



International Accounting Standards Board®

Press Release

FOR IMMEDIATE RELEASE

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IASB publishes Exposure Draft on Financial Instrument Disclosures

The International Accounting Standards Board (IASB) today published proposals to improve disclosures about financial instruments in financial statements. The proposals are set out in an Exposure Draft of an International Financial Reporting Standard (IFRS) ED 7 *Financial Instruments: Disclosures*. If adopted, the proposed IFRS would apply to all entities. However, the extent of disclosure required would depend on the extent of the entity's use of financial instruments and of its exposure to risk.

In developing these proposals, the IASB worked with an expert advisory group, the Financial Activities Advisory Committee. The Committee's members have experience and expertise in banks, finance companies and insurance companies and include auditors, preparers and regulators. Their role was to provide input from the perspective of preparers and auditors of financial statements of entities that have large exposures to financial instruments and to assist the IASB in developing an IFRS and Implementation Guidance for risk disclosures arising from financial instruments and for other related disclosures.

The proposed IFRS would require entities to provide disclosures in their financial statements that will enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance;
- (b) the nature and extent of risks arising from financial instruments to which the entity was exposed during the period and at the reporting date; and
- (c) the entity's capital.

The IFRS would replace IAS 30 *Disclosures in the Financial Statements and Similar Financial Institutions* and the disclosure requirements in IAS 32 *Financial Instruments:*

Disclosure and Presentation. In doing so, it would remove some disclosure requirements that are regarded as too onerous and would simplify other disclosures. ED 7 also proposes to locate in one place all disclosures relating to financial instruments.

Introducing the proposals, Sir David Tweedie, IASB Chairman, commented:

The proposals in ED 7 will improve financial reporting by helping users to understand the significance of financial instruments in financial statements, by giving information about companies' capital and by revealing more clearly the risks attached to holding financial instruments. The IASB has benefited greatly from the advice of our working group of auditors, preparers and regulators, drawing on their expertise in banks, finance companies and insurance companies.

The IASB invites comments on the Exposure Draft by 22 October 2004.

The primary means of publishing proposed IFRSs is by electronic format through the IASB's subscriber Website. Subscribers are able to access the Exposure Draft published today through "online services". Those wishing to subscribe should contact:

IASCF Publications Department, 30 Cannon Street, London EC4M 6XH,
United Kingdom. Tel: +44 (0)20 7332 2730, Fax: +44 (0)20 7332 2749,
email: publications@iasb.org Web: www.iasb.org.

Printed copies of ED 7 *Financial Instruments: Disclosures* (ISBN 1-904230-67-9) (three-part set) are available, at £10 including postage, from IASCF Publications Department.

From 2 August, the text of the Exposure Draft will be available freely from the IASB's Website.

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Press enquiries:

Sir David Tweedie, Chairman, IASB
telephone: +44 (0)20 7246 6410, email: dtweedie@iasb.org

Wayne Upton, Director of Research, IASB,
telephone: +44 (0)20 7246 6449, email: wupton@iasb.org

NOTES TO EDITORS

Reasons for publishing ED 7 *Financial Instruments: Disclosures*

- 1 In recent years, the techniques used by entities for measuring and managing exposure to risks arising from financial instruments have evolved and new risk management concepts and approaches have gained acceptance. In addition, many public and private sector initiatives have proposed improvements to the disclosure framework for risks arising from financial instruments.
- 2 The International Accounting Standards Board (IASB) believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgements about risk and return.
- 3 Consequently, the IASB concluded that there was a need to revise and enhance the disclosures in IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and IAS 32 *Financial Instruments: Disclosure and Presentation*. As part of this revision, the IASB:
 - has reviewed the disclosures required by IAS 30 and IAS 32 and proposes to remove those that are unnecessarily onerous or duplicative. This proposal includes simplifying the disclosures now required by IAS 32 about concentrations of risk, credit risk, liquidity risk and market risk and deleting disclosures required by IAS 30 about contingencies and commitments and general banking risks.
 - proposes to locate in one place all disclosures relating to financial instruments.

Main features of ED 7

- 4 If adopted, the proposed IFRS would apply to all entities, including those that have few financial instruments (eg a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (eg a financial institution most of whose assets and liabilities are financial instruments). However, the extent of disclosure required would depend on the extent of the entity's use of financial instruments and of its exposure to risk.
- 5 The IFRS would require:
 - disclosure of the significance of financial instruments for an entity's financial position and performance and would incorporate many of the requirements previously in IAS 32.
 - qualitative and quantitative disclosures about exposure to risks arising from financial instruments. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

- specified minimum disclosures about credit risk, liquidity risk and market risk (including interest rate risk).
 - disclosure of qualitative information about the entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance.
- 6 ED 7 includes draft Implementation Guidance that describes how the proposed disclosures might be provided and draft Illustrative Examples that illustrate the application of the capital disclosure proposals.

Proposed effective date

- 7 The IASB is committed to maintaining a 'stable platform' of unchanged Standards during the period to 2005 when many entities will adopt IFRSs for the first time. Accordingly, the proposed IFRS would not be mandatory for 2005.
- 8 However, the IASB was informed that some entities that will be adopting IFRSs from 2005 would like to apply the disclosures proposed in the draft IFRS from when they first adopt IFRSs, on the grounds that:
- the proposals are more up-to-date than the present requirements in IAS 32 and IAS 30, more relevant to users of financial statements and easier to prepare.
 - it would be unhelpful to both preparers and users for an entity to change from local accounting requirements to IAS 32 and IAS 30 and then change again only one or two years later to the proposed new risk disclosures.

Therefore, the IASB decided that the effective date of the proposed IFRS and related amendments to IFRS 4 should be annual periods beginning on or after 1 January 2007, with earlier application encouraged.

About the IASB

The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB.

The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world. Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor, the International Accounting Standards Committee (IASC). IASs 30 and 32 are two of the standards inherited from IASC.