

Fair Value Option ED User Questionnaire

1. Welcome Screen

Welcome to the IASB's user questionnaire regarding the exposure draft 'Fair Value Option for Financial Liabilities'.

Before completing the questionnaire, please review the accompanying document by copying and pasting the URL below into a new browser window. It is a pdf document that includes several diagrams that are not in the questionnaire, but are relevant to the questions.

<http://www.iasb.org/NR/rdonlyres/EFBFF6ED-76C6-4490-B64E-DE543E0F3030/0/Userquestionnaireexhibits.pdf>

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2. Introduction

The IASB has published the exposure draft: Fair Value Option for Financial Liabilities (the ED). The ED proposes a limited change to the accounting for issued debt to deal specifically with the issue of 'own credit'. This questionnaire asks five questions about how the proposals will affect your analysis.

For the purposes of the ED and this questionnaire, the effect of changes in fair value resulting from changes in the market spread for an issuer over a benchmark rate (such as LIBOR) is referred to as 'own credit'.

This questionnaire has been designed for financial statement users (eg analysts) to provide feedback on the ED. The IASB values feedback from all of its constituents; however, this questionnaire has been designed to solicit feedback from analysts. If you are not an analyst, but would like to provide feedback on the proposal, please submit a comment letter using the link below.

The following links may be useful to you in responding to this questionnaire. The links can be copied and pasted into another browser window.

CLASSIFICATION AND MEASUREMENT PROJECT PAGE

<http://www.iasb.org/Current+Projects/IASB+Projects/Financial+Instruments+A+Replacement+of+IAS+39+Financial+Ins-+Classification+and+measurement/Phase+I+-+Classification+and+measurement.htm>

IASB'S FAIR VALUE OPTION EXPOSURE DRAFT

http://www.iasb.org/NR/rdonlyres/B72D8EB9-64D0-4766-9EEE-3A27EE2A9617/0/EDFairValueOptionforFinancialLiabilities_WEBSITE.pdf

SNAPSHOT - A HIGH-LEVEL SUMMARY OF THE PROPOSAL

<http://www.iasb.org/NR/rdonlyres/35CED5D6-82ED-4B65-B5BB-ED21E516AA37/0/SnapshotEDFairValueOptionforFinancialLiabilities.pdf>

OTHER INFORMATION, INCLUDING COMMENT LETTER SUBMISSION

<http://www.iasb.org/Current+Projects/IASB+Projects/Financial+Instruments+A+Replacement+of+IAS+39+Financial+Ins-+Classification+and+measurement/Exposure+draft+on+fair+value+option/Exposure+draft+on+fair+value+option.htm>

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3. Background

We propose a two-step approach to deal with own credit for most issued debt that is measured at fair value. (The accounting for derivatives and trading liabilities would not be affected by these proposals, so would be unchanged). The two-step approach would address the P&L volatility arising from own credit as follows:

1. The total fair value change for issued debt measured at fair value would be reported in P&L, then
2. The portion of the fair value change due to own credit would be reversed out of P&L and reported in other comprehensive income

(See Table 1 in associated pdf document for a diagram of the proposed approach. A link to this document is on the first page of the questionnaire.)

This own credit effect is currently required to be disclosed in the notes to the financial statements. However, the proposal would elevate this figure to the face of the P&L statement, but would subsequently exclude this amount from the calculation of profit or loss.

All issued debt measured at fair value would continue to be measured at full fair value on the balance sheet. No other changes are proposed to the accounting for financial liabilities.

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4. Respondent details

* 1. Please tell us about yourself. The background and experience of those who respond to this questionnaire is considered in our analysis.

This information is for IASB internal use only. While we may use this information to report findings on an anonymous basis, we will not publicly distribute or share individual responses received without your permission.

Your contact details will not be distributed to third parties. We will only contact you if we require clarification or further explanation about your response.

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|------------------|----------------------|
| Name | <input type="text"/> |
| Organisation | <input type="text"/> |
| Job description | <input type="text"/> |
| Buy/sell Side | <input type="text"/> |
| Country | <input type="text"/> |
| Email | <input type="text"/> |
| Telephone Number | <input type="text"/> |

2. May we contact you to inform you of future IASB user questionnaires on related projects?

Yes

No

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5. One-step approach

3. Instead of taking the own credit effect to P&L and then reversing it out into OCI (proposed 'two-step approach'), we could require that the own credit effect goes directly to P&L ('one-step approach').

(See Table 2 in associated pdf document for a diagram of the one-step approach. A link to this document is on the first page of the questionnaire.)

Would the two-step approach we propose be more helpful to your analysis than the one-step approach?

Yes

No

Explanation (optional)

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6. Equity presentation

4. Would it provide more useful information if the own credit effect was instead presented directly in equity? (This would mean that the own credit effect would be totally excluded from P&L and OCI and instead would be reported directly in the equity section of the balance sheet).

Yes

No

Explanation (optional)

5. If yes, what element of equity should be adjusted?

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7. Recycling

6. We propose that the own credit effect on issued debt is transferred from P&L to other comprehensive income. We propose prohibiting 'recycling' of these amounts back to profit or loss.

In most cases there would be no amount to recycle. This is because if an issuer settles its issued debt as per the contract, the cumulative effect of any changes in credit risk will net to zero by maturity. However, if a company settles issued debt prior to maturity there may be an amount referable to own credit realised.

To provide you with information about how much of the accumulated own credit effect has been realised in the current reporting period (ie the amount that would have been recycled if we decided to require recycling), we propose requiring disclosure of that amount in the notes to the financial statements.

Is it appropriate to prohibit 'recycling' of amounts attributable to own credit from other comprehensive income back to profit or loss?

Yes

No

Explanation (optional)

7. Is useful information provided through note disclosure of the amount of any gains or losses relating to own credit in other comprehensive income that have been realised in the current period?

Yes

No

Explanation (optional)

8. Transition

8. Last year we published new requirements for the classification and measurement of financial assets in IFRS 9. These requirements are not mandatory until 1 January 2013, but companies can choose to apply them earlier. We also expect to allow companies to be able to apply these proposals (as finalised) prior to 1 January 2013.

We propose that if a company decides to apply these proposals early, the company must also apply the new rules for financial assets in IFRS 9.

This decision was made to improve comparability by reducing the possible combinations of accounting for financial instruments that could otherwise arise. For example, a company could not apply the new requirements for financial liabilities while still using the old requirements (IAS 39) for financial assets.

If a company chooses to adopt these proposals early (once finalised) should it also be required to adopt the new requirements for financial assets in IFRS 9?

Yes

No

Explanation (optional)

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9. Final page

9. Additional comments not expressed in questionnaire:

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Thank you for taking the time to complete our questionnaire on the exposure draft 'Fair Value Option for Financial Liabilities'.

We will discuss these proposals after the user questionnaire and comment letter deadline of 16 July 2010.