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Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

19 December 2008

Dear Bruce

Exposure Draft ED 169 *Improving Disclosures about Financial Instruments: Proposed amendments to AASB 7*

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's Exposure Draft *Improving Disclosures about Financial Instruments: Proposed amendments to IFRS 7*. The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the Exposure Draft.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (02) 8266 1324 if you would like to discuss this further.

Yours sincerely

R. Balding

Rodney Balding
Partner
Assurance

PricewaterhouseCoopers is committed to providing our clients with the very best service. We would appreciate your feedback or suggestions for improvement. You can provide this feedback by talking to your engagement partner, calling us within Australia on 1800 792 111 or visiting our website http://www.pwcfeedback.com.au/

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London
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15 December 2008

Dear Sir

Exposure Draft Improving Disclosures about Financial Instruments Proposed amendments to IFRS 7

We are pleased to respond to your invitation to comment on the Exposure Draft of Proposed amendments to IFRS 7 (the 'Exposure Draft') on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

In the current market environment we recognise the need for greater transparency around fair value measurement and therefore support the proposals in the exposure draft for additional disclosures. We also welcome the Board's responsiveness to requests to improve the disclosure requirements relating to liquidity risk.

In view of the calls for greater transparency from users, regulators and politicians, it would be helpful to accelerate mandatory adoption of these disclosures or, at least, to encourage early adoption. In either case it would be inappropriate to require companies to provide comparative information for periods that pre-date the finalisation of the exposure draft. We therefore recommend exemption from the requirement to provide comparative disclosures if entities are required, or choose, to adopt the amendment for accounting periods beginning before 1 July 2009.

We have responded to the specific questions raised in the Invitation to Comment in the Exposure Draft in an Appendix to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7802 4555), or Pauline Wallace (+44 20 7804 1283).

Yours sincerely,

PricewaterhouseCoopers LLP

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Appendix

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?

For the reasons discussed in response to Question 2 below, we do not support the introduction of a hierarchy for disclosure purposes. Nonetheless, we agree that it is important for users to understand the degree of subjectivity associated with the valuation of financial instruments and therefore propose an alternative approach below.

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?

As discussed above, we do not support the introduction of a three level hierarchy based on FAS 157 as this would pre-empt decisions that the IASB should make in the context of the fair value measurement project.

The proposed hierarchy is based on language used in IAS 39 but is intended to be similar to that in FAS 157. We believe that this may confuse users since, for measurement purposes, IAS 39 only makes a distinction between instruments valued in an active market (IAS 39AG71-73) and those valued in an inactive market using a valuation technique (IAS 39.AG74-AG79). As a result we anticipate that the wider definition of active markets in IAS 39 will lead to a significantly higher proportion of financial instruments being allocated to Level 1 than under US GAAP. For example, since AG73 includes instruments valued using rates quoted in an active market (such as swaps), this will result in instruments that would be in Level 2 under US GAAP being attributed to Level 1 under IFRS 7. Furthermore, as the Expert Advisory Panel guidance indicates, the distinction between active and inactive markets is not clearly defined and the proposed allocation of financial instruments between the levels is likely to be difficult to achieve without considerable diversity in practice.

The main impact of the proposed disclosures is to provide additional information about the extent and sensitivity of valuations using significant unobservable inputs, which are a subset of instruments valued in an inactive market using a valuation technique. Consequently, we recommend that the standard simply require detailed disclosures for such assets without requiring an analysis in accordance with a hierarchy.

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 support the introduction of more detailed disclosures relating to fair value but we have reservations about some of the particular proposals in this paragraph. Firstly, as indicated above, we do not support the analysis of instruments based on a hierarchy introduced for disclosure purposes only. Consequently our support for the disclosures in paragraph 27B is limited to instruments which are valued using significant unobservable inputs. In particular, we consider the proposal for a reconciliation in paragraph 27B(b) to be onerous. We note that US companies experienced significant systems difficulties in complying with similar requirements and it is not clear that the benefits of this detailed disclosure typically outweigh the cost of implementation. Consequently we recommend that this proposal is limited to circumstances where instruments valued using significant unobservable inputs are themselves significant to the reporting entity in respect of profit or loss and total assets or total liabilities.

In addition the proposed reconciliation requires disclosure of "unrealised gains and losses", a term which is not used elsewhere in IFRS. We understand that this term has been subject to a range of interpretations in US GAAP and we note that it has legal implications in many jurisdictions that apply IFRS. To achieve comparability between companies, the Board should explain more precisely what information it requires in this context, possibly by providing an example in the Application Guidance.

(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?

As discussed in Question 2 above, we do not support the introduction of a three level hierarchy. However, where fair value is used for disclosure purposes only, we agree that the amount of the fair value based on significant unobservable inputs should be disclosed separately.

Liquidity 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 welcome the proposed requirement to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments as this is consistent with the principle in IFRS 7 of disclosing information "through the eyes of management". This amendment will improve the quality of liquidity risk disclosures under IFRS 7.

We note that proposed paragraph B11C requires the inclusion of "financial instruments that would meet the definition of a derivative financial liability if they were recognised". It is not clear what the Board intended to capture other than loan commitments and financial guarantees which are explicitly addressed. We therefore recommend that this is either clarified or deleted.

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?

We agree that an entity should 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 this basis. However this should be the only maturity analysis required if the contractual maturities are not significantly shorter than expected maturities.

We note that paragraph B16 has been deleted in these proposals. In our experience B16 has been helpful in determining which interest rates should be used when scheduling out cash flows on variable rate loans and which exchange rates should be used for foreign currency cash flows due in future periods. We therefore recommend that it remains in IFRS 7.

We note that IFRS 7 does not include a specific disclosure requirement relating to collateral calls for derivatives and the impact of a credit downgrade on collateral posting requirements. We recommend that such disclosure is required when this is significant to the operations of the reporting entity.

Finally we note that a consequential amendment to IFRS 4 is needed. IFRS 4.39(d)(i) cross refers to IFRS 7.39(a) but this reference should now be to IFRS 7.39(b) based on these new proposals.

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 as financial liabilities that will be settled by the issuance of own shares or a non-financial asset should not be included in the analysis.

Effective date and transition

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

As these disclosures are particularly relevant in the context of the current market conditions, the proposal to delay mandatory application until financial periods beginning on or after 1 July 2009 (effectively to the 2010 financial statements for entities with calendar year ends) may be too late. We therefore propose that the standard become effective for periods beginning on or after 1 January 2009 but that there is no requirement for comparatives in the first year of application. This would have the added benefit of encouraging early adoption as well since early adopters would not have to provide comparative information for periods that predate the publication of the standard.

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

We note that there are no specific transition requirements in the Exposure Draft. If the effective date is changed as we propose in Question 7 above, we recommend that comparatives should be encouraged but not required in the first year of adoption. Alternatively, if the proposed effective date is retained, transitional provisions similar to those in paragraph 44 of IFRS 7 should be introduced to exempt early adopters from providing comparative information and thus encourage early adoption.