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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
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Organização Internacional das Comissões de Valore

January 9, 2009

Exposure Draft: Amendments to IFRS 7
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED Improving Disclosures about Financial Instruments (Proposed amendments to IFRS 7)

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft on Improving Disclosures about Financial Instruments – Proposed amendments to IFRS 7 (ED 7 or the Exposure Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation

We are supportive of the Board's efforts in this Exposure Draft which we believe provides improved disclosure and enhanced transparency surrounding the use of fair value measurements in financial statements. We believe this is an extremely important initiative and comes at a time in the current economic environment where users need and should have access to additional disclosures to help explain the effect of fair value accounting on a company's financial position and performance.

Responses to the Board's Questions

Fair value disclosures

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Question 1

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?

While we are supportive of the requirement in paragraph 27A to disclose the fair value of financial instruments using a fair value hierarchy, we have some general observations regarding the interaction of those requirements with the existing aggregation guidance in paragraph 26. More specifically, paragraph 26 provides that such disclosure be provided by way of groupings on a "class" basis and that such disclosure amounts may be offset to the extent that the carrying amounts are also offset in the statement of financial position. Further, paragraph 6 indicates that such information shall be grouped based on the characteristics of those financial instruments, and paragraphs B1-B3 provide further guidance on classes of financial instruments and the degree of detail to be provided. We understand there may be diversity in practice for determining the aggregation level, including, but not limited to, some entities following the general categories in International Accounting Standard No. 39 (IAS 39), *Financial Instruments: Recognition and Measurement*, while other entities may base such aggregation on historical home country generally accepted accounting principles. Prior to issuance of the final standard, we believe the Board should reconsider whether the current application guidance in paragraphs B1 – B3 of IFRS 7 is sufficient to assist preparers in determining the appropriate level of detail to be provided based on application of the principle in paragraph 6.

We also understand that disclosures for a particular "class" may contain fair value measurements that fall within more than one level of the disclosure hierarchy (such as Level 2 and Level 3). This may also occur if a particular financial asset and liability may be presented and disclosed on a net basis following the guidance in paragraph 26. In these circumstances, we believe that there is an implicit requirement that disclosure for a particular "class" or financial asset and liability presented and disclosed on a net basis be disaggregated when the fair value measurement for the aggregate amount involves more than one level within the fair value hierarchy. We believe that the Board should make an explicit requirement to capture instances where multiple levels of the hierarchy are involved and at a minimum modify paragraph 27B(a) to require disclosure of "the level<u>s</u> in the fair value hierarchy into which the fair value measurements are categorized~~ in their entirety~~."

Question 2

Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

We are supportive of the three-level fair value hierarchy which includes similar criteria for differentiating between the levels as provided for in paragraphs 24 -30 of Statement of Financial Accounting Standard No. 157 (SFAS 157), *Fair Value Measurements*. Although the fair value hierarchy set forth in paragraph 27A seems consistent with SFAS 157 we are concerned that the lack of uniformity in describing the individual levels within the hierarchy will result in perceived differences by preparers. We strongly support convergence of the three-level fair value hierarchy with US GAAP and believe that such convergence should be articulated in a way so as to achieve the same level of understanding with SFAS 157.

Question 3

Do you agree with the proposals in:

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

We agree with the expanded disclosures required in paragraph 27B. We understand that paragraph 27B(d) provides that significance be judged based on different measures in the financial statements. The current language implies that there might be an option in measuring significance (profit / loss and assets and liabilities <u>or</u> equity). We recommend that the "or" in the last sentence of paragraph 27B(d) be changed to an "and" to clarify that all of these measures should be considered in measuring significance.

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?

We agree with the requirement to also disclose the fair value of financial instruments that are not measured at fair value in the financial statements based on the same three-level fair value hierarchy.

<u>Liquidity risk disclosures</u>
<u>Question 4</u>
Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?

We agree with the underlying objective of providing a maturity analysis for derivative financial liabilities. Further, we note that paragraph B11C further explains how the notion of "how the entity manages the liquidity risk associated with such instruments" is applied in various examples. While these examples seem to focus solely on expected cash flows, it is not clear to us whether the Board is contemplating that other methods of managing liquidity risk would be used, and what those methods might be (for example, contractual cash flows, expected and contractual maturities similar to non-derivative liabilities or some other method). If the Board believes that other methods would be acceptable, we believe the Board should modify the examples in B11C to incorporate those other methods.

<u>Question 5</u>
Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non-derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?

While we agree with the proposed disclosure requirements in paragraph 39(b), we believe it would be useful for users to also understand the assumptions used by management in determining the remaining expected maturities including perhaps a qualitative discussion of the significant assumptions used in deriving the maturity schedule.

<u>Question 6</u>
Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?

As described in Appendix A, the definition of liquidity risk focuses on one side of the liquidity equation. That is, the focus in the definition is on the ability to meet obligations associated with financial liabilities. However, another important aspect also factors in other risks involving liquidity such as the ability to obtain the adequate funding to meet those obligations. We believe that liquidity risk incorporates both of these factors rather than focusing solely on the ability to meet obligations.

To accomplish the objectives of the disclosures provided in paragraph 39, we believe that such disclosures may also include financial assets that an entity uses to respond to liquidity risk. We understand that the Board has incorporated the disclosure of financial assets in paragraph B11E of the application guidance and believe that this guidance should be provided in the main body of the proposed standard.

Effective date and transition
Question 7
Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

We agree with the proposed effective date.

Question 8
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The transition requirements in paragraph 43A permit early application with disclosure of that fact for entities electing early application. We believe that the Board should encourage early application of these amendments and provide more explicit guidance on the specific transition provisions associated with comparative periods presented in the initial period of adoption.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chair
IOSCO Standing Committee No. 1