



**The Quoted
Companies Alliance**

Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.quotedcompaniesalliance.co.uk
Email: mail@quotedcompaniesalliance.co.uk

International Accounting Standards Board
First Floor
30 Cannon Street
London
EC4M 6XH

19 September 2008

Dear Sirs,

Discussion Paper – Reducing Complexity in Reporting Financial Instruments

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies (“SQC”) in the UK, which we define as those 2,000+ quoted companies outside the FTSE-350 (including those on AIM and PLUS), representing 85 per cent of UK quoted companies by number. Their individual market capitalisations tend to be below €500million.

Together SQCs employ over 2 million people and make a major contribution to the UK economy.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in 14 European countries.

We welcome this opportunity to respond to respond to the IASB’s Discussion Paper dated March 2008 on *Reducing Complexity in Reporting Financial Instruments*. There is a pressing need for simplification on behalf of both preparers and issuers of financial statements. This response has been compiled primarily by Paul Watts who is a member of the Accounting Standards Committee of the QCA. A list of Committee Members is set out at Appendix A.

RESPONSE

We have considered each of your questions, and have commented only to the extent that we consider they impact upon our members:

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?

Answer

The inclusion in financial statements of disclosures which are lengthy and onerous, but of questionable use to a reader of the financial statements, is a concern to our members.

Whilst the discussion paper does not invite comments directly on the requirements of IFRS7 Financial instruments: disclosure, we consider that the removal from the scope of IAS39 Financial instruments: recognition and measurement of certain types of (cost based) financial instrument (eg trade receivables and payables, accruals, accrued income) would give greater prominence to areas of material risk and potential complexity.

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?

Answer

We agree that any intermediate approaches to measurement and related problems must not increase complexity and should result in simplification for preparers, auditors and users. There is concern that any further change in measurement requirements will in itself create complexity very soon after initial adoption of the existing requirements of IAS39 by many of our members.

Questions 3, 8 and 9

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?

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?

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?

Answer

The disclosure of categories of financial instruments into the current IAS39 categories appears to have limited meaning to many of the users of the financial statements of SQCs.

We consider that a single measurement method for all types of financial instruments would provide further complexity in the preparation of financial statements and lack of understanding on the part of the user; for example fair value (rather than cost-based) accounting for a fixed rate loan would not reflect the commercial reality of the transaction.

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?

Answer

Concerns remain about the reliability of fair value measurement of assets and liabilities for which no market value can be attributed, for example investments in unquoted companies. Application of fair value techniques to such instruments can be an onerous task for the preparers of financial statements.

Questions 5 and 6

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.

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

(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? If you suggest changing measurement requirements under approach 1 or approach 2, please ensure your comments are consistent with your suggested approach to changing measurement requirements.

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 suggestion 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?

Answer

Amongst our members who currently apply hedge accounting, there is broad consensus that hedge accounting should be retained. Against a background of fair value accounting, the absence of hedge accounting would make it more difficult for users of the financial statements to understand underlying business performance. Consistent with our response to question 1, proper disclosure of the terms and risks attached to such instruments is essential; due prominence would be given to the disclosure of these more complex instruments if current disclosure of less risky areas were removed from the financial statements.

The above responses are based partly on evidence received from a sample of our members and a copy of the summary is attached for your information as you may find some of the comments of interest.

If you wish to discuss any of these comments, we will be pleased to meet with you.

Yours sincerely,



John Pierce
Chief Executive

Enc: Responses to QCA Questionnaire (IAS39)

THE QUOTED COMPANIES ALLIANCE ACCOUNTING STANDARDS COMMITTEE

Tim Gordon (Chairman)	Ernst & Young LLP
Anthony Carey	Mazars LLP
Peter Chidgey	BDO Stoy Hayward LLP
Nicola D'Souza	Ernst & Young LLP
John Edwards	Bloomer Heaven
Louise George	Image Scan Holdings plc
David Gray	DHG Management
Chris Ogle	Artilium
Paul Watts/Bill Farren*	Baker Tilly LLP
Nick Winters/James Lole	Vantis plc
John Pierce	Quoted Companies Alliance
Chris Stapeley	Quoted Companies Alliance

* Main Author(s)