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Improving Disclosures about Financial Instruments Proposed amendments to IFRS 7

A response by

CFA Society of the UK

About CFA Society of the UK

The CFA Society of the UK (CFA UK) represents the interests of 7,500 leading members of the investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members.

CFA UK supports the CFA, ASIP and IMC designations. Most members hold either the Chartered Financial Analyst (CFA), or Associate designation. CFA Institute is best known for developing and administering the CFA curriculum and examinations and issuing the CFA Charter. CFA Institute's mission is to lead the investment profession globally by setting the highest standards of ethics, education and professional excellence.

Most CFA UK members also belong to the CFA Institute and reaffirm annually their adherence to its Code of Ethics and Standards of Professional Conduct. Both CFA UK and CFA Institute are committed to providing members with a wide range of continuing education opportunities. All members are encouraged to undertake ongoing post-qualification continuing education.

CFA UK is the awarding body for the IMC, the benchmark entry-level qualification for those working in investment management in the UK. The examination is accredited by the Qualifications and Curriculum Authority (QCA) and is designated a recommended examination by the Financial Services Skills Council (FSSC) for the purposes of the Financial Services Authority's training and competence requirements. The IMC is held by over 15,000 investment professionals.

About this response

The society welcomes the opportunity to respond to the IASB's consultation paper on Improving Disclosures about Financial Instruments.

The response is based on comments from and research by the society's Accounting Advocacy committee. The committee is composed of volunteers who represent users of accounts, including buyside and sellside analysts and accountants. Further details about the committee and its terms of reference may be found at the society's website, www.cfauk.org.

The society notes that while due process is being followed in relation to proposed changes to disclosures under IFRS 7, no Exposure Draft was offered on the reclassification of financial instruments in mid-October. The society believes that the absence of due process in relation to reclassification was an unwelcome development and that, notwithstanding the urgency generated by the crisis in financial markets, a modified form of due process should be followed at a minimum. While EU leaders and finance ministers should express their own concerns in relation to standards, they may not be best-placed to consider the technical issues arising from amendments to financial standards. Users, preparers and other interested parties should always be provided with an opportunity to provide opinion on changes to standards.

An important part of the *fait accompli* amendments allowing reclassification is the disclosure requirements. It is noteworthy that entities will have to continue to disclose the fair value of reclassified assets and the gains/losses that would have been reported if they had not been reclassified. This assuaged some of our concerns about IFRS 7 in the light of the moving target in IAS 39.

On the ED relating to IFRS 7, the society particularly welcomes the proposal to adopt a three-level fair value hierarchy as a basis for disclosure, similar to SFAS 157. The accounting advocacy committee had suggested this in its response to the DP, 'Reducing Complexity in Reporting Financial Instruments'.

Response to questions

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?
Answer 1
Yes
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?
Answer 2
Yes
Question 3
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?
Answer 3
(a) Yes, (having checked that the proposed fair value disclosure requirements are to be applied consistently across both assets and liabilities, and

assuming these disclosures apply for the full remaining term of the instruments). (b) Yes
Liquidity risk disclosures
Question 4
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?
Answer 4
Yes.
Question 5
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?
Answer 5
Yes
Question 6
Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?
Answer 6
Yes, although the society is also concerned about obligations to settle with non-financial assets.
Effective date and transition
Question 7
Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?
Answer 7
The society observes that, while the proposed effective date might give preparers time to manage the change, there is a delay. Some of the concerns are met by provisions in the amendments to IFRS 7 announced alongside the permission to reclassify, but every effort should be made to provide these additional disclosures as soon as possible. Could the effective date be brought forward to June 30 2009 and applied to ‘reporting periods’ i.e. from Q3 2009? Or could it be issued as a statement of best practice for 2009 financial statements to encourage early adoption?
Question 8
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?
Answer 8
As with previous proposed changes to standards affecting fair value accounting, it is not ideal to be making piecemeal decisions that affect measurement and presentation ahead of conclusion of the more fundamental projects on financial statement presentation and fair value measurement. We look forward to this being resolved in 2009.

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