RCRFI Sub 1

Department of Treasury and Finance

The Treasury Building
21 Murray Street, HOBART, Tas 7000
GPO Box 147, HOBART, Tas 7001 Australia
Telephone: (03) 6233 3100 Facsimile: (03) 6223 2755
Email: secretary@treasury.tas.gov.au Web: www.treasury.tas.gov.au

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST Vic 8007

Dear ~~Mr Boymal~~ David

IASB DISCUSSION PAPER *REDUCING THE COMPLEXITY IN REPORTING FINANCIAL INSTRUMENTS*

Australia's Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to respond to the International Accounting Standards Board's Discussion Paper *Reducing Complexity in Reporting Financial Instruments.*

HoTARAC, in general, supports a long-term approach to measure all financial instruments that are actively traded in the market at fair value and other financial instruments at amortised cost.

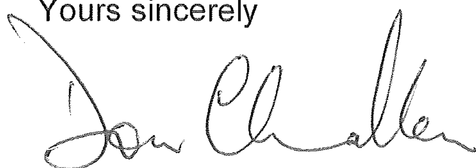
Attached is a detailed response to the questions raised by the IASB for the AASB's consideration.

A high-level summary of HoTARAC's comments is as follows:

- HoTARAC strongly suggests that a long-term solution should not be finalised or implemented until the "objective" and "measurement" phases of the IASB's *Conceptual Framework* and the *Fair Value Measurement* projects are completed;
- only one set of changes to the requirements in the Standard is preferred to minimise cost to users, auditors and preparers. Therefore, intermediate approaches are supported only to the extent that they are simple to implement and cost beneficial;
- HoTARAC believes that one fair value measurement for all financial instruments may not accurately reflect the true substance of the financial instruments;
- realised and unrealised gains/losses should be recognised as "market re-measurements", separate from other income and expense items which should be recognised as "controlled transactions" in the Operating Statement;
- impairment should be recognised when there is objective evidence and measured by reference to the discounted value of likely cash flows; and
- hedge accounting is a complex area that should be reviewed and considered as part of the long-term solution.

Any enquiries on this correspondence can be sent to Peter Batten from the Victorian Treasury on 03 9651 2395 or peter.batten@dtf.vic.gov.au.

Yours sincerely



D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

10 August 2008

Encl

Contact: Suzi Ransom
Phone: (03) 6233 2881
Our Ref: D/14421 SR/CJ

DISCUSSION PAPER *Reducing Complexity in Reporting Financial Instruments*

Section 1 – Problems related to measurement

Question 1

Do current requirements for reporting financial instruments, derivative instruments and similar items require significant change to meet the concerns of preparers and their auditors and the needs of users of financial statements?

Yes.

In Australia, all entities from public and private sectors that prepare General Purpose Financial Reports, must comply with the requirements of International Financial Reporting Standards. In the case of not-for-profit entities (including the public sector's NFP), there are certain limited amendments to IFRS developed by the Australian Accounting Standards Board to address local issues. As well as being included in the consolidated financial report of the State, public sector entities must also prepare their own general purpose financial report for accountability reasons.

From the public sector perspective, most entities (with the possible exception of the major large public sector financial institutions) find the current requirements on financial instruments and derivatives to be overly complex; the possible methods of valuation are confusing, can be difficult to apply, and are considered to result in inconsistency in measurement of financial instruments between entities.

Addressing these issues would require significant changes to the current financial instrument standards. However, in reducing the complexity of current requirements, standard-setters should ensure that the transactions and disclosures arising from the simpler requirements portray the substance of the financial arrangements and maintain consistency with other accounting standards and the proposed framework.

Because only the major large public sector financial institutions are able to cope well with the current standard requirements, HoTARAC questions whether it would be more appropriate to have a different set of standards on financial instruments for those entities that deal extensively in financial instruments (whether or not the entity is a financial institution), to separate them from those that do not.

A further alternative as suggested by one of HoTARAC's members, other than having a separate set of standards, was the categorisation of reporting entities. They suggest that the IASB might explore common categories of reporting entities and only require certain categories of entities to provide all of the disclosures required by the financial instrument standard.

If not, how should the IASB respond to assertions that the current requirements are too complex?

N/A

Section 2 – Intermediate approaches to measurement and related problems

Question 2

(a) *Should the IASB consider intermediate approaches to address complexity arising from measurement and hedge accounting? Why or why not? If you believe that the IASB should not make any intermediate changes, please answer questions 5 and 6 (refer below), and the questions set out in Section 3 (refer below).*

No. As a general response, intermediate approaches should only be implemented to the extent that they can be done without consuming IASB's time and resources that can cause delays in achieving the long-term objective. However, HoTARAC considers that a better use of resources would be to affect a long-term solution to the complexity issue which would prevent unnecessary cost for users, auditors and preparers due to having to go through two sets of changes to the financial instruments standards instead of one.

More specifically, HoTARAC believes that, although this Paper does not address the issue of fair value measurement itself, the principles of fair value measurement are a pervasive aspect of its content and intent. Therefore, HoTARAC strongly suggests that a long term solution should not be finalised or implemented until the "objectives" and "measurement" phases of the IASB's *Conceptual Framework* and the *Fair Value Measurement* guidance projects are completed. Given that this is not likely to occur until at least 2011, there may be some merit in simplifying the financial instrument measurement requirements in the interim, but again only to the extent that this can be achieved simply within a relatively short time period and is cost beneficial to users, auditors and preparers. If it is not realistic to achieve this, then HoTARAC believes resources would be better employed to focus on the longer-term project.

(b) *Do you agree with the criteria set out in paragraph 2.2 (refer to Appendix 1 at the rear of this template for the extract)? If not, what criteria would you use and why?*

HoTARAC believes that there is value in the criteria provided in paragraph 2.2 to evaluate intermediate approaches that are to be adopted. However, some aspects may need further clarification as set out below:

Para 2.2(a) is a sound criterion.

Para 2.2(b) requirement to be consistent with the long-term review would reduce the probability of significant changes when the final standard is released. However, in moving towards one measurement, fair value, for all financial instruments, the IASB should bear in mind that using fair value for all financial instruments may make it easier from a standard-setter's perspective, but has the potential to mislead investors if they do not accurately reflect the expected future cash flows of the entity as a result of the transactions. The potential is that the profit and loss and financial position statements could be either overstated or understated.

For example, for financial instruments traded in the active market, before a total reliance is placed on market prices to determine fair value, research needs to be done to assess the ease with which a market can be manipulated near the end of financial year period that is most common to different constituents/countries. Are large blocks of investors (superannuation, investment companies and large corporations) or suppliers able to manipulate the market price by controlling when specific assets are released to the market? Are there patterns of this occurring in the past and could this be done to achieve a financial reporting objective?

The IASB should also bear in mind that there is likely to be a lack of technical experience in applying accounting for financial instruments in many non-financial institutions, which also means a lack of expertise in applying management judgement on the fair value of financial instruments where market prices are not readily available. Would it add value to such agencies to measure their financial assets and liabilities at fair value regardless?

Therefore, if intermediate approaches are to be adopted, HoTARAC would prefer that this criterion is stated in terms of not reducing the level of fair value measurement. That is, HoTARAC would support a change that maintains the status quo in terms of the level of fair value measurement, unless it is clearly cost beneficial to do so immediately. This is again also pending the long term IASB projects as discussed in 2(a) above.

Para 2.2(c) is a sound criterion, except that it should also include that the simplification should not be done at the expense of faithfully representing the substance of the transaction.

Para 2.2(d) is a sound criterion, especially if it takes into consideration the expected cost of adjustments for when the standard is finalised.

Question 3

Approach 1 (as outlined within the Discussion Paper) is to amend the existing measurement requirements. How would you suggest existing measurement requirements should be amended? How are your suggestions consistent with the criteria for any proposed intermediate changes as set out in paragraph 2.2 (refer to Appendix 1)?

To amend the existing measurement requirements, HoTARAC supports a simpler approach that values financial instruments traded regularly on the market at fair value, and other financial instruments at (amortised) cost (with the exception of those that currently must be recognised at fair value, e.g. derivatives).

This simpler approach is consistent with the International Monetary Fund's and Australian Bureau of Statistics' *Government Finance Statistics Manual*. We believe that this is also consistent with the criteria set out in paragraph 2.2(a), because by requiring all traded instruments to be measured at fair value, it will result in information that is more relevant and easily understandable to users. Volatility in profit will reflect management decisions to hold an instrument and not to trade it in the period.

Incidentally, this approach will result in a similar outcome to eliminating the "held to maturity" category (Paragraph 2.10) as well, because existing different measurement categories of financial instruments will no longer be required under the simpler approach.

However, in the longer term, if a single measurement (i.e. fair value) is to be adopted, at the very least there should be a split in the presentation of controllable and non-controllable items in the Operating Statement, with realised and unrealised gains or losses disclosed under "market re-measurements", and other income and expense items disclosed under "controlled transactions". The disaggregated disclosure will provide useful information to users on the true performance of a reporting entity arising from controlled transactions. One of HoTARAC's members also suggested an alternative approach to this split presentation in the Operating Statement, both presentation approaches are discussed further in question 4(d).

Question 4

Approach 2 (as outlined within the Discussion Paper) is to replace the existing measurement requirements with a fair value measurement principle with some optional exceptions.

(a) *What restrictions would you suggest on the instruments eligible to be measured at something other than fair value? How are your suggestions consistent with the criteria set out in paragraph 2.2 (refer to Appendix 1)?*

Please refer to the discussion under questions 2(b) and 3 for HoTARAC's opinion on fair valuing all financial instruments.

The IASB should be aware of the problem of setting out multiple restrictions on use, that is the standard would be less principle-based, more restrictive and give management more opportunity to manipulate earnings. HoTARAC believes that the standard-setters should put in place the principles of when an alternative method is appropriate, instead of placing restrictions, for example:

Measurement other than fair value should be permitted where the financial instrument is not part of an economic hedging strategy and:

- is not regularly traded on markets; or
- is held as a long-term investment; or
- fair value is not a faithful representation of the assets/liabilities underlying cash flows of the financial instrument. Justification of why fair value is not a faithful representation would need to be made; or
- no appropriate fair value method can be identified for the financial instrument.

This is very similar to HoTARAC's preferred approach under Approach 1 above, whereby financial instruments that are traded regularly on markets must be measured at fair value. As discussed in question 2(b), it may not be appropriate to designate fair value for all financial instruments if it does not represent the true cash flows related to the financial instrument or the substance of the transaction. The users of the financial report (and investors in the private sector) may be misled with regard to how the entity is managed and its expected future performance.

Basing the use of fair value on variability of cash flows (paragraph 2.19) is not an appropriate exception, although this idea has merit. The difficulty of applying it would be in determining where the line of variability is drawn. For example, requiring a fair value measurement for all equity investments because they have the potential for variable future cash flows does not rectify the difficulty in valuing investments such as equity interests in research entities or private companies that are not actively traded on the market.

The variability of cash flows should also not affect the ability of an asset to be recognised at fair value. If each financial instrument is assessed individually for variability of cash flows, does this mean that if the investment is stable for a period of time, it could be reclassified and assessed using a cost based method?

(b) How should instruments that are not measured at fair value be measured?

Generally at (amortised) cost, in accordance with current requirements for "loans and receivables" category. However, due to the variability of financial instrument types, more than one methodology would most probably be required to allow for the flexibility to faithfully represent the instrument's value.

For example, debt style instruments, such as loans, receivables, payables and bonds, would most probably be best reflected by an amortised cost or discounted cash flow methodology. The issue is whether costs that are directly attributable to the instrument should be included in the assets or liabilities calculation? For example, regular bank administration fees charged on a loan.

For a long-term investment in a private company or research entity that is not actively traded in the market, cost might not be a true representation of the investee's assets value. Would recognising the asset based on equity accounting more faithfully represent its value in the investor's financial statements?

(c) When should impairment losses be recognised and how should the amount of impairment losses be measured?

Impairment requirements are not generally necessary for those financial instruments measured at fair value, because the fair value would decrease if an asset at fair value is impaired. For instruments not at fair value, as per the current requirements for "loans and receivables" category, impairment should be recognised when there is objective evidence that the value of the instrument is reduced in some way.

Measurement for impairment of instruments not at fair value should be assessed by reference to the discounted value of likely future cash flows.

(d) *Where should unrealised gains and losses be recognised on instruments measured at fair value? Why? How are your suggestions consistent with the criteria set out in paragraph 2.2 (refer to Appendix 1)?*

Majority view

The majority of HoTARAC's members support that unrealised gains and losses on financial instruments at fair value should be recognised through profit or loss. It is believed that the distinction between "profit or loss" and "other comprehensive income" is arbitrary and should ultimately be eliminated. Any concerns regarding recognition through profit or loss could be addressed as part of the IASB's project on *Financial Statement Presentation*, by separately identifying these types of valuation gains/losses.

One approach that HoTARAC supports, as briefly mentioned in question 3 above, is where in the Operating Statement:

- realised gains/losses are disclosed separately from unrealised gains/losses, but both are disclosed under "market re-measurements"; and
- income and expense items arising from other than as a result of market re-measurements are disclosed under "controlled transactions".

This is a useful way to distinguish between controllable and non-controllable items. Users would then be able to see what an entity's actual performance has been, how the values of the assets and liabilities have changed in the current period and the likely impact this would have on future cash flows. HoTARAC believes that this is simple, involves little cost, and is still consistent with the long term fair value measurement objective.

Alternative view

An alternative disclosure approach supported by one of HoTARAC's members is where unrealised gains/losses are recognised in "other comprehensive income", not through profit or loss. This is to remove volatility on profit or loss due to movements which are outside the control of management, so that they are not taken into consideration by users when making decision in regards to stewardship or accountability of the management.

(e) *Should reclassifications be permitted? What types of reclassifications should be permitted and how should they be accounted for? How are your suggestions consistent with the criteria set out in paragraph 2.2 (refer to Appendix 1)?*

If reclassifications are permitted, they are likely to violate criteria in paragraph 2.2 because the problem of setting out exceptions means that the Standard would be less principles based, require rules, hence be more restrictive, and introduce complexity, and also give the management more opportunity to manipulate earnings. Therefore, HoTARAC would prefer that any intermediate approach avoid reclassifications, to the extent possible.

However, as a general response, reclassification to fair value should be permitted in some circumstances, but not from fair value to alternative measurement. For example, if a long-term investment is to be sold prior to expiry then it should be reclassified to the "at fair value through profit and loss" category.

Question 5

Approach 3 (as outlined within the Discussion Paper) sets out possible simplifications of hedge accounting.

(a) Should hedge accounting be eliminated? Why or why not?

HoTARAC believes that the question of whether to eliminate hedge accounting should be deferred until the longer-term project, as it involves a fundamental reconsideration of the accounting treatment. This cannot be undertaken in the short time period which an intermediate approach would require.

However, as a general response, hedge accounting should not be completely eliminated, unless a simplified system exists that allows the essence of it to continue. Hedge accounting is complex, but it allows investors to see the net results of management's specific economic risk management policies.

(b) Should fair value hedge accounting be replaced? Approach 3 (as outlined within the Discussion Paper) sets out three possible approaches to replacing fair value hedge accounting.

Not withstanding HoTARAC's view as discussed in questions 5(a) and 6(d), if a decision were made to replace fair value hedge accounting, HoTARAC will support this decision only to the extent that this can be done simply and within a relatively short time period.

i. Which method(s) should the IASB consider, and why?

Each method has some merit, and therefore a combination may be the answer rather than going down a single path.

Eliminate hedge accounting

Fair value option – eliminate hedge accounting

This option has merit in allowing non-financial items to be accounted for at fair value if they are hedged, as in commodity price risk hedging. However, the fair value option would need to be more flexible than is currently proposed and sufficient disclosure would need to be required to ensure that the effect of fair value measurement can be determined.

If a portfolio is being hedged (e.g. a loan asset portfolio) then the whole portfolio should be fair valued along with the hedging instrument. In this case, the fair value of the hedging instrument would automatically offset the portfolio risk. The risk management disclosure could state what is occurring and what is the net effect of the risk management strategy.

If the principles for alternative method suggested in HoTARAC's response to 4(a) were applied, the portfolio would be required to be fair valued, as it is part of an economic hedging strategy.

For specific non-financial items that are hedged, they should be required to be reclassified to the class of asset to which they belong when the hedging strategy ceases for that item. The effect of the transfer and final net effect of the hedge should be disclosed, and the item should not be able to have hedge accounting applied to it again.

Recognition outside earnings of gains and losses on hedging instruments

The requirement to include the gains and losses of some instruments (as described in paragraph 2.49(b)) in profit and loss and a choice for others to be included in profit and loss or comprehensive income (paragraph 2.49(c)) would still be complex, reduce consistency of application and comparability of financial reports.

Separating all gains/losses from revaluation into "market re-measurement" and other income/expense items into "controlled transaction" in the operating statement (see discussion for question 4(d)), would provide more useful and easier to understand financial information than the current form of accounting statements that mix together realised and unrealised gains/losses with the other income and expense items.

Maintain and Simplify current hedge accounting

De-designation and Redesignation

It would be inappropriate to allow management to frequently alter the hedge designation and therefore manipulate earnings. Equally, it would be inappropriate to require an irrevocable hedge designation which may result in a financial instrument being inappropriately applied, even after the initial hedging relationship has expired.

If fair value were applied to all financial instruments that form part of an economic hedging strategy, then the issue of de-designation would not occur.

Partial Hedges
See HoTARAC's discussion for question 6(c).

ii. Are there any other methods not discussed that should be considered by the IASB? If so, what are they and how are they consistent with the criteria set out in

paragraph 2.2 (refer to Appendix 1)? If you suggest changing measurement requirements under approach 1 or approach 2 (as outlined within the Discussion Paper), please ensure your comments are consistent with your suggested approach to changing measurement requirements.

A summary of a proposed alternative is:

Allow both fair value and other methods with adequate disclosure. Gains/losses arising from fair value measurement should be recognised as "market re-measurement" in the Operating Statement.

Allow the designation of non-financial items as at fair value for the duration of the economic hedge. At the end of the hedge, the item should be reclassified and accounted for in accordance with the entity's policies for like (unhedged) items. A disclosure should be made of the financial effect of transferring the item to a different measurement model and the net effect of the hedge relationship.

The advantage of this model is that fair value is still the preferred method for valuing financial instruments (as per paragraph 2.2). Partial hedges will still be implemented without the requirement to undertake effectiveness testing.

Disclosure of the financial instruments and managements strategies for managing each risk would need to be made.

Question 6

Section 2 of the Discussion Paper also discusses how the existing hedge accounting models might be simplified. At present, there are several restrictions in the existing hedge accounting models to maintain discipline over when a hedging relationship can qualify for hedge accounting and how the application of the hedge accounting models affects earnings. This section also explains why those restrictions are required.

(a) What suggestions would you make to the IASB regarding how the existing hedge accounting models could be simplified?

Some organisations choose to use economic hedging without applying hedge accounting, and therefore bypass all the hedge accounting restrictions. If all elements of an economic hedge arrangement are fair valued, then any changes in value would naturally offset each other. Disclosures of hedging should be based on the risk management policy of the organisation and encompass all hedging, not just when hedge accounting is applied.

Effectiveness testing could be removed for fair value hedging. Effectiveness testing is irrelevant for fair value hedging, as all fair value changes will currently go through the profit and loss statement. If it is a non-financial item being hedged, fair valuing the non-financial item would automatically demonstrate whether the hedge was effective or not. An overstatement or understatement of the economic effect of hedging would only occur if the item being hedged did not also have the changes in value recognised in the profit and loss statement.

(b) Would your suggestions include restrictions that exist today? If not, why are those restrictions unnecessary?

No other restrictions have been identified other than the requirement to reclassify non-financial items in a hedging arrangement when the hedge is complete.

(c) Existing hedge accounting requirements could be simplified if partial hedges were not permitted. Should partial hedges be permitted and, if so, why? Please also explain why you believe the benefits of allowing partial hedges justify the complexity.

Yes, partial hedges should be allowed, as whether partial hedge accounting was permitted or not, managers are still likely to create economic hedges for these risks.

The question is whether they should be an economic hedge or an accounting hedge? If the whole at risk portfolio was fair valued, and the partial hedge instrument also fair valued, then an economic hedge can occur naturally and any changes will offset in the profit or loss statement. Also there would be no need for effectiveness testing. However, disclosures of the risk management model, strategy and financial impact would need to be made. The entity undertaking partial hedges may also need to record the full amount of the transaction rather than being allowed to only record the net effect.

Whether cash flow hedging is appropriate for partial hedges or not is another issue that may require further analysis and discussion.

(d) What other comments or suggestions do you have with regard to how hedge accounting might be simplified while maintaining discipline over when a hedging relationship can qualify for hedge accounting and how the application of the hedge accounting models affects earnings?

HoTARAC believes that the entire area of hedge accounting requires significant debate. As such, the Board should consider whether or not a short term simple solution is achievable. It may be prudent for the area of hedge accounting to be quarantined until the longer term. This issue of hedge accounting has the potential to delay short term gains in other areas. The only possible exception is where changes are simple and quick to implement (e.g. eliminating choice of fair value or cash flow hedge for a hedge of the foreign currency risk of a firm commitment – as suggested in paragraph 2.98 of the Discussion Paper).

Question 7

Do you have any other intermediate approaches for the IASB to consider other than those set out in Section 2 of the Discussion Paper? If so, what are they and why should the IASB consider them?

No other intermediate approaches are proposed.

Section 3 – A long-term solution—a single measurement method for all types of financial instruments

Question 8

To reduce today's measurement-related problems, Section 3 of the Discussion Paper suggests that the long-term solution is to use a single method to measure all types of financial instruments within the scope of a standard for financial instruments.

Do you believe that using a single method to measure all types of financial instruments within the scope of a standard for financial instruments is appropriate? Why or why not? If you do not believe that all types of financial instruments should be measured using only one method in the long term, is there another approach to address measurement-related problems in the long term? If so, what is it?

As discussed previously, HoTARAC has a concern that a single measurement to cover the wide variety of financial instruments will not necessarily be an accurate reflection of the economic substance of the transactions. If the economic substance of a transaction is not represented, an investor may not be able to determine the demands on the entity's cash flows.

For public sector entities, an amortised cost method similar to the existing method currently in use, more accurately represents the substance and purpose of loans made to individuals and entities. Many of the loans to entities or individuals external to government reflect government's policy and are given at interest rates below market basis.

As discussed in question 1, IASB may consider introducing entity categorisation and only requiring entities in certain categories to complete all disclosure requirements.

Question 9

Part A of Section 3 of the Discussion Paper suggests that fair value seems to be the only measurement attribute that is appropriate for all types of financial instruments within the scope of a standard for financial instruments.

(a) Do you believe that fair value is the only measurement attribute that is appropriate for all types of financial instruments within the scope of a standard for financial instruments?

HoTARAC believes that this issue needs to be considered in conjunction with the IASB's projects on the *Conceptual Framework* and the *Fair Value Measurement*. It is important that, at a general level, consensus is reached about what the measurement basis should be across all the Standards (including determining what property should be measured); not just financial instruments.

As a first step, this requires agreement on the desired objective of financial reporting. For example, the IASB's Discussion Paper on *Fair Value Measurements* is largely based on fair value based on current exit prices in liquid markets, in contrast to the current IAS 39 which provides that the best evidence of fair value at initial recognition is the transaction price (current entry price), unless fair value is evidenced by comparison with other observable current market transaction or based on a valuation technique whose variables only include observable market data (IAS 39 paragraph AG 76).

HoTARAC believes that users are seeking to better understand the state of affairs of the entity as a going concern. Therefore, current exit price, as a liquidation type concept, may not always meet these needs. For public sector share holdings in research entities or development entities that do not have an active market, it would be extremely difficult to quantify using exit value model to determine the fair value. In these circumstances, HoTARAC believes that the use of current entry prices or entity specific measurements (including transaction prices) may be more preferable to hypothetical and subjective assumptions about unobservable markets.

In any event, HoTARAC strongly believes that what is meant by "fair value" needs to first be better understood before the question of whether fair value is the only measurement attribute can be answered.

(b) *If not, what measurement attribute other than fair value is appropriate for all types of financial instruments within the scope of a standard for financial instruments? Why do you think that measurement attribute is appropriate for all types of financial instruments within the scope of a standard for financial instruments? Does that measurement attribute reduce today's measurement-related complexity and provide users with information that is necessary to assess the cash flow prospects for all types of financial instruments?*

HoTARAC has a concern if only a single measure for all financial instruments were to be prescribed (as discussed in questions 2 and 8).

Question 10

Part B of Section 3 of the Discussion Paper sets out concerns about fair value measurement of financial instruments. Are there any significant concerns about fair value measurement of financial instruments other than those identified in Section 3 of the Discussion Paper? If so, what are they and why are they matters for concern?

There are no other significant concerns about fair value measurement that are not already identified in section 3 of the Discussion Paper.

Question 11

Part C of Section 3 of the Discussion Paper identifies four issues that the IASB needs to resolve before proposing fair value measurement as a general requirement for all types of financial instruments within the scope of a standard for financial instruments.

(a) *Are there other issues that you believe the IASB should address before proposing a general fair value measurement requirement for financial instruments? If so, what are they? How should the IASB address them?*

As already discussed previously, HoTARAC believes that the IASB needs to complete its *Conceptual Framework* project, including the "objectives of financial reporting" and "measurement" chapters, before finalising the long term fair value measurement project for financial instruments. This is a prerequisite to confirming that fair value measurement is appropriate for financial instruments and for further clarifying what is exactly meant by fair value (e.g. current exit or current entry values) or even whether "fair value" is an appropriate term, as the term was not applied consistently in SFAS 157.

Once these issues are resolved, then a further issue related to identification of any exemptions to fair value measurement should be resolved prior to proposing a general fair value measurement.

(b) *Are there any issues identified in part C of Section 3 of the Discussion Paper that do not have to be resolved before proposing a general fair value measurement requirement? If so, what are they and why do they not need to be resolved before proposing fair value as a general measurement requirement?*

No comments.

Question 12

Do you have any other comments for the IASB on how it could improve and simplify the accounting for financial instruments?

The IFRS 7 disclosures are proving to be complex and difficult to interpret. For example, the requirements on the sensitivity analysis of managed investments through trusts. The fact that the elements within trusts are not required to be individually examined, while being a practical solution means that sensitivity analyses are misleading as they do not represent to investors the true exposure to market risk in a range of financial instruments. This requirement results in additional unnecessary reporting cost to the preparer without real added value to the user. HoTARAC suggests that this requirement be removed.

Consideration could also be given to the IASB's approach in the *IFRS for Private Entities* (formerly *IFRS for Small and Medium Sized Entities*), which includes simplified requirements for financial instruments.