

International Accounting Standards Board
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Exposure Draft Proposed Amendments to IFRS 7 Financial Instruments: Disclosures

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Improving Disclosures about Financial Instruments: Proposed Amendments to IFRS 7* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We support the direction of the proposals. We have a concern over the impact of the proposed effective date when considered in conjunction with retrospective application of the amendments. We have also identified a small number of areas where we believe the disclosure burden could be eased somewhat without detracting from the usefulness of the information provided. In addition, we have suggestions for expressing certain of the proposed amendments more clearly.

We elaborate on these comments and suggestions and respond to the questions in the ED's Invitation to Comment in the following paragraphs.

Fair value disclosures

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?

We agree with the underlying concept of classifying and disclosing fair value measurements according to the 'quality' of the measurement (or inputs to the measurement technique).

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 mainly agree. However, we suggest that the description of a 'level 2' fair value measurement merits further consideration. As drafted, we are concerned that any measurement based on quoted prices in active markets for 'similar assets and liabilities' might be construed as a level 2 measurement. We believe that if such prices require significant adjustment to reflect differences between the subject instrument and the quoted instrument, such measurements should be classified as level 3 unless the adjustment is also based on observable market data.

Accordingly, we suggest the following amendment to paragraph 27A(b):

"(b) quoted prices in active markets for similar assets or liabilities for which any significant adjustments are based on observable market data, or other valuation techniques for which all significant inputs are based on observable market data (Level 2)"

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?

We agree in principle.

As drafted, we find the wording of paragraph 27B(a) slightly ambiguous. In particular, we believe that the intent of the phrase 'in their entirety' is unclear. We suggest an alternative formulation along the following lines:

"27B For financial instruments measured at fair value in the statement of financial position an entity shall disclose for each class of financial instruments:

(a) the total fair value measurements for that class disaggregated into the levels in the fair value hierarchy defined in paragraph 27A."

We note that paragraph 27 (requiring disclosures about valuation methods and assumptions) will continue to apply and would be expanded to encompass changes in valuation techniques. We suggest that paragraph 27 now appears somewhat awkward in conjunction with proposed paragraph 27B(d), which requires disclosure of the impact of alternative assumptions for level 3 measurements. In our view, the disclosures required by paragraph 27B(b) should be sufficient to describe the basis of the levels 1 and 2 fair value measurements. Accordingly we suggest that the scope of paragraph 27 should be limited to level 3 measurements. If this suggestion is taken up it might also be helpful to combine paragraphs 27 and 27B(d).

We note that the Board proposes to insert new Examples IG13A and IG13B into the accompanying guidance section. These draft examples disclose fair value measurements by level and IAS 39 measurement category. IG13A also states that: "disclosures by class of financial instruments would also be required, but are not included . . .". This seems unhelpful and potentially misleading given that the proposed hierarchy disclosures are in fact by class and not by IAS 39 measurement category.

(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 that classification information should also be provided for fair value disclosures for financial instruments that are not measured at fair value (subject to the exceptions in paragraph 29). However, consistent with our response to Question 3(a) above, we believe that paragraph 27C should be expressed more clearly.

Our suggestion is:

"27C Subject to the exceptions in paragraph 28, an entity shall disclose the fair value of the financial instruments or the classes of financial instruments that are not measured at fair value in the statement of financial position. The total fair value measurements for each instrument or class of instruments shall be disaggregated into the levels of the fair value hierarchy defined in paragraph 27A."

It is not entirely clear whether paragraph 27 (disclosure of methods and assumptions) applies to the fair value disclosures for financial instruments that are not measured at fair value. If so, we believe that this could be excessive disclosure. Either way, the scope of paragraph 27 should be clarified.

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?

We agree. We believe that this approach will result in more meaningful and useful information concerning liquidity risk. Taking a management approach should also result in entities using the information generated in the business for this purpose. This in turn should lead to a reduction in the incremental cost and complexity of complying with this aspect of IFRS 7.

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?

We agree that a greater emphasis on expected maturities is appropriate.

However, we note that a maturity analysis for non-derivative financial liabilities based on remaining expected maturities (where applicable) would be in addition to the existing requirement for an analysis based on contractual maturities. We question whether it is necessary or appropriate to require two maturity analyses in these circumstances. In making this comment, we observe that the proposed amendments imply that entities manage liquidity risk based either on contractual maturities or expected maturities.

In our view, the reality is usually less clear-cut; many entities manage liquidity using a variety of techniques, including shorter- and longer-term cash flow projections. Entities also consider specific risks associated with instruments for which the expected and contractual maturities are significantly different (such as on-demand borrowings).

Our preference would be to permit entities to disclose a single maturity analysis schedule based on expected maturities if that is a better reflection of how the entity manages risk. In that case, additional disclosure should be required if the entity has any significant financial liabilities for which the earliest contractual maturity falls in an earlier time period compared to its expected maturity.

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?

We agree that it is appropriate to focus on financial liabilities that are settled by delivering cash or another financial asset. However, we believe that the proposal as stated will lead to application questions for financial liabilities with settlement alternatives (such as convertible bonds). In order to avoid this uncertainty we suggest an amended definition along the following lines:

"liquidity risk The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that **will or may be** settled by delivering cash or another financial asset." [emphasis added]

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 that an accelerated implementation of these amendments is appropriate, for the reasons set out by the Board at BC13.

Question 8

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

We have a concern over the impact of the proposed transition requirements when considered in conjunction with the proposed effective date.

Given that the ED does not propose prospective application, retrospective application will be required. Accordingly, full comparative information will be needed in the financial statements for the annual period in which these amendments first come into effect. We believe this would include comparative information at the beginning of the earliest comparative period presented in accordance with the 2007 amendments to IAS 1 *Presentation of Financial Statements* (acknowledging that there is perhaps some scope for interpretation as to whether the requirement for this opening statement of financial position extends to related notes to that statement).

An entity preparing financial statements for the year ending 30 June 2010 would therefore need to disclose the additional fair value information and in some cases amended liquidity risk information at 30 June 2010, 30 June 2009 and 30 June 2008. This earliest date is of course prior to the publication both of the ED and the final amendments. Our concern is that it will be burdensome for entities to prepare this information retrospectively.

We therefore suggest that the Board considers including some relief from full retrospective application. This might be accomplished by requiring comparative data only as at the beginning of the current annual period in the first year of application. That same date would also be the starting point for the proposed reconciliation required by paragraph 27B(b).

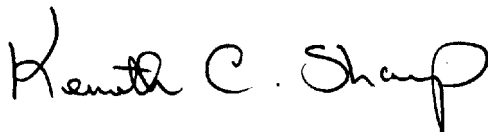
Other comment

We support the Board's proposal at paragraph 39(a) to require a maturity analysis for derivative liabilities based on how the associated liquidity risk is managed. However, we note that the Application Guidance at BC11C is silent on gross settled derivatives such as most foreign exchange contracts. Foreign exchange contracts are probably the most common type of derivative for entities that are not financial institutions, and are most often entered into for hedging purposes (whether or not so designated for IAS 39 purposes). Accordingly we suggest that Application Guidance should cover these instruments.

The key issue to be considered in this context is whether such gross settled foreign exchange contracts entered into for hedging purpose should be included based on the net cash flow or the gross outflow leg. Our preference is for the former.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,



Kenneth C Sharp
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