturity analysis based on liquidity risk management |

14 EFRAG understands that most reporting entities do not manage the liquidity risk associated with financial liabilities on the basis of contractual maturities and therefore agrees that liquidity risk disclosures based on how liquidity is managed (including expected maturity) should be provided.

**Question for EFRAG's constituents**

As the table above shows, the proposal is that a contractual maturity analysis should still be provided for non-derivative financial liabilities, but not for derivatives. EFRAG has discussed this issue at length, and members have differing views:

- Some EFRAG members believe that contractual maturity analyses provide useful information that helps users to understand what the worst-case scenario could be should expectations about maturity change. In their view, this is the case regardless of whether the liability is a derivative or a non-derivative.
- Some EFRAG members believe that a contractual maturity analysis for derivative instruments usually has too little information value to be a required disclosure. In their view, the ED was right in proposing to still require a contractual maturity analysis for non-derivative financial liabilities but not for derivatives.
- Some EFRAG members do not believe that the case for treating derivatives and non-derivatives differently has been made; either a contractual maturity analysis is useful and should be required in both cases, or it is not sufficiently useful and should be required in neither case.

EFRAG would particularly welcome constituents' views on this issue.

15 EFRAG believes that a maturity analysis of financial liabilities only does not give a complete view of the liquidity position of an entity because it does not include the financial assets (including guarantees and commitments received) that the entity could use in response to a liquidity shortage. EFRAG is aware that the proposed amendment contains a provision requiring the disclosure of such information "if appropriate" (in paragraph B11E of the application guidance). However, EFRAG thinks that, for clarity purposes, the content of paragraph B11E should be moved from the application

guidance to the main body of the proposed standard to give equal emphasis to the treatment of assets and liabilities.

**Question 7 and 8: Definition of liquidity risk—***Do you agree with the proposed effective date? If not, why not? What would you propose instead, and why? Are the transition requirements appropriate? If not, why? What would you propose instead, and why?*

16 The ED proposes that amendments shall be applied from 1 July 2009, with early adoption permitted. EFRAG agrees with both the proposed effective date and the transition requirements.

***Drafting comments***

17 EFRAG understands that:

(a) Paragraph 27B (b)(i) would require the disclosure of total gains and loss for the period (realised and unrealised) recognised in profit or loss for instruments that are measured using a level 3 valuation technique.

(b) Paragraph 27B (c) would require the same information but only for unrealised gains.

18 EFRAG would like to draw the attention of the IASB to the confusion that might result from the language used in paragraph 27B (c):

(a) The use of the word “amount” in the expression “the total amount of unrealised gains or loss” in the first sentence of 27B (c), which does not appear in 27B (b)(i), might suggest that the information required in each case is of a different nature.

(b) The use of the expression “for those assets and liabilities that are still held at the end of the reporting period” seems redundant bearing in mind that the required information relates to unrealised gains or losses.