

22 August 2008

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
United Kingdom

Via "Open to comment" page on [www.iasb.org](http://www.iasb.org)

Dear Sir David

**IASB discussion paper - Reducing complexity in reporting financial instruments**

Thank you for the opportunity to submit a response to the International Accounting Standards Board (IASB) discussion paper: *Reducing complexity in reporting financial instruments*.

The Australian Institute of Company Directors (AICD) is the peak organisation representing the interests of company directors in Australia. AICD has more than 23,000 members and provides education, information and advocacy for company directors Australia-wide. AICD members work in diverse corporations such as small-to-medium enterprises, the Top 200 listed companies, public sector organisations, not-for-profit companies, large private companies and smaller private family concerns.

The International Accounting Standards Board (IASB) is to be commended for its efforts towards reducing complexity in financial reporting. AICD urges IASB to take a broad view in considering 'complexity' and how it may be reduced. Complexity in financial reporting arises in two ways:

- in the volume of discrete accounting requirements, and
- when apparently simple requirements are difficult to apply and/or produce results that are difficult to interpret (including where the interpretation requires facilitation with extensive and complex disclosures).

AICD strives to promote simplicity, transparency, consistency and decision-usefulness of financial reports. AICD's general position may be summarized as follows:

- While there are flow-on benefits to both listed companies and investors of a universal set of accounting standards, AICD concurs with the widespread recognition that financial statements prepared under the International Financial Reporting Standards (IFRS) are often difficult to understand, and may not assist investors in making informed decisions about the financial performance or financial position of a company.

- The burden of full IFRS compliance on smaller companies and not-for-profit entities is far out of proportion to the benefits. AICD recognises that both AASB and IASB are currently working on ways to reduce the reporting burden for these sectors.
- AICD encourages IASB to continue to develop standards that are principles-based rather than rules-based.

AICD's answers to specific questions raised in the discussion paper are attached. In summary:

Proposed intermediate approaches

AICD does not support an intermediate solution to measurement, as we do not believe that any intermediate solution would reduce complexity.

We are inclined to support an intermediate solution to simplify hedge accounting, with respect to documentation and effectiveness testing, provided the development of the intermediate solution does not divert resources from other active IASB projects, and if the intermediate solution would be cost beneficial to implement.

Proposed long term solution

The long-term solution proposed is to require fair value measurement for all financial instruments. AICD believes that further analysis is required, in conjunction with the Conceptual Framework project, before a definitive conclusion regarding measurement of financial instruments can be reached.

We trust the foregoing comments are of assistance. If you have any questions in connection with this letter please contact me or Helen Eyles (Policy Advisor).

Yours sincerely,

Andrew Madry  
**Acting Chief Executive Officer**

Encl:

cc: Prof David Boymal, CEO, Australian Accounting Standards Board

## IASB discussion paper - Reducing complexity in reporting financial instruments

### Australian Institute of Company Directors answers to Questions for respondents

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

Yes significant change is required. A standard for financial instruments should capture and reflect the economic substance of business transactions and events and present them faithfully. At the same time, a standard for financial instruments should not restrict or inhibit the manner in which entities manage risks through hedging, nor should the standard stifle innovation in financial instruments. AICD supports IASB's aim to move to reduce complexity through a principles-based approach.

In Australia, the problem is particularly acute for private and not-for-profit entities due to IFRS having been adopted for a broader range of entities than originally envisaged by the international accounting standard setters.

#### 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, and the questions set out in Section 3.

(b) Do you agree with the criteria set out in paragraph 2.2? If not, what criteria would you use and why?

AICD does not favour of any intermediate approach unless complexity would actually be reduced. There is a danger that one set of rules would merely be replaced with another set of rules. Other projects on IASB's current agenda may also impact the outcome, including fair value review, financial statement presentation and conceptual framework.

However AICD recognises that at least some of these projects are not scheduled to be completed until at least 2011. If IASB does decide to adopt an intermediate approach, it should do so only if it is satisfied that any interim solution is simple, does not divert IASB resources from the above-mentioned longer term projects, is cost beneficial, and IASB should clearly explain its rationale for adopting such an approach.

##### Question 3

Approach 1 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?

No comment.

##### Question 4

Approach 2 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?

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

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

(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?

(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?

No comment.

### Question 5

Approach 3 sets out possible simplifications of hedge accounting.

- (a) Should hedge accounting be eliminated? Why or why not?
- (b) Should fair value hedge accounting be replaced? Approach 3 sets out three possible approaches to replacing fair value hedge accounting.

Hedge accounting should not be eliminated. Hedges are used by entities as a way to manage risk, and so accounting requirements should exist which allow entities to report these activities.

### Question 6

Section 2 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?
- (b) Would your suggestions include restrictions that exist today? If not, why are those restrictions unnecessary?
- (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.
- (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?

AICD supports an intermediate solution to simplify existing hedge accounting models, provided the development of the intermediate solution does not divert resources from other active IASB projects, and if the intermediate solution would be cost beneficial to implement. Suggestions include reducing documentation requirements and simplifying hedge effectiveness testing.

### Question 7

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

See answer to Question 6.

## 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 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?

See answer to Question 9.

### Question 9

Part A of Section 3 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?
- (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?

AICD believes that further analysis is required, in conjunction with the Conceptual Framework and fair value measurement projects, before a definitive conclusion regarding measurement of financial instruments can be reached. What is meant by "fair value" needs to be better understood before the question can be answered whether fair value is the only appropriate measurement attribute.

### Question 10

Part B of Section 3 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? If so, what are they and why are they matters for concern?

See answer to Question 9.

### Question 11

Part C of Section 3 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?
- (b) Are there any issues identified in part C of Section 3 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?

The four issues identified by IASB should be addressed to ensure that the concerns of all constituents are taken into account. Greater use of fair value will be appropriate only if it results in improvements in the decision-usefulness of financial statements and the improvements are demonstrably cost beneficial.

AICD believes that further analysis is required, in conjunction with the Conceptual Framework project (especially the 'objective' and 'measurement' phases), before a definitive conclusion regarding measurement of financial instruments can be reached. This analysis should be undertaken as a high priority. The current fair value measurement project is also highly relevant.

### Question 12

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

IFRS 7 Financial instruments: disclosures – Australian companies are still coming to grips with the increased disclosures required by IFRS 7. These disclosures have added substantially to the size and complexity of financial reports of consolidated groups in particular (due to Australian requirement that parent entity report must be included in consolidated report).

IFRS for Private Entities – consideration needs to be given as to whether the requirements of the draft IFRS for Private Entities standard are still too complex for smaller entities.