Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2008:17

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Exposure Draft – Improving Disclosures about Financial Instruments

The Swedish Financial Reporting Board (Board) is responding to your invitation to comment on the above Exposure Draft (ED).

General Comments
We appreciate the opportunity to respond to the exposure draft. Our detailed comments are found as answers to the specific questions. The answers could be summarized as follows:

- We believe that disclosures with respect to the fair value hierarchy should only be required for open market risk positions measured at fair value

- We believe that liquidity risk should be required to be described using the gross incoming and outgoing cash flows from both on- and off-balance sheet instrument

- We believe that for both on- and off-balance sheet instruments expected as well as contractual maturities should be used in the disclosures of liquidity risk

- Likely the proposed disclosure requirements will result in significant work for certain institutions even though the extra disclosure requirements for them are not meaningful.

- We also note that the IASB is adding more and more detailed disclosure requirements even though several companies already provide these disclosures since they are considered relevant.

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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 do not agree that the introduction of a fair value hierarchy in the disclosure requirements is necessarily a change in disclosure requirements that would improve the disclosures regarding financial instruments.
We believe that a categorisation of fair value information in different categories depending on if the instruments are traded on liquid markets or not may overstate the perceived lack of objectivity in the fair values reported in the financial statements. The reasons for our objection is that we believe that the hierarchy is most useful for positions that are not matched, i.e. where there are open market risk positions with respect to general and specific market risks. In those circumstances the information will highlight to the user of the financial statements that models have been used for the measurement of fair value of the specific open position.
On the contrary, if an entity has matched positions where one position is in another category in the fair value hierarchy than the other, there will be a perceived overstatement of the use of entity specific parameters in the financial statements.
An example may illustrate this. If the equity risk in an issued equity-index-linked bond which is traded on a liquid market is economically hedged with an OTC-option which is linked to the same equity-index, then they will be presented gross in different parts of the fair value hierarchy as two open market risk position in each level of the hierarchy even though the market risk is perfectly hedged. Instead, the focus on the transaction should be the counterparty risk in the OTC-option contract.

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 agree with the three-level fair value hierarchy as set out in paragraph 27A. However we do appreciate the perceived difficulties that entities have in the categorisation of the financial instruments into the different categories. Without violating the aim of having principle based standards, we believe that an increased clarity of the categorisation would be appreciated by preparers of financial statements.

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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 believe that the disclosure requirements may be useful. However we do appreciate that the disclosure requirements are extensive and have to be balanced against other disclosure requirements. Overly detailed disclosure requirements may overemphasize the importance of the information for entities not having extensive open positions in level three financial instruments.

(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?

See our specific answer in question 1 on the usefulness of separating the disclosures of fair value into the fair value hierarchy. For financial instruments not measured at fair value the relevance of the categorisation should be even less useful. The use of amortised cost as a measurement basis for financial instruments is linked to the intent of entering into the transaction. The intent has to be to hold the financial instruments until maturity or without a trading intent. Then, actual fair values have less relevance since those swings in fair values will not normally result in a change of the cash-flows of the instrument.

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?

Yes we agree with the proposal that derivate instruments for liquidity risk purposes should be disclosed based on how the entity manages the liquidity risk. However we question that the requirement is restricted to derivative instruments that are financial liabilities. We believe that the disclosure requirements should show gross incoming and outgoing expected cash flows for derivative financial instruments regardless of the classification as an asset or a liability. As the disclosure requirement is proposed, the same derivative contract that was reported in one financial report may no longer need to be reported, since a change in the fair value of the contract may alter the classification of the derivative contract out of the financial liability category.
As for non-derivate financial instruments, regardless of expected maturity, we propose the presentation of a contractual maturities analysis as a complement. The reason for the proposed extra requirement is that some contracts may have a significantly different possible contractual maturity than the expected.

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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?

Yes we agree with the proposal to require entities to disclose a maturity analysis for non-derivative financial instruments based on expected maturities.

General remark to both questions 4 and 5

We believe that there should be a requirement to present both incoming and outgoing cash-flows. It is the net cash-flows that are of outmost importance. It is very difficult to understand the actual liquidity risk position if only the gross outgoing cash-flows are presented.

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?

Yes we agree with the amended definition of liquidity risk in Appendix A.

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Effective date and transition

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

Yes, we agree with the proposed effective date.

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

Yes we agree with the proposed transition requirements.

If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, December 15, 2008

Kind regards,
Anders Ullberg
Chairman