29 September 2009

IASB Update

From the International Accounting Standards Board

This IASB *Update* is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The International Accounting Standards Board met in London on 29 September 2009 for an additional Board meeting to continue work on the project to replace existing requirements for financial instruments.

Other information

- Future Board meetings
- Past issues of IASB ***Update***
- Forthcoming comment deadlines

Financial instruments: replacement of IAS 39

Classification and Measurement

The Board continued to discuss responses received to its exposure draft Financial Instruments: Classification and Measurement, (the ED) published in July 2009.

Scope

Some respondents to the ED suggested that the Board should limit the scope of this phase of the project to the classification and measurement of financial assets. The Board tentatively decided that the scope of this phase of the project should continue to include financial liabilities.

The Board will consider at subsequent meetings issues such as accounting for hybrid liability contracts and whether the re-measurement of particular financial liabilities should reflect changes in the issuer's own credit risk.

Classification conditions

The Board considered the classification conditions proposed in the ED and comments received in relation to those proposals both from comment letters and the extensive outreach undertaken by the staff and Board members. The Board tentatively confirmed that classification should be based on:

• how an entity manages its financial instruments; and
• the contractual terms of the instrument.

In developing the condition related to how an entity manages its financial assets the Board also tentatively decided to replace the phase 'managed on a contractual yield basis.' Many respondents expressed support for the way the Board explained the business model in the basis for conclusions to the ED. The basis stated that 'the objective of an entity's business model is to hold the instruments to collect (or pay) contractual cash flows rather than to sell (or settle) the instruments prior to their contractual maturity to realise fair value changes'. The Board will look to use similar wording in the final standard. The staff also observed that this wording is also very close to the wording currently being proposed by the US FASB for this classification condition.

The final standard will also have more examples than were included in the exposure draft.

The Board will discuss other issues relating to the two conditions, such as the order in which they should be applied, at a subsequent meeting.

Cost exception

IAS 39 Financial Instruments: Recognition and Measurement contains a cost exception for equity instruments (and related derivatives) that do not have a quoted market price, and for which fair value cannot be reliably determined. The exception requires an entity to measure these investments on a cost basis. On 22 September 2009, the Board tentatively decided to replace the cost exception with guidance on when entities could use a simplified current measurement for equity instruments, if determining fair value is impracticable.

At this meeting the Board reviewed that decision on the basis of practical difficulties the staff had identified with implementing such an approach. The matter will be brought back to a future Board meeting at which a variation of the existing cost exception will be considered.

Impairment of financial instruments

On 22 September 2009, the Board discussed transition proposals. At that meeting the Board asked

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the staff to explore further an alternative transition approach for financial instruments that were recognised before the date of transition. This approach would involve determining on transition a new effective interest rate on the basis of the expected cash flows over the remaining life of the financial instrument. This new effective interest rate would be subject to a floor (the risk-free interest rate) and a ceiling (the contractual interest rate).

At this meeting the Board tentatively decided not to pursue that approach because it is complex and the model can generate anomalous outputs that would reduce the quality of the information being reported. Instead, the Board tentatively decided to propose in the exposure draft a transition approach that:

• adjusts the effective interest rate previously determined in accordance with IAS 39 so that it approximates the effective interest rate that would have been determined at inception using the expected cash flow approach.

• requires entities to make maximum use of historical data and, to the extent necessary, to supplement the historical data by using information for similar products originated or acquired near transition.

The Board also tentatively decided to include a question in the exposure draft that solicits comments on a simplified transition approach that uses the original effective interest rate determined in accordance with IAS 39 rather than an adjusted effective interest rate.

Effective date, comparatives and early adoption

The Board does not normally state in an exposure draft an expected effective date of a final standard. The comment letters received in response to the *Request for Information on the feasibility of an expected loss model for the impairment of financial assets* published in June 2009 and information gathered from the extensive outreach undertaken by the staff indicate that a longer than normal period will be necessary to allow preparers to modify their systems and collect the data required to estimate expected cash flows. The Board is aware that systems and data constraints are an important factor both in setting the effective date and in deciding whether comparative information should be restated.

On that basis, the Board tentatively decided:

• that the exposure draft should indicate that that the effective date is expected to be around three years from the date of issue of any final requirements; and

• to require comparative information to be restated.

The Board will continue to seek information about implementation through the exposure draft process, including asking specific questions in the exposure draft about the feasibility and implications of requiring the restatement of comparative information, and from its expert advisory panel.

The Board also tentatively decided to permit early adoption.

Next steps

The Board will continue its discussions on the Financial Instruments: *Replacement of IAS 39* project at an extra meeting on 6 October 2009.

Go to the project page on the IASB website

Future Board meetings

The Board will meet in public session on the following dates in 2009. Meetings take place in London, UK, unless otherwise noted.

6 October (extra Board meeting)

19-23 October

26-27 October *(IASB and FASB joint meeting, Norwalk USA)*

16-20 November

14-18 December

Go to the meetings section of the IASB website

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Forthcoming comment deadlines

The list below includes all forthcoming deadlines up to the October 2009 Board meeting. For a full list of comment deadlines, visit the Open to Comment section of the IASB website.

5 October 2009 - draft interpretation IFRIC D25 Extinguishing Financial Liabilities with Equity Instruments

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