

Dr. Alexander Schaub
Director General
European Commission
Directorate General for the Internal Market

1049 Brussels

05 October 2005

Dear Dr. Schaub,

Adoption of IFRS 7 *Financial Instruments: Disclosures*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of ***IFRS 7 Financial Instruments: Disclosures***, as published by the IASB on 18 August 2005.

The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date, and how the entity manages them.

IFRS 7 is effective for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

EFRAG supports the above objective and considers that the Standard achieves it satisfactorily.

EFRAG has evaluated IFRS 7 based on input from standard setters and market participants in accordance with EFRAG's due process. EFRAG supports the issuance of the Standard and has concluded that the Standard meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRS 7 *Financial Instruments: Disclosures*, and, accordingly, EFRAG recommends its adoption. EFRAG also wishes to bring to your attention the considerable interest around Europe in having IFRS 7 endorsed in time to be available for use in 2005 financial statements, provided that application in 2005 would not be mandatory. That is because some entities may wish to avoid having to change their reporting systems twice in a short period of time from providing disclosures required under IAS 32 *Financial Instruments: Disclosures and Presentation* and IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* to disclosure requirements under IFRS 7. Such a change might also be confusing for users of financial statements.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman