Ref: 08-957

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Comments regarding IASB's Exposure Draft on IFRS 7 Improving Disclosures about Financial Instruments

Dear Mr. Enevoldsen,

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft comment letter on IASB Exposure Draft on IFRS 7 Improving Disclosures about Financial Instruments.

We thank you for this opportunity to comment on your draft letter and we are therefore pleased to provide you with the following comments:

- In general, CESR is supportive of the comment letter prepared by EFRAG on this issue.

- However, we have a few comments to some of the issues. IASB asks in question 1 in the Exposure draft whether entities should be required to disclose the fair value of financial instruments using a fair value hierarchy. CESR agree with the proposal of using a fair value hierarchy. However, we believe that it should be explicit that the disclosures should be provided by way of analysing the line items presented on the face of the statement of financial position, as the link with the line items presented on the face of the statement of financial position is important to the users.

- In question 2 in the exposure draft IASB addresses the three level fair value hierarchy. CESR is of the view that the fair value hierarchy provides useful information when there are no directly observable quoted market prices, and allows assessing the reliability of the fair value measurements used. We would in this connection refer to the CESR statement on fair value measurement and related disclosures for financial instruments in illiquid markets[1] which was published on 3 October 2008. This CESR statement included an example of a tabular form for disclosures in relation to financial instruments in illiquid markets that presented the disclosures for the financial instruments in question using three levels. Respondents to the consultation of the draft CESR statement representing users highlighted that disclosures structured according to a hierarchy with three levels as set out in the exposure draft are very useful in practice. Also, CESR has noticed that financial companies in Europe on a voluntary basis have used the fair value hierarchy when presenting the disclosures in the financial statements. The fair value hierarchy is therefore seen as useful also by issuers in Europe.

- In question 3 in the exposure draft IASB asks for comments on the disclosures suggested. In addition EFRAG asks for comments on the proposed additional sensitivity disclosures. CESR agrees with the proposals in the exposure draft in paragraph 27B and 27C. Concerning the issue of the additional sensitivity disclosures raised by EFRAG in its draft comment letter, we

[1] CESR ref. 08-437

think that the additional disclosures should also be required for financial instruments that are not recognised at fair value, but which were reclassified (using the amendment made to IAS 39 on 13 October 2008) during the reporting period that is presented. For these financial assets that are not recognised at fair value, but which were reclassified using the amendment made to IAS 39 on 13 October 2008, CESR is also of the opinion that the requirement set out by 27B (e) should also be applicable and added to the paragraph 27C in order to disclose any movements between the levels of the fair value hierarchy. By disclosing this information the benefits will exceed the cost of preparing it. Also, CESR is of the view that the notion of "significance" which is used both in 27A and 27B(d) could be clarified.

- In question 4 and 5 IASB asks for comments regarding the maturity analysis in the proposed IFRS 7.39 (a) and (b). EFRAG suggests that the content of paragraph B11E should be moved to the main body of the proposed standard. CESR supports that suggestion. Furthermore, CESR believes that the IASB should provide additional criteria and guidance to identify in which circumstances would be appropriate for entities to disclose a maturity analysis of the financial assets they hold, with the purpose of promoting consistent application. In addition, EFRAG has asked for comments on whether the distinction between derivatives and non-derivatives in the case of the maturity analysis is relevant. CESR wishes to emphasize that qualitative and quantitative comments required in the proposed IFRS 7.39(c) that describe how liquidity risk is managed would be very useful to investors. Without those comments, the information provided in 39(a) and (b) would be very difficult to analyse. These difficulties arises because of the complexity of many business situations, the different business rationales for holding financial instruments and the uncertainty around fair values, clear disclosures are necessary for users to understand these aspects and their implications for the fair value measurements included in the financial statements.

- In question 6 in the exposure draft IASB asks for comments on the amended definition of the term "liquidity risk". CESR is of the view that liquidity risk, as defined in Appendix A to IFRS 7, seems to focus on one side of the liquidity equation which is the ability to meet obligations associated with financial liabilities. The definition is not clear regarding other risks involving liquidity such as the crucial part of the liquidity risk which is ability to obtain the adequate funding to meet those obligations. As stated in the CESR statement on fair value measurement and related disclosures CESR is of the view that liquidity risk related to assets also are important and should be taken into consideration when defining "liquidity risk" related to financial instruments.

- In question 7 IASB asks for comments on the effective date of this amendment. The effective date is suggested to be 1 July 2009. CESR is of the view that the information provided by the amended standard is extremely useful to users as highlighted above. CESR therefore supports the permission to apply these amendments prior to the effective date.

- In question 8 IASB asks for comments regarding the transition requirements of the amendment. CESR is of the view that the IASB needs to be more explicit on the specific transition provisions associated with the comparative periods presented in the initial period of adoption.

I should be happy to discuss all these issues further with you.

Yours sincerely,

Fernando Restoy
Chair of CESR-Fin