THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

30 January 2009

Our ref: ICAEW Rep 04/09

Your ref:

Mr Mario Abela
Accounting Standards Board
5th Floor, Aldwych House
71 - 91 Aldwych
London WC2B 4HN

By email: asbcommentletters@frc-asb.org.uk

Dear Mario

IMPROVEMENTS TO FRS 29 FINANCIAL INSTRUMENTS DISCLOSURES

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on the Financial Reporting Exposure Draft *of Proposed amendments to FRS 29 (IFRS 7)'Financial Instruments: Disclosures' - Improvements to Financial Instrument Disclosures'* published by the Accounting Standards Board in November 2008.

We have previously responded to the International Accounting Standards Board regarding its exposure draft *Improving Disclosures about Financial Instruments - Proposed Amendments to IFRS 7.* A copy of this response (ICAEW Rep 137/08) is attached to this letter, as is a letter of July 2008 on the same topic (ICAEW Rep 80/08).

Although we raised a number of significant issues concerning the IASB's proposals, we agree with the ASB that - assuming the IASB press ahead with any of the proposed changes - it is essential to amend FRS 29 to maintain consistency with IFRS 7. We note that the ASB expects to incorporate any changes the IASB makes to its exposure draft, unless those changes are a significant departure from the requirements proposed in the FRED.

Please contact me if you would like to discuss any of the points raised in this response.

Yours sincerely

Desmond Wright
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18 December 2008

Our ref: ICAEW Rep 137/08

Your ref:

Sir David Tweedie
The International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

By email: commentletters@iasb.org

Dear David

IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the exposure draft *Improving Disclosures About Financial Instruments – Proposed amendments to IFRS 7*, published in October 2008.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW REPRESENTATION

ICAEW REP 137/08

IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

Memorandum of comment submitted in December 2008 by The Institute of Chartered Accountants in England and Wales, in response to the exposure draft *Improving Disclosures About Financial Instruments – Proposed amendments to IFRS 7*, published by International Accounting Standards Board (IASB) in October 2008.

Contents	**Paragraph**

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Exposure Draft *Improving Disclosures About Financial Instruments – Proposed amendments to IFRS 7* published by International Accounting Standards Board (IASB) in October 2008.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

4. Our members occupy a wide range of roles throughout the economy. This response was developed by the Financial Reporting Committee of the Institute, which includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms.

MAJOR POINTS

5. The global credit crisis has made it evident that improvements to fair value accounting of financial instruments are needed and we understand that the changes proposed to IFRS 7 are aimed at providing more transparent and comparable information in financial statements.

6. We appreciate the need to make fairly rapid improvements to IFRS 7 to incorporate the advice of the IASB Expert Advisory Panel on disclosing the fair value of financial instruments in markets that are no longer active and to address the requests from investors and government bodies for improved disclosures on fair values, but we have concerns about two aspects. First, some might take the view that the amendments should be made mandatory far sooner than for annual periods beginning on or after 1 July 2009. We have sympathy with this view. However, we also recognise that some of the proposed changes, particularly the reconciliation required by paragraph 27B (b), will require substantive changes to an entity's systems and processes which for many probably cannot be reliably made any sooner. In addition, entities may find it difficult or impossible to determine comparative amounts for some of the disclosures with a shorter implementation time. Therefore, we recommend that the amendment should make it as easy as possible for entities to early adopt those aspects which they are able to implement sooner. This would also involve allowing individual paragraphs to be early adopted and giving specific relief from the requirement in IAS 1 paragraph 38 for comparative information to be disclosed in respect of the previous period for all amounts reported. In addition, in light of the extent of changes to be made to systems we suggest that

this specific relief should be included in the transitional provisions for all entities whether or not they are early adopting.

7. Second, the proposed amendments incorporate some aspects of SFAS 157 in an IFRS context, but does not seek to address on a more fundamental basis what information investors require. In order respond to the immediate concerns of users in relation to transparent and comparable financial instrument disclosure, we appreciate the short timescale under which the IASB introduces these changes, however, we believe that further amendment may be necessary to ensure investors have sufficient information about how fair values are determined and their sensitivity to different assumptions. A survey and analysis by the IASB of post implementation issues of IFRS 7, especially as preparers and users gain further experience on the usefulness of fair value disclosure in the current economic environment, and the IASB's ongoing work in developing a fair value measurements standard along the lines of SFAS 157, should identify additional useful disclosure.

8. In particular, standard setters and regulators need to be conscious that they cannot continue to add layers of disclosure, and that a thorough review of the overall purpose and information content of disclosures made throughout the annual report should be undertaken. We believe that the IASB should consider developing a disclosure framework. Such a framework could better target disclosure, reduce duplication in disclosure requirements and allow a mechanism for redundant disclosure requirements to be removed with the aim of reducing the overall complexity of financial reporting. It would also give a context to post-implementation reviews.

9. We are pleased that the proposed revisions to IFRS 7 on liquidity risk disclosures go some way toward addressing the issues we raised in our letter dated 28 July 2008 which set out some practical implementation issues with IFRS 7 that we consider should be addressed in the short term. While the difficulties identified with the liquidity risk disclosures were the most critical, we remain of the view that the other issues raised in the letter should also be considered by the IASB in the near future. Our letter is attached as an appendix to this response for convenience.

10. The draft states that an entity should disclose a maturity analysis of financial assets it holds for managing liquidity risk, if appropriate. Because of the importance of financial assets to the liquidity of most entities, particularly at the current time, we suggest that this requirement should be given greater prominence and included in the standard rather than in the application guidance.

SPECIFIC QUESTIONS

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?

11. 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?

12. We agree with the three level hierarchy as set out in paragraph 27A. However, it is only one interpretation of the two level measurement hierarchy implied by IAS 39 paragraph 48 and AG69-AG82. We further note that the terminology used in the proposal is not the same as in SFAS 157. We understand from BC 5 that the difference is intentional. For the avoidance of doubt, it is essential that the Application Guidance should make it clear how the proposed IFRS 7 hierarchy is intended to fit in with the implied hierarchy in IAS 39.

13. The Basis for Conclusions in the final standard could also usefully explain whether the IFRS 7 hierarchy is intended to be consistent with the US GAAP hierarchy and if not, what aspects in SFAS 157 diverge from the proposed hierarchy in IFRS 7. To assist users to put the disclosures in context, the Basis For Conclusions should also point out that the amounts included in level 3 may not be the same between IFRS and US GAAP. For example, unlike US GAAP, IFRS precludes the recognition of day 1 gains or losses on level 3 financial instruments.

14. There are no bright lines in terms of defining what is an active market and what constitutes an input significant to the fair value. Preparers may therefore apply different judgements to what should be included in each level. In accordance with IAS 1 paragraph 22, preparers should make disclosures in respect of significant judgements that affect amounts recognised in the financial statements, but although similar in nature, we suggest that the final standard should have a specific requirement for qualitative disclosure to explain the assumptions and decisions made by entities in arriving at the allocations into the different levels.

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?

15. We agree with the disclosures proposed by 27B (a), (d) and (e).

16. We note that the disclosures proposed by 27B (b) and (c) mirror the disclosures requirements in SFAS 157. Many, if not most, entities do not report such information to key management personnel (because it does not reflect how risk is managed internally) and we can foresee that significant systems changes will be necessary for many preparers to gather the information. Given the investment needed in technology and that the requirements under IFRS and US GAAP are not identical - eg, the deferral of day 1 profit - we question whether these disclosures meet the criteria of a reasonable cost/benefit test. However, we agree with the proposals because we understand the need for investors to have access to information similar to that required under SFAS 157.

17. We also note that the term ‘unrealised gains or losses’ is used in the standard, although it is not defined. The term is used in different contexts around the world; for example, there is considerable guidance in the UK on realised and unrealised gains which is used in the context of determining distributable profits. This guidance would not be relevant to the disclosure envisaged by the IASB but the use of an undefined term such as ’unrealised’ could cause confusion. We assume that the aim of the disclosure requirement is to indicate the extent to which gains and losses have been recognised that do not represent cash inflows or outflows. We also believe that a definition of the term ‘unrealised gains or losses’ is not desirable, instead we suggest that the final standard includes a qualitative disclosure requirement so that

companies explain what they consider to be unrealised for this purpose. An example to demonstrate the complexity of defining unrealised gain and losses is that cash inflows on a swap may be repaid at a later date if market conditions change.

18. For instruments where it is difficult, if not impossible, to change one input into a valuation model in isolation and arrive at a reasonable valuation, because inputs are based on assumptions that are often interrelated, it would be helpful for paragraph 27B(d) to acknowledge that for these instruments the impact on all the affected inputs should be adjusted for the reasonably possible alternate assumptions and that disclosure should be made as to how the assumptions have been changed.

19. Paragraph IG13A, which illustrates the application of paragraphs 27-28 states that 'disclosures by class of financial instruments would also be required, but are not included in the following example.' We are concerned that this could be read as implying two tables are necessary: one based on IAS 39 category (eg, fair value through profit or loss and available for sale) and one based on class of financial instruments. Paragraph 27B is clearly about each class of financial instruments so the text and table in paragraph IG13A should be consistent.

(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?

20. We do not agree with this proposal. In our view the qualitative disclosure requirement in paragraph 27, which requires the disclosure of the methods and valuation techniques used to determine fair value, is sufficient in respect of financial instruments that are not measured at fair value in the statement of financial position. Based on our experience even the existing fair value disclosures on instruments that are not measured at fair value are not extensively looked at by users (although admittedly this may change in the future) and the additional disclosure by level in the fair value hierarchy requirement would therefore not add value. An assessment of the usefulness of disclosure for items not measured at fair value should perhaps be one of the issues looked at in relation to a post-implementation review noted above. We also note that the equivalent disclosures in SFAS 157 apply only to financial instruments measured at fair value on a recurring basis.

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?

21. Yes.

22. As we set out in our letter dated 28 July 2008, we would extend this proposal to all financial liabilities managed on a fair value basis that are held for trading or using the fair value option. The extension would include all financial liabilities classified as trading or designated at fair value through profit and loss, as well as the derivatives excluded in paragraph 9 (a) (iii) of IAS 39. Often these instruments will be closed out or sold long before their contractual maturity and a maturity analysis based on the expected cash flows rather than the contractual terms is therefore more useful to a user. If the proposal is not extended as we suggest, we believe that some entities

will continue to find it difficult to comply with the requirements to identify contractual cash flows in respect of some non-derivative financial liabilities. The difficulties with identifying cash flows apply to all financial liabilities managed on a fair value basis and not only derivatives; therefore such instruments should be within the disclosure requirements of paragraph 39(a) and not 39(b).

23. We assume paragraph B11C is saying that the paragraph 39(a) requirement applies to items 'that would meet the definition of a derivative financial liability if they were recognised', such as loan commitments and financial guarantees. However it is not clear whether there is intended to be a difference between items in the scope of IAS 39 and items outside the scope of that standard and we suggest that the wording is clarified.

24. As already noted, paragraph B11E states that an entity should disclose a maturity analysis of financial assets it holds for managing liquidity risk, if appropriate. Because of the importance of financial assets to the liquidity of most entities, we suggest that this requirement should be given greater prominence and included in the standard rather than in the application guidance. We also suggest that the requirement is redrafted in terms of an entity being required to disclose a maturity analysis of financial assets held by the entity for managing liquidity risk.

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?

25. Yes, subject to our comments on financial liabilities managed on a fair value basis in question 4.

26. We note that paragraph B14 has been deleted in its entirety. However, assuming disclosure on the basis of contractual undiscounted cash flows will continue to be required in the case of non-derivative instruments, most of paragraph B14 will continue to be relevant. We suggest that it should be reinstated with the exception of the material relevant only to derivatives.

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?

27. No. We note that the reason for amending the definition is not set out in the Basis for Conclusions. If the intention is to exclude financial liabilities that are settled in a variable number of the entity's own shares from the maturity analysis, we suggest it may be simpler and clearer just to state this. It may also be helpful for entities to disclose non-financial liabilities that are settled in non-financial assets, readily convertible into cash.

Effective date and transition

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

28. We agree that the amendments should be subject to due process and allow sufficient time for companies to implement the changes, particularly paragraph 27B (b) and (c). However, we recognise that investors and regulators are calling for

additional information about fair values and that certain of the amendments to the liquidity risk disclosures are necessary to clarify the requirements and make them practically capable of implementation. Therefore, we agree with the proposed effective date but set out suggestions in our answer to question 8 which will allow companies to early adopt where possible.

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

29. Paragraph 43A contains few transition requirements except for a requirement to disclose early adoption. Since we believe many users would appreciate at least some of the amendments being adopted as soon as practicable, we recommend that it should be made as easy as possible for entities to early adopt those aspects which they are able to implement at an earlier date. This would involve allowing individual paragraphs to be early adopted and giving specific relief from the requirement in IAS 1 paragraph 38 for comparative information to be disclosed in respect of the previous period for all amounts reported. In addition, in light of the extent of changes to be made to systems we suggest that this specific relief should be included in the transitional provisions for all entities whether or not they are early adopting.

30. We note adoption is proposed for annual periods beginning on or after 1 July 2009. The IASB may wish to consider encouraging similar disclosures for the preceding, interim reporting period(s), which would address requests from investors to enhance disclosures as soon as possible.

Email: desmond.wright@icaew.com

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

28 July 2008

Our ref: ICAEW Rep 80/08

Your ref:

Gavin Francis
Director of Capital Markets
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Gavin

IFRS 7 Financial Instruments: Disclosure

The Institute of Chartered Accountants in England and Wales is taking the opportunity to bring to your attention several first time implementation issues with IFRS 7 Financial Instruments: Disclosure. The analysis does not include issues relating to fair value disclosures arising from the current market situation, given the extensive consideration being given elsewhere to this.

Instead the analysis aims to bring to the IASB's attention some practical difficulties with implementation that arise from the drafting of the standard which we think should be considered for improvement in the short term.

Please contact me should you wish to discuss any of the points raised in the attached.

Yours sincerely

Iain Coke
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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW REPRESENTATION

ICAEW REP 80/08

IFRS 7 Financial Instruments Disclosure

Memorandum of comment submitted in July 2008 by The Institute of Chartered Accountants in England and Wales in response to the IASB paper on IFRS 7.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) has taken the opportunity to comment on the issues experienced on first time implementation of IFRS7 *Financial Instruments: Disclosure* issued by the International Accounting Standards Board in 2005 for implementation by December year- end reporters in their published financial statements for 2007.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

Support for the initiative

Principles-based approach

4. Whilst we support a principles-based approach to developing standards, we believe that this IFRS does not always clearly articulate the principle that the mandated disclosures are trying to meet and sometimes requires disclosures that are contrary to the stated principle that the disclosures are “through the eyes of management”. In our view, the overriding principle should be that the disclosure is providing useful analysis of amounts included in the financial statements and that these analyses should reflect the manner in which the related risks are managed. The most obvious example of this issue is the requirement to produce a table of undiscounted cash flows by contractual maturity as required by IFRS7.39 and B14 (see our more detailed comments below). There are other implementation difficulties with IFRS 7 which generally relate to the disclosures required by the standard which are not “through the eyes of management”. These are detailed in the attached table. We recommend that the IASB undertakes a review of the practicalities of implementation and the usefulness of the resulting information to readers at an early stage.

Liquidity disclosures

5. In summary our concerns are:-

a) the information required is significantly onerous to produce and maintain, as it is not prepared for management purposes;
b) most of the problems are due to the requirements of paragraph B14, which were considered guidance only in the *Exposure Draft (IG27)*, but became mandatory in the final accounting standard;
c) particularly for derivatives within trading portfolios, the requirement to show gross undiscounted cash flows for liabilities is likely to result in enormous numbers being disclosed that bear no relation to the real underlying liquidity risk arising, and distort the underlying risk further because of the focus on liabilities, ignoring payments to be made on derivatives that are financial assets;
d) even in a liquidation scenario, underlying cash flows for derivative contracts will very rarely result in requiring one way gross cash payments to be made; and
e) the requirement to disclose undiscounted cash flows is not only onerous but also misleading for financial instruments that are not expected to be held to maturity.

6. We recommend that the text in paragraph B14 is moved back to being implementation guidance only, so that it is clear that providing undiscounted and gross cash flow data are not mandatory. In addition, we recommend that financial liabilities managed on a fair value basis are either permitted to be excluded from the maturity analysis in their entirety, or that they may be included at a value and within a maturity bucket that is consistent with the way in which their liquidity risk is managed. For financial liabilities managed on a fair value basis this would generally be at their fair values in the earliest maturity bucket the reporting entity is most likely to stand ready to close out or sell the position (which would nearly always be short term). Such a presentation is, in our view, more appropriate and more in keeping with the spirit of IFRS 7.

7. We wish to draw attention to this particular implementation problem with IFRS 7 because of its wide impact and because the required information is misleading as well as onerous to produce.

8. More detailed comment on the components of this disclosure can be found below the table attached to this letter.

9. We would be pleased to provide further information about aspects of the standard which are difficult to interpret and disclosures that are difficult to produce and have doubtful usefulness.

	Requirement	Problems	Application in practice	Suggested solutions
1	**Classes of financial instruments and level of disclosure IFRS 7.6**			
	IFRS 7. 6 requires disclosure by class of financial instruments, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments	Guidance on what is a class or what should be disclosed is not particularly clear (IFRS7 .6) and the available Application guidance B3 and B4 and Implementation guidance (IG5 and IG6) are also not clear.	Wide diversity of practice – some banks thought that 'loans' were a class. Others broke loans down into types of loans	Provide clearer IG, for example it would be helpful to clarify that the minimum requirement is at the balance sheet category.
2	**Through the eyes of management approach**			
2.1	IFRS 7.34(a) requires a 'through the eyes of management' approach to quantitative risk disclosures including management metrics. The standard indicates that a minimum data set should only be provided if management figures do not provide the information	Management may use data other than financial data to manage the business or the data they use may not be readily reconcilable to the line items required under external reporting requirements. Such measures may not be auditable, SOXable and /or Non-GAAP.	Diversity of practice	The quantitative disclosures required by IFRS7 should reflect the primary financial statements, i.e. they should provide analysis of the amounts in the financial statements but the analysis, such as maturities or concentrations, should be driven by how the underlying risks are managed.
2.2	IFRS 7.34(a) requires that disclosure for the reporting entity is 'based on the information provided internally to key personnel of the entity (as defined in IAS 24 *Related Party Disclosures)*'	The risk management disclosure requirements are based upon the premise that the level of disclosure is consistent with the level that financial instruments are managed internally. This will be the case for the ultimate parent's consolidated accounts but may not be the	For subsidiaries where IFRS is required, disclosure will often be made in line with the minimum disclosure requirements rather than based on established risk management processes that exist at a different entity reporting level.	Consider whether alternative disclosures may be appropriate for wholly- owned subsidiaries or groups where the results are included within a group reporting under IFRS 7. For example, - complete exemption

		case for wholly- owned subsidiaries, or lower level groups, where internal risk management practices often involve managing financial instruments across entities rather than at the legal entity level.		for such entities (similar to FRS 29 Financial Instruments: Disclosures) - disclosure permitted consistent with the basis of internal risk management information assessed at a higher group level. For example, VaR is permitted if the Group is assessed under VaR even though the individual entity is not assessed under VaR.
3	**Market risk**			
	IFRS 7.34(a) requires summary quantitative data about each risk at the reporting date arising from financial instruments.	Because overseas net investments are not financial instruments they are not captured by this requirement. Therefore, an unhedged US $ loan to a customer would be an exposure if paid out of a GBP functional Company, but not if paid out of a USD functional subsidiary of a GBP functional group even though any change in exchange rates would impact equity.	Most groups have complied with the letter of the standard. Others provided a table of net investments by currency with the carrying amount of the associated hedges (accounting and economic) and the resulting net exposure, but no sensitivity analysis.	There should be a requirement to disclose structural foreign exchange exposure. This would be useful information in relation to, for example, groups with foreign subsidiaries.
4	**Credit risk**			
4.1	Maximum exposure to credit risk, including a description of collateral and credit enhancements held, by class (IFRS	Inevitably this results in a large total that is difficult to explain – it will include assets	Most have complied without much divergence in practice, except for the requirement to	The usefulness of this disclosure is doubtful especially given the other

	7.36(a))	which have little or no credit risk. Inclusion of trading portfolio and derivatives at fair value is at least partially misleading.	present by class	credit disclosures (see below) and it should be removed.
4.2	Carrying amount of assets that would have been overdue or impaired had their terms not been renegotiated, by class IFRS 7.36	For a large portfolio of loans or trading assets where decision making is dispersed, it is very hard to gather this data in practice. The commercial terms of loans are renegotiated continuously and it is difficult to establish which loans are renegotiated with this motive. It is not clear whether this means loans renegotiated in the accounting period or renegotiated ever.	Most seem to have arrived at a disclosure.	Delete this requirement because we do not believe it provides useful information
4.3	An analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired (IFRS 7.37(a))	IFRS7 stipulates that when a debtor misses an instalment the entire financial asset is overdue. Past due means missing any contractual payment when due ('1p, 1 day'). Large amounts end up in this category even when there is, commercially, no problem with the relationship or the asset, leading to difficulties of interpretation for the reader. The inclusion of trading portfolio items in this analysis is also problematic at least	Most have complied – however in general only loans and advances have been included although the standard requires all financial assets subject to credit risk	Revise the definition to being over 30 days overdue or some commercially accepted interval which indicates that there might be concerns over collectability. This is one area where a reasonable 'through the eyes of management' approach would have been more useful. Assets included in this table are not included in the credit quality analysis. Exempt trading portfolio and

		from a systems perspective. Past due is also surprisingly difficult to define for corporate lending agreements.		available for sale assets. Their carrying value is the sole indicator of their credit status.
4.4	An analysis of financial assets that are individually impaired (IFRS 7.37(b))	IFRS 7 and IAS 39 are not compatible in this area since IAS 39 permits a portfolio approach to homogenous balances – these are only rarely individually impaired until write off. What is meant by 'an analysis' is indicated but not required – the minimum disclosures are gross, allowance and revised carrying amount, by class.	There was diversity in practice. Some entities gave geographical and industrial analyses. Others gave bare minimum data. In some cases, even less was presented. The treatment of homogenous loans also differed – IFRS 7 has no requirement for any disclosure about these. Therefore, portfolios of loans with large (but portfolio level) impairment allowances against them could be included in the analysis of neither past due nor impaired (credit quality) or in the past due but not impaired table (time analysis)	Stipulate the treatment of homogenous loans and portfolio level impairment allowances Either stipulate requirements or only require the minimum requirement. There is a need to review the overall consistency of the impairment disclosures required by IFRS7 with the measurement requirements of IAS 39.
4.5	Collateral and other enhancements held against assets that are past due or individually impaired (IFRS 7.37(c))	In practice this is a difficult figure to obtain since it is not readily available for most commercial loans where collateral can take many forms – for example, parent guarantees, floating charges,	Not many banks gave much data except for mortgages where the value of the collateral held (houses) in respect of mortgages was often disclosed.	Abolish the requirement as it serves little purpose. The estimated proceeds of collateral, together with the time value of money, are reflected in the carrying amount. The impairment

		insurance etc. IFRS7 indicates that this should only be given if practicable. Many banks fell back on this in order to overcome the problem of providing meaningful disclosures for collateral.		allowance additionally reflects the likelihood that the entity expects loss on the asset.
4.6	Collateral and other enhancements obtained (IFRS 7.38)	IFRS7 does not specify whether this is the amount held at the balance sheet date or the amounts collected during the year. This paragraph is open to varying interpretations	Some presented the carrying amount held at the balance sheet date, others the amount of collateral taken in the year.	Clarify the intention behind this disclosure. An IAS39 style portfolio approach should be permitted for this disclosure.
5	**Liquidity risk**			
5.1	Concentrations (IFRS 7.34(c)))	As with Market Risk, the requirement to show concentrations is clear but is included in IFRS7.34. This makes it easy to overlook.	Most do not show concentrations.	Include the requirement for this in IFRS7.39 and be more explicit that it includes concentrations in funding sources.
5.2	Contractual maturity of liabilities	Liabilities expressly include all financial liabilities, including trading portfolio liabilities and derivatives whether held for hedging or held for trading. All trading portfolio liabilities are invariably managed on a fair value basis will be closed out or sold long before maturity and the contractual maturities of these instruments are not relevant to the management of	Most have taken a ‘hybrid’ approach to make this requirement workable and more meaningful even if the strict wording of the standard forbids this.	Remove this requirement altogether. – it is an example of IG being put in the standard at the last minute without due process. Contractual maturities would not have identified Northern Rock as an outlier. This table has proved a distraction from meaningful disclosures. It is not prepared on a behavioural basis which is how banks manage.

		the entity. Financial reporting systems do not capture this data and it is not used for management reporting. Thus it is very hard to populate and verify if an entity has a trading portfolio including, especially, derivatives. In addition IFRS7 does not deal with the presentation of perpetuals.*		Additional detail on sources of funding is more useful. It would be preferable to return to a table for both financial assets and liabilities based on expected maturities which is presently included in IG30 as voluntary additional disclosure.

***Contractual maturities of liabilities**
Regardless of how liquidity risk is managed, paragraph 39(a) requires an analysis of financial liabilities by remaining contractual maturity. Where the counterparty has a choice of when a liability may be paid, paragraph B12 requires amounts to be included in the analysis based on the earliest date on which the entity could be required to repay. However, no adjustment is permitted in respect of financial liabilities that are expected to be repaid earlier than the contractual maturity date. This includes financial liabilities that are managed on a fair value basis as part of the trading portfolio, which may be settled or closed out earlier than their maturity date in the near term in response to trading decisions, or at the request of the customer, even though there is no contractual obligation on the reporting entity to do so. The inclusion of such financial liabilities in a contractual maturity table is misleading, as it implies that the reporting entity's liabilities will be paid at a later date than is usually expected to be the case, as well as onerous to prepare since this is not the way that such financial instruments are actually managed for liquidity purposes.

Undiscounted cash flows
Paragraph B14 requires the cash flows disclosed in the maturity analysis to be undiscounted. Use of undiscounted cash flows gives a full representation of the amounts that the entity would pay if the liabilities are retained to maturity, but this does not equate to the amount that would be payable should the reporting entity cease to be a going concern and is therefore unable to meet its liabilities as they fall due. This is because, in such situations, liabilities would normally be settled at their fair value at that point in time. Hence the analysis is not even 'worst case' as envisaged by BC 57, but requires disclosure of larger cash flows. For financial instruments that are managed on a fair value basis, determination of undiscounted cash flows is onerous to produce and of very limited value, especially if the instruments are usually closed out prior to their contractual maturity.

Gross up of cash flows
B14 (d) requires contractual amounts to be exchanged in a derivative contract to be shown gross if gross cash flows are to be exchanged, as in a currency swap. This requirement would result, for banks and similar financial institutions, in extremely large amounts being disclosed, that bear no relationship to the gross liabilities recorded in the balance sheet or to the actual underlying risks.
The requirement provides information that is of limited value and is also misleading, since there is no legal requirement to pay the gross cash flows if either the reporting entity or the counterparty defaults. In the event of default (including liquidation, receivership or administration) the fair values of derivatives are settled net. Otherwise, the gross payments will always be accompanied by gross receipts.
(It is true that, at the date of default by a counterparty, there is a possibility that the entity may have committed itself to make gross payments on amounts due on that day and will not, in fact, receive the amounts due in return, but the incidence of this is very low and is better regarded as a credit risk than a liquidity risk).

If there were conceptual merit in disclosing the gross cash payments on derivatives that are financial liabilities, it would be equally relevant to disclose the gross cash payments to be made on derivatives that are financial assets. However, there is no such requirement. Also, even in an interest rate swap, where gross cash flows are not exchanged during the swap's life, some of the periodic cash flows may be payments by the entity and others may be receipts. It would be consistent with the treatment of currency swaps to show all amounts expected to be paid on all derivatives, although this would be of extremely limited value to the reader since the fair value of the swap will be net settled in the event of default by either party to the contract.

This information will be particularly misleading if, as will generally be the case, the derivatives do not run to their contractual maturities, but are closed out and so net settled at an earlier date.

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