Keywords *Financial reporting, Financial analysts, Accounting standards, Hedging, Value analysis*

Abstract *This is an edited text of the response submitted by the Financial Instruments Task Force of the Association for Investment Management and Research to the International Accounting Standards Board in response to the Joint Working Group Draft Standard and Basic Conclusions dated 22 December 2000. It provides a summation of all the great issues involved in the debate over accounting for financial instruments.*

he Financial Instruments Task Force (FITF) of the Association for Investment Management and Research (AIMR)[1] commends the Joint Working Group (JWG) on its effort in developing a comprehensive Draft Standard for the accounting and reporting of financial instruments and similar items based on fair value principles. We support strongly these fair value principles and believe that, once they are applied, transparency of vital financial and nonfinancial information will be greatly improved. A fair value approach better enables users of financial statements to predict with reliability the amounts, timing, and uncertainty of an enterprise's future cash-flows. The realistic values in the balance sheet show the financial position of the enterprise at the time, and therefore the platform on which the enterprise develops future cash-flows. In addition the delineation through fair values of the actual structure of the balance sheet enables the user to judge more exactly the risks to which the enterprise is exposed, and the structural possibilities for future action in similar or changing circumstances. To achieve this end, the reliability of the figures remains important, but this consideration is a constraint in the move to greater relevance rather than a consideration in itself. In all these senses, fair value offers a much greater degree of relevance than historic cost. It also provides a necessary level of understandability, resulting from improved disclosure transparency.

As with other accounting standards the Framework of Principles must be a determining factor in the completion of this Draft Standard. Once the conceptual aspects of the matter are taken into account, there is no doubt that the logic of the JWG Proposals is overwhelmingly persuasive. As soon as the JWG Draft Standard is considered, difficulty after difficulty clears away, as compared with IAS 39[2]. The very problems which have arisen in the implementation of IAS 39 point to its inherent contradictions and suggest its supercession.

For many years, users of financial statements have sought relevant and timely information about financial instruments and off-balance sheet items and activities[3]. We believe that fair value measurements and recognition of these values in the financial statements, along with adequate disclosures, will provide necessary information to evaluate properly an enterprise's exposures to financial risks, as well as rewards. This preference for fair value accounting was affirmed in a survey conducted recently by AIMR, regarding financial reporting in Canada's capital markets[4]. This survey polled AIMR Canadian members, who are analysts and portfolio managers, about what set of accounting standards (Canadian GAAP, US GAAP, or IAS) should be used in Canada for financial reporting and the attributes necessary for reliable and relevant financial statements.

"The reliability of the figures remains important"

Seventy-five percent (75 percent) of 227 respondents indicated that "fair value measurement and recognition of assets and liabilities in the primary financial statements" were needed for reliable and relevant financial statements.

Further, the results of this survey represent an advance as compared with a survey conducted through focus groups in 1998, by AIMR in conjunction with the Financial Accounting Standards Board and the Canadian Institute of Chartered

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Accountants. In this 1998 survey, "views were evenly divided between those who favoured requiring financial instruments to be recognised and measured at fair value in the financial statement, and those who do not think that such a major change was warranted". However, in this earlier survey, it should be noted that "a majority of participants indicated that information about fair value of financial instruments is important and wanted some improvement in the amount of quality of that information". Thus the information was required by analysts whether recognised in the financial statements or by disclosure.

"Transparency of the true economic consequences"

However, this shift in accounting principles will not come without some additional effort by all capital market participants, including preparers, auditors, regulators, and users of this information. We realize that accounting and reporting based on fair value principles, in comparison with historical cost-based principles, require more extensive and detailed analysis of the methods and assumptions used to determine values recognized in the financial statements. This in turn, will require market participants to redesign the current financial reporting model and to educate themselves in the application of these new principles. Nonetheless, transparency of the true economic consequences, i.e. risks and rewards, resulting from the use of financial instruments justifies the movement to a fair value based model for financial reporting.

Fair value reporting reflects the economic reality by showing the volatility inherent in the values of financial instruments given changes in market conditions and operations of the enterprise. Historic cost-based accounting smoothes these effects, thus, obscuring this volatility and masking the economic impact of various positions held in financial instruments.

"Often inadequate and incomplete when provided"

Therefore, we argue that this volatility is real and, thus, unmasked through the application of fair value accounting, rather than created by the application of fair value accounting.

Generally, the objectives of financial analysis are to discern and assess the effects to an enterprise's performance and financial condition, including those that result from its risk management policies and decisions that involve financial instruments. In addition, financial statement users want to assess how well an enterprise effectively applies these policies in managing the risks of the enterprise. Consequently, we believe that accounting and disclosure requirements related to financial instruments must be designed to explain the:

- risks inherent in a given business;
- hedging strategies employed; and
- outcome(s) of such hedging activities.

In other words, financial and nonfinancial disclosures should provide sufficient information for users of this information to discern and answer questions, such as these:

- What are management's policies and procedures for using certain financial instruments?
- How extensively does the enterprise use these financial instruments as part of its risk management?
- What are the timing and the magnitude of the effects of the instruments on fair values in the balance sheet and changes in these values reflected in the income statement?
- How effective, or ineffective, are the positions in these financial instruments as hedges in managing the risk exposure of the enterprise?
- What portion of the gains and losses reported in the balance sheet and income statement is realized and unrealized?
- What methods are used to determine fair value when market values are not readily available?
- What are the key assumptions used to calculate these fair values?
- How sensitive are these fair values to certain assumptions, such as changes in interest rate or foreign currency exchange rates?
- What are the effects on operating segments?

We have one substantial disagreement with the Draft Standard in regard to the disclosure of "potential effects of changes in risk conditions on financial risk position", which we will refer to as sensitivity analysis or stress tests. In paragraph 179 of the Draft Standard, this type of analysis is only encouraged rather than required. Historically, it has been our experience that "encouraged" disclosures are rarely provided or are often inadequate and incomplete when provided.

At present, the principles of accounting require that material items should be disclosed. We believe sensitivity analysis is an essential element needed for estimating an enterprise's future expected cash flows, which are needed in calculating its valuation. Therefore, sensitivity analysis is an integral and essential component of fair value accounting and reporting. For example, many derivative instruments have "tails" that affect future cash flows. Unless those potential effects are transparent in disclosures and analyses, e.g. sensitivity analyses or stress tests, the financial instruments reported at fair value in the balance sheet are not measured correctly.

"In recent years ... there were several financial débâcles"

Moreover, the importance of sensitivity analysis is evident in that a primary purpose of derivatives is to modify future cash flows by minimizing the exposure to risks and/or deriving benefits. Also, an enterprise can readily adjust its positions in financial instruments to align its financing activities with operating activities and, thereby, improve its allocation of capital to accommodate changes in the business environment. All such activities, or their possible occurrence, should be transparent to the users of financial statements. We believe that not reporting material hedging activities (as in the case of Proctor & Gamble), or other activities involving financial instruments, would be as inappropriate as not reporting the sale of a large subsidiary.

If all financial instruments are measured at their fair values, the demand for hedge accounting would disappear as noted in the Draft Standard. We support this view. Under a fair value conceptual framework, the hedging instrument and the underlying assets or liabilities, which are financial instruments, would no longer be valued at historical cost. At the same time, we recognize that hedging activities, which manage risks appropriately, are valid and a highly desirable course of action. Therefore, we believe that such activities should be transparent to the user of financial statements through disclosures about the enterprise's hedging policy and the financial impact from hedging activities. Such information is used to discern and assess the nature and value of derivatives, as well as other financial instruments used for hedging certain risks. This knowledge is then used in forecasting the enterprise's expected future cash flows and, in turn, the enterprise's valuation.

More and more enterprises manage financial risk by using derivatives. Over the past several years, the use of derivatives to manage risk has become increasingly sophisticated and, thus, requires more complex analyses to understand fully the inherent risks associated with such financial instruments. Moreover, prior to SFAS No. 133[5] or IAS No. 39[2], users of financial statements did not have access to adequate disclosures either through recognition on the financial statements and/or detailed information and data about an enterprise's derivative exposures and transactions.

In recent years both in the US and, there were several financial débâcles that resulted in substantial loss in the market capital value of certain enterprises, involving derivatives and other financial instruments. Investors and other users of financial information discovered to their dismay, and ultimately financial loss, that what they believed to be a conservatively managed firm was instead an aggressive hedge fund in disguise, such in the case of Procter & Gamble in 1994 or Gibson Greetings in the early 1990s. A most recent situation of deficient disclosures is the Enron debacle, which is still unfolding and being investigated by regulators as to the extent of the issues relating to use of commodity derivatives. Some other examples include:

Ghana's Ashanti Gold Mines and Canada's Cambior – both of these gold producers suffered negative financial consequences of significant magnitude as a result of derivative losses when gold prices rose.

Korea's SK Securities had problems with currency contracts.

Peregine Investment Holdings Ltd affected Indonesian and Thai companies.

Lucent and Nortel's use of vendor financing and securitization of receivable in the case of Lucent.

Equitable Life as a mutual insurance company in the UK provided guarantees of certain pension outcomes from a major class of policy holders which in the event could not be afforded by Equitable.

Had the guarantees been fair valued over time, the problems would have been observed as they developed and possibly, in whole or in part, avoided.

The following are our responses to the issues identified by the JWG, regarding the accounting and reporting disclosures for financial instruments and similar items.

Q1. The Draft Standard would apply to all enterprises. Do you agree? If not, please specify which enterprises you believe should be excluded from the scope (and why), and the basis on which you would distinguish those enterprises that should apply the Draft Standard from those that need or should not.

We agree that the proposed accounting principles in the Draft Standard should be applicable to all enterprises. The definition of a financial instrument should not differ between enterprises. No enterprises should be excluded from the final standard so as to attain a standard that fairly measures and reports all financial instruments.

Similar financial instruments should be reported in a similar manner regardless of the ownership (public, private or nonprofit), size (small or large) or industry (financial or nonfinancial) of the enterprise. If enterprises were to measure and report similar financial instruments differently, changes in the market or economic conditions would be less transparent and lack comparability. Such a practice would obscure, or delay, the disclosure of the effects resulting from the economic risks and benefits inherent in the financial instruments held by enterprises and, thus, impede financial statement users' ability to forecast future cash-flows of those enterprises. While some may argue that this requirement would be burdensome to small quoted and private firms, we believe that if these enterprises are sophisticated enough to participate in these types of markets, they should already have the systems required to analyze the various economic risks and benefits. The benefits to users (such as analysts and investors) derives from understanding that the impact of risks and benefits on the business would certainly outweigh the incremental reporting costs experienced by these enterprises.

"This requirement would be burdensome"

We appreciate that many small and medium sized companies which do not access public capital markets may be subject to these standards in some jurisdictions and may encounter difficulties with the complexities of the proposed rules. This is a problem of great importance and should be analyzed by the IASB as a separate project.

Q14. The Draft Standard would require an enterprise to measure all financial instruments at fair value when recognized initially and to re-measure them at fair value at each subsequent measurement date, with one. Do you agree? If not, what other approach would you suggest and why?

All financial instruments should be measured at fair value when recognized initially, and additionally, re-measured at fair value at each subsequent measurement date. Our preferred definition of fair value is "the amount at which an asset (or a liability) could be acquired (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced sale or liquidation".

We support the following hierarchy for determining fair value measurements:

Observed prices in recent arms-length transactions involving the item being measured.

Observed prices of items with characteristics similar to the item being measured.

Valuation models and inputs that would be used by market participants in pricing the item being measured, or items similar to the instrument being measured.

Discounted expected future cash flows based on internal estimates, similar to the concepts noted in the US Statements of Financial Accounting Concepts No. 7, Using Cash Flow Information and Present Value in Accounting Measurements.

We believe that, when available, quoted market prices should be used. When quoted market prices are not available, or deemed unreliable, impractical, and/or inconsistent with the basic measurement objective, the fair value measurement should be determined based on the above hierarchy. When discounted cash-flows are used to determine the fair value measurement, they should represent the present value of stochastically determined expected cash-flows (incorporating risk and uncertainty) discounted at the risk free rate adjusted for the credit worthiness of the enterprise.

"Significant improvements in the transparency"

We understand that the fair value (and quoted market prices) may be affected by several factors including, but not limited to, liquidity and size of position held. However, permitting the use of fair values that differ from quoted market prices (including all variations of the "entity-specific value" concept) has significant negative connotations for reliability, comparability, and verifiability through an external audit. Our preference is for the use of fair values with significant improvements in the transparency of the measurement process and for enhanced disclosures.

We strongly recommend the inclusion in the final standard of a flowchart on the fair value hierarchy that should be followed in valuing financial instruments. This hierarchy should incorporate the required treatment of:

bid-asked spreads;
liquidity;
blockage features;
contractual cash flows; and
exit costs.

Disclosure requirements should be developed with respect to the use of this hierarchy in measurement. We also understand that realized values of assets and the amounts at which liabilities are settled often will deviate from market-based fair values. These deviations reflect changes in both the economic environment and management decisions. We believe that the challenge is in the development of disclosures that will explain the changes in market values in terms of the effect of the economic environment and management decisions.

Finally, we recommend that the IASB review the definition of "fair value" in a broader context relating both to all financial instruments and to other areas that do not involve financial instruments. It may be that the definition of fair value is the same, and in such cases, it should be noted clearly. However, in cases where the definition of fair value should be different, based on sound conceptual rationale, then different accounting contexts should be also be noted.

Q23. The Draft Standard would require that minimum categories of financial assets and financial liabilities be distinguished on the face of the balance sheet and in the notes to the financial statements. Do you agree with the categories proposed? Are the categories clear and useful? If not, how would you amend them and why?

We agree that financial instruments should be grouped and displayed on the balance sheet based on the underlying characteristics of the instruments, such as unconditional rights to receive or obligations to deliver, and by major classes within these groups. Detailed, descriptive information about the nature and terms of these financial instruments, as well as management's policies pertaining to them, should be disclosed in the notes to the financial statements in a manner consistent with the balance sheet.

"The underlying characteristics of the instruments"

The proposed balance sheet presentation, and accompanying note disclosure, provides users of financial statements with information that is easily identifiable and explanatory without having to sort through several disclosures to piece together data to discern the nature and terms of the financial instruments used by an enterprise.

We suggest that the other category noted disaggregated to display these alternative categories:

instruments that hedge anticipated inventory purchases;
instruments that hedge purchases of other assets;
instruments that hedge investment securities "held for sale";
interest rate swaps on assets held;
interest rate swaps on liabilities held, etc.

Q24. The Draft Standard would require an enterprise to recognize all changes in the fair value of financial instruments, after adjustment for receipts and payments, in the income statement in the reporting periods in which they arise, with one exception. Do you agree? If not, how should such gains and losses be treated, and why?

We agree with the fair value approach. In addition, we recommend that foreign currency exchange translation gains/losses be considered as well.

The Draft Standard assumes a type of income statement which is sometimes called "Comprehensive", setting aside the traditional methodology of a profit and loss account which does not include items transferred directly to reserves. Questions arise in the context of the fair valuing of financial instruments which result from a lack of explicit analysis of the impact of changes in fair value on the Income Statement, and of how these changes should be interpreted. In this sense, the Draft Standard as it exists is logically incomplete and can only be completed in parallel with a Draft Standard on Performance Reporting.

Q25. The Draft Standard would require an enterprise to separately disclose the income statement effects of certain changes in fair value.

(a) Do you agree with the proposed disaggregation? If not, why not? What other basis of disaggregation would you propose to provide information about the components of changes in fair value of financial instruments?

We agree that an enterprise should disclose separately the income statement effects in fair value.

We strongly oppose reporting all changes in fair value as a single amount due to the complexity and dynamic nature of some financial instruments. Additionally, items reported should be gross amounts rather than net amounts. Users of financial statements need disaggregated information to fully understand the risks and uncertainties related to these instruments and the effect that they could have on an enterprise's performance and financial condition.

We recommend that changes in fair value attributable to the following items be reported in the income statement:

changes in market factors, including the risk-free interest rate and credit standing of entity, disaggregated by significant factors;
changes due to the passage of time, including accretion of interest;
changes in model inputs, such as estimates; and
changes in methods or models.

(b) Do you believe that any other gains and losses arising on fair value measurement of financial assets and financial liabilities should be separately presented in the income statement or notes thereto? If so, which gains and losses, and why do you believe that they should be shown separately? On what basis should such gains and losses be distinguished?

Gain or losses resulting from historical cost-based measurements should be separately displayed from those resulting from fair value measurements. Furthermore, we believe that this performance reporting should be aligned with the cash flow statement by separately displaying material activities for non-fair value measurements and fair value measurements for each of the following categories: business activities; investing activities; and financing activities.

We recommend that the proposed guidance be examined as part of field tests and modified accordingly to develop a clear and operational set of directions for implementing the final standard.

Q27. The Draft Standard would not permit any special accounting for financial instruments entered into as part of risk management activities. Do you agree, if not, why not? How would you address the issues raised in paragraphs 7.1-7.22 of the Basis for Conclusions?

We concur with the JWG's position to discontinue the use of hedge accounting. The measurement and recognition of all financial instruments at fair value in the statement of financial position (with fair value changes included in current earnings) is a superior conceptual solution to hedging issues.

"Directions for implementing the final standard"

Furthermore, we agree with the JWG's conclusion that no exceptions are to be made for hedge accounting once the conceptual and measurement problems of financial instruments are resolved. Hedge accounting is unique because it alters the normal accounting for one or more components of a hedge, offsetting the changes in fair values of the hedge items and hedging instruments. Current experience with SFAS 133 and IAS 39 shows that exceptions tend to multiply in a geometric progression, making it costly and difficult for enterprises to understand and, in some cases, difficult to comply with the current hedge accounting rules. Any form of hedge accounting requires complex rules, which must be arbitrary to a significant degree to be operational. Also, we agree with the assertion that fair value accounting for financial instruments resolves recognition and measurement inconsistencies associated with current GAAP. We support the JWG's decision that the goals of understandability and transparency can be best accomplished by presenting relevant information about hedging instruments in the notes to the financial statements without complicating the income statement.

Hedging is a valid business/risk management proposition for companies to adopt. We suggest that the economic impact of entering into hedging activities should be presented fairly on the financial statements, supported by relevant note disclosures. These disclosures should explain management's objectives for entering into hedges as well as a description of how to achieve stated objectives.

Q28. The Draft Standard would require disclosure of an enterprise's significant financial risks and of the enterprise's financial risk management objectives and policies. Do you agree that this information is necessary to provide the context for understanding and evaluating information about the enterprise's actual financial risks and performance of its financial instruments?

The FITF concurs strongly with the requirement to disclose significant financial risks, as well as the enterprise's objectives and policies for managing these risks.

"Useful for making comparisons across enterprises"

Information and discussion about significant financial risks are highly relevant for understanding and assessing an enterprise's actual financial risks, as well as the effects on its financial performance and condition over time. When analyzing an enterprise's financial statements, it is necessary for investors to know how certain activities or transactions, and the effects of these items, will be reported in the financial statements. Furthermore, these disclosures are useful for making comparisons across enterprises. Investors are able to question why the same underlying asset or liability can receive different accounting treatments and adjust reported earnings accordingly to improve comparability.

We believe that the concept of *significant* needs to be better defined. Presently, the concept of materiality is better understood with additional guidance needed on relativity to what, and how to deal with immaterial derivatives with huge potential exposure. The disclosed information should show the expected risk areas and allow users to ascertain whether the actual financial risks and performance of the financial instruments is consistent with expectations. Without this overview information, users will not be able to identify risks that are not dealt with in the sensitivity analysis.

Disclosure of an enterprise's financial risk management objectives and policies should reflect its risk profile and history. Target levels of acceptable risk set by the enterprises will give a perspective of the average risk profile of the company as well as insight as to its hedging policies. Disclosure should be more detailed, or disaggregrated, for multinational enterprises, including a general outline of country- and market-specific risks and details about the level of tolerable risks within the specific areas.

We believe that disaggregated information is essential for analyzing the change in fair value because the estimation of probable future cash flows is subjective and based on multiple assumptions. Generally, users of financial statements need to be able to discern between performance attributes that are expected and can be controlled to some extent and those that are unexpected and often uncontrollable by management.

We recommend that the following be required disclosures for risk management policies:

- a definition of significant;
- risks for each type of instrument (subject to materiality);
- management policies regarding the use of financial instruments; and
- information regarding material policy changes relating to the use of financial instruments.

The information regarding risks and management policies would greatly benefit the understanding of investors. It would allow a clearer evaluation of the risks and the current management of those risks by the enterprise.

"Requiring detailed disclosure is too time-consuming"

Some enterprises argue that requiring detailed disclosure is too time consuming given their limited resources, or provides proprietary information that may cause competitive disadvantages. In regard to the issue about time restraints and limited resources, we believe that many enterprises already have (and most should have) this information available, particularly those that deal with highly complex instruments. However, the detail of disclosures required should be correlated directly with the level of information necessary to evaluate and understand an enterprise's risk profile and related management policies. Finally, under a global standard, enterprises would be required to disclose this information internationally and, thereby, minimize the competitive disadvantages that might arise from this transparency. A way to mitigate this effect, if indeed it exists, is to provide this proprietary information to regulators.

We would discourage the use of "boiler plate" disclosures because they convey very little, if no, real information (e.g. "the group has acquired appropriate derivative instruments to manage its risk profile"). AIMR recognizes that in some cases accounting principles may drive management behavior, e.g. companies moving entirely to floating rate debt to avoid value fluctuations impacting their income statement. (However, this behavior should not occur if accounting principles reflect and report the economic reality for all business transactions and activities.) To reduce the risk of this happening, both value risk and cash flow risk should be disclosed.

Q30. The Draft Standard encourages, but does not require disclosures about the extent to which fair values of financial instruments and income and cash flows could change as a result of changes in the underlying financial risk. Do you agree that these disclosures should be encouraged?

We disagree. Such information, as presented in sensitivity analysis, value-at-risk, or other established risk measurement techniques, should be required rather than only encouraged. Such analyses are an integral component of fair value accounting. If these analyses do not accompany the fair value measurement reported in the financial statements, then the measurement is incomplete, especially for financial instruments that are not linear.

Information about the effects on the fair values of financial instruments, as well as income and cash flows, is very important and useful information. We prefer a symmetrical approach that enables users of financial statements to forecast the increases, as well as decreases, in the expected future cash flows and earnings of the enterprise, resulting from these effects. For example, a sensitivity analysis, or stress test, quantifies the potential loss in earnings, fair values, or cash flows from hypothetical changes in market rates and prices. A one-percentage increase or decrease in market assumptions is very useful in assessing the potential volatility of the instrument's value and, in turn, the enterprise's exposure to market risk. It is important to know an enterprise's concentration of risk to fully understand how it manages various risks, as well as its exposure to these risks.

"Unusual risk exposure patterns"

We believe a framework for sensitivity analysis, or stress testing, should be provided to enhance comparability. Therefore, we recommend the following as an initial list of standard stress tests:

- 15 percent or 100 basis point (whichever is greater) adverse interest rate shift along the entire yield curve;
- 15 percent or 100 basis point (whichever is greater) adverse interest rate shift at the long end (over seven years) or short end (under seven years) of the yield curve relative to the rest of the curve;

50 basis point adverse quality spread change relative to government securities;

10 percent adverse change in any currency in which the entity has a 10 percent or more asset or earnings exposure;

20 percent adverse change in any currency in which the entity has 5 percent or more of its sales or in which it has 10 percent of competitive capacity;

15 percent adverse move in a long equity portfolio(s); and

two annualized standard deviation or 20 percent (whichever is greater) price change in any physical commodity that has a material impact on the enterprise's operations.

Each of these should be evaluated as an instantaneous change in a discontinuous market. Even if the standardized stress tests indicate no material market risk, an entity must be obligated to provide a fair disclosure of the market risk exposures known to its management. The required disclosure should place particular emphasis on any option positions that cause unusual risk exposure patterns. Quantitative and qualitative disclosure of information about an enterprise's market risk exposures that are known to management must not be misleading.

These proposals were put forward earlier by the AIMR Derivatives Task Force and are incorporated in paragraph 409 of the Application Supplement of the JWG Draft Standard. As mentioned previously, we believe strongly that the above stress tests, or similar tests, should be mandatory part of fair value accounting. Therefore, if further work is needed, such as field tests, we would be available to participate, as well as discuss any issues with finance theory experts. Nevertheless, we do not believe that the argument that "further work needs to be done" is a sufficient reason to postpone the requirement for sensitivity analyses or stress tests. ■

Notes

1 The Association for Investment Management and Research is a global, nonprofit organization of more than 53,000 investment professionals from 100 countries worldwide. Through its headquarters in Charlottesville, Virginia, and more than 100 affiliated societies and chapters throughout the world, AIMR provides global leadership in investment education, professional standards, and advocacy programs.

2 International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement.

3 The AIMR Corporate Disclosure Survey, conducted in 1999, showed that 51 percent and 80 percent of respondents indicated that information about derivatives and hedging activities, and off-balance sheet items, respectively, are "very or extremely important" in analyzing and evaluating an enterprise's performance; but only 15 and 25 percent of these respondents, respectively, ranked the quality of information currently available as "excellent or good" in providing the necessary information. Survey results are available on AIMR's web site www.aimr.org

4 The survey was conducted to have a broad representation of Canadian users of financial statements, which was used to formulate the AIMR response to the Canadian Securities Administrators' (CSA) discussion paper – "Financial Reporting in Canada Capital Markets". The Accounting Subcommittee of the AIMR Canadian Advocacy Committee (formerly Council) issued a comment letter to the CSA, addressing the discussion paper and outlining the results of the survey, on 29 June 2001.

5 Financial Statement of Accounting Standard No. 133 – Accounting for Derivative Instruments and Hedging Activities.