

Attachment B: A comprehensive overview of measures undertaken by the IASC Foundation and the IASB responding to the recommendations of the Financial Crisis Advisory Group (with additional notes on measures undertaken by the FASB)

On 28 July 2009 the Financial Crisis Advisory Group (FCAG) published its final report. The report lists four principles of financial reporting and lists a number of recommendations related to accounting standard-setting activities, and other changes to the international regulatory environment following the global financial crisis. The matrix below contains a comprehensive overview of measures undertaken by the IASC Foundation and the IASB that respond to recommendations relating to the organisation and its standard-setting activities. Following the matrix are some additional notes concerning measures undertaken by the FASB.

The full report of the FCAG can be accessed via www.iasb.org/FCAG+report .

Principle 1: Effective Financial Reporting

FCAG Recommendation	Corresponding measures undertaken by IASC Foundation/ IASB
<p>1.1 The Boards should give highest priority to their project to simplify and improve their standards on financial instruments, moving forward as a matter of urgency but with wide consultation.</p>	<p>March 2009: the IASB and the FASB agree to undertake, on an accelerated basis, the replacement of existing financial instruments standards (IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, in the case of the IASB) aiming to achieve a common and globally accepted standard that would address issues arising from the financial crisis in a comprehensive manner.</p> <p>July 2009: the IASB publishes proposals on <i>Financial Instruments: Classification and Measurement</i> (ED) – the first stage of a three-part project to replace IAS 39. The comment period closed on 14 September 2009.</p> <p>During the comment period the IASB engages in unprecedented outreach activities to ensure a maximum input from around the world. Round-table discussions are held in Asia, Europe and the United States. Interactive webcasts are held on an almost weekly basis and attract thousands of registered participants. In addition, the IASB and staff have more than a hundred meetings with interested parties around the world. .</p> <p>September - November 2009: The IASB meets on a weekly basis in public to discuss the proposals in light of the comments received.</p> <p>12 November 2009: The IASB completes the first part of the IAS 39 replacement project by publishing IFRS 9 <i>Financial Instruments</i>. IFRS 9 reflects the many comments that the IASB received during its consultations. For example, IFRS 9 requires the business model of an entity to be assessed first to avoid the need to consider the contractual cash flow characteristics of every individual asset. It requires reclassification of assets if the business model of an entity changes. The IASB changes the accounting that was proposed for structured credit-linked investments and for purchases of distressed debt. The IASB also addresses concerns expressed about the problems created by the mismatch in timings between the mandatory effective date of IFRS 9 and the likely effective date of a new standard on insurance contracts. Furthermore, in response to suggestions made by some respondents, the IASB decides not to finalise requirements for financial liabilities in IFRS 9.</p> <p>November – ongoing: The IASB has begun the process of giving further consideration to the classification and measurement of</p>

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	financial liabilities and expects to issue final requirements during 2010.
<p>1.2 Recognizing that in some areas, such as impairments, IFRS and US GAAP have different starting points, we nevertheless urge the two Boards to achieve converged solutions.</p>	<p>April 2009: The IASB announces that it will take up the broad issue of impairment of financial assets as part of its comprehensive and urgent review of IAS 39. The IASB will work with the FASB as part of its comprehensive project to ensure global consistency in impairment approaches.</p> <p>November 2009: The IASB publishes for public comment the exposure draft <i>Financial Instruments: Amortised Cost and Impairment</i>. The IASB decides to set up an Expert Advisory Panel to advise the IASB and the FASB on the operational aspects of an impairment approach. The FASB will participate in this initiative.</p> <p>Both boards reaffirm their commitment to work jointly and expeditiously towards common standards. In a joint statement issued in November 2009 the boards describe the values and principles underpinning the Boards' collaboration and significant successes achieved thus far. As part of their convergence effort the boards agree to monthly joint board meetings and will provide quarterly updates on their progress on convergence projects.</p>
<p>1.3 In the financial instruments project, the Boards should explore alternatives to the incurred loss model for loan loss provisioning that use more forward-looking information. These alternatives include an expected loss model and a fair value model.</p>	<p>June 2009: The IASB publishes a Request for Information (RFI) on the feasibility of an expected loss model for the impairment of financial assets.</p> <p>September 2009: The IASB starts discussing the comments received on the RFI and decides to set up an expert advisory panel to provide further input and advice to the Board on operational aspects of applying the expected cash flow approach.</p> <p>November 2009: The IASB publishes for public comment the exposure draft <i>Financial Instruments: Amortised Cost and Impairment</i> (ED). The ED proposes an <i>expected</i> loss impairment method for all instruments measured at amortised cost. The ED is open for comment until 30 June 2010. During that time the IASB will continue its extensive outreach efforts to ensure that input is received from a broad range of interested parties.</p>
<p>1.4 If the Boards pursue an</p>	<p>The comments received on the Request for Information</p>

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<p>expected loss model, care must be taken to avoid fostering “earnings management”, which would decrease transparency.</p>	<p>published in June 2009 provides the IASB with a better understanding of the feasibility and challenges of an expected loss model.</p> <p>November 2009: The IASB publishes an Exposure draft <i>Financial Instruments: Amortised Cost and Impairment</i> (ED) that proposes an expected loss impairment approach.</p> <p>The IASB is fully aware that any changes to impairment requirements must ensure that investors receive the information needed to compare and understand an entity’s credit activities. The ED therefore includes extensive presentation and disclosure proposals. Specifically the ED proposes separate presentation of:</p> <ul style="list-style-type: none"> • contractual interest • allocation of initial expected credit losses • economic interest income after allocation of initial expected credit losses <p>In addition, the effect of changes in loss expectations would be presented separately in P&L.</p> <p>The ED also proposes additional disclosures about the expected credit losses and the general credit quality of an entity’s financial assets.</p> <p>The Expert Advisory Panel will advise the IASB and the FASB on operational aspects of the model that need to be considered. The first meeting of the panel will take place in December 2009.</p>
<p>1.5 In the financial instruments project, the Boards should reconsider the appropriateness of an entity’s recognition of gains or losses as a result of fair value changes in the entity’s own debt because of decreases or increases, respectively, in its creditworthiness.</p>	<p>The IASB is aware that the practice of booking profits or losses resulting from changes in the fair value of ‘own credit risk’ has been identified as one of the major issues in fair value accounting.</p> <p>June 2009: The IASB responds to these concerns and publishes a discussion paper on the role of credit risk in liability measurement. The comment period closed on 1 September 2009.</p> <p>October 2009: The IASB considers the comments received on the discussion paper and on the exposure draft <i>Financial Instruments: Classification and Measurement</i> (ED). The Board decides to address the widespread concerns about the recognition of gains or losses as a result of fair value changes in the entity’s own debt because of decreases or increases in its creditworthiness. However, consistent with the recommendations of some respondents to the ED, the Board decides not to include final</p>

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	<p>requirements for financial liabilities in IFRS 9 <i>Financial Instruments</i> issued in November 2009. Instead it will undertake further outreach with constituents to identify how the concerns about the effects of changes in own credit risk can be addressed best. The IASB intends to address this issue expeditiously, and finalise requirements for financial liabilities as part of its project to complete the replacement of IAS 39 during 2010.</p>
<p>1.6 Accounting standards, especially on financial instruments, consolidation/ derecognition and risk disclosure, have special importance for prudential regulators. Accordingly, it is important that the Boards continue their consultation with prudential regulators.</p>	<p>In developing its proposals for changes to the consolidation, derecognition and disclosure requirements, the IASB is in close and regular contact with prudential regulators. The IASB staff and Board members have undertaken extensive outreach activities with national and international prudential regulators.</p> <p>August: IASB Board members and senior IASB staff meet with senior prudential and other regulators in London to exchange views on the steps the IASB is taking to respond to the G20 and FSB conclusions.</p>
<p>1.7 If an alternative to the incurred loss model is developed that uses more forward-looking information, it may well narrow the differences between the requirements of accounting standards and of regulatory standards. To the extent differences remain, we urge the Boards to develop a method of transparently depicting any additional provisions or reserves that may be required by regulators without undermining the integrity of financial reporting by affecting income statement-based metrics.</p>	<p>November 2009: The IASB issues an Exposure draft <i>Financial Instruments: Amortised Cost and Impairment</i> (ED). The ED proposes an expected loss impairment approach. Prudential regulators have observer status on the Expert Advisory Panel that will advise the IASB and FASB on the operational aspects of an expected loss approach.</p> <p>The IASB continues its discussions with prudential regulators, including the Basel Committee, whether the financial statements could disclose or present separately any additional regulatory reserves as determined by an entity's regulator.</p>
<p>1.8 While giving priority to the financial instruments project, we also strongly urge the Boards to make substantial progress on converged and improved standards on consolidation and derecognition</p>	<p>December 2008: The IASB publishes an exposure draft on Consolidation</p> <p>March 2009: The IASB publishes an exposure draft on Derecognition</p> <p>June 2009: The IASB holds joint round tables with the US</p>

FCAG Recommendation	Corresponding measures undertaken by IASC Foundation/ IASB
(i.e., on off-balance sheet issues) and the other areas within their Memorandum of Understanding.	<p>FASB on their proposals and the interaction of the projects.</p> <p>July 2009 - ongoing: The IASB discusses the feedback received on both exposure drafts</p> <p>October 2009: To ensure improved and converged standards, IASB and FASB decide to discuss both projects jointly. In its derecognition project, the IASB decides to pursue the alternative approach in the ED while also reviewing the concerns that respondents to the ED raised with this approach.</p> <p>First half of 2010: The FASB targets to publish an ED on Consolidation in the second quarter of 2010; the IASB and FASB will jointly deliberate the comments received and plan to publish a final standard on Consolidation.</p> <p>Second half 2010: The IASB plans to publish a Consolidation and Derecognition standard.</p>
1.10 In the financial instruments and consolidation/derecognition projects, improvements should be made with an eye toward a better, more transparent depiction of the risks involved, especially with complex financial instruments.	<p>Consolidation: the IASB proposes a single control model that can be applied to all entities and enhanced disclosures about consolidated and unconsolidated entities that would allow for a better depiction of the risks involved.</p> <p>Derecognition: the IASB is developing one of the approaches set out in the Exposure Draft <i>Derecognition</i>. That approach is also based on a control notion. The IASB will also discuss the comments received from respondents on the extensive proposed disclosures that would better depict the risks arising from both recognised and derecognised financial assets. The proposed disclosures are aimed at better depicting the relationship between transferred financial assets that remain on the balance sheet and the associated liabilities and at providing more information so that an entity's ongoing involvement in derecognised financial assets can be better assessed.</p>

Principle 2: Limitations of Financial Reporting

FCAG Recommendation	IASC Foundation/IASB: measures accomplished and ongoing
2.1 In their joint conceptual framework project, the Boards should clearly acknowledge the limitations of financial reporting.	The IASB and the FASB are in the final stages of publishing Phase A of their joint project for a common conceptual framework which deals with the Objective and Qualitative Characteristics of financial reporting by the end of the year. This part of the framework also addresses clearly the limitations of financial reporting. The IASB aims to publish chapter 1 in early 2010.

Principle 3: Convergence of Accounting Standards

FCAG Recommendation	IASC Foundation/IASB: measures accomplished and ongoing
3.1 We strongly urge the Boards, consistent with the need for maintaining and enhancing high quality accounting standards, to use every effort to achieve converged solutions. This should be done in the projects that they have accelerated in response to the financial crisis (financial instruments and consolidation/derecognition) and in the other projects covered by the Boards' Memorandum of Understanding.	<p>The IASB and FASB agreed to work as a matter of priority on projects related to their Memorandum of Understanding that was updated in September 2008 and will seek to avoid any unnecessary divergences in the interim period.</p> <p>March 2009: the IASB and FASB agree to work jointly and expeditiously towards common standards that deal with off balance sheet activity and the accounting for financial instruments.</p> <p>November 2009: At their joint meeting both boards reaffirmed their commitment to improve IFRS and U.S. GAAP and to bring about their convergence. The Boards also agreed to intensify their efforts to complete the major joint projects described in their 2006 Memorandum of Understanding (MoU), as updated in 2008, this includes the ongoing financial instruments, derecognition and consolidation projects.</p>

Principle 4: Standard Setter Independence and Accountability

FCAG Recommendation	IASB Foundation/IASB: measures accomplished and ongoing
<p>4.1 The joint and comprehensive financial instruments project now underway should be the focus and chief priority of both Boards for the balance of 2009. In conducting this project, the Boards should not compromise their due process procedures. We have committed to review the progress made by the Boards before year-end. We believe it is of critical importance that neither business nor political pressures divert the accounting standard setters from the financial instruments project, which is so important to the global financial system.</p>	<p>March 2009: the IASB and FASB announce to work jointly and expeditiously towards common standards.</p> <p>May 2009: the IASB revises the timetable for a review of IAS 39. The revised timetable splits the IAS 39 project in three parts. The board's decision to address the review of IAS 39 in three parts enables the Board to respond to the G20 recommendations expeditiously without compromising its due process.</p> <p>July 2009: the IASB publishes an exposure draft on the classification and measurement of financial instruments with the objective of finalizing that part in time for 2009 financial statements. Since the publication of the ED the IASB has engaged in unprecedented outreach activities that include frequent live web casts held by staff to keep interested parties informed about the project progress, more than a hundred meetings have been held with interested parties and the board has deliberated regularly, often on a weekly basis in public.</p> <p>September 2009: to ensure broad outreach and to identify potential issues jointly, the IASB and FASB discussed the IASB's exposure draft and the FASB preliminary proposals on classification and measurement in joint public round tables in Asia, Europe and North America.</p> <p>November 2009: the IASB finalises part 1 of this project to replace IAS 39 by publishing a new standard IFRS 9 <i>Financial Instruments</i> on the requirements for the classification and measurement of financial instruments within the time period recommended by the FCAG. The standard allows early adoption for 2009 year end financial statements. The requirements become mandatory in January 2013.</p> <p>Although it would have been preferable to have had a common time line with the FASB on financial assets, the IASB gave more weight to the international commitments to deliver the first phase of the project in 2009. However, the IASB and the FASB agreed at their meeting in October a set of joint principles for working to achieve a common</p>

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	<p>solution. The IASB also intends to undertake a preliminary post-implementation review on the Classification and Measurement part and will discuss the outcome of this review jointly with the FASB.</p> <p>In addition, the IASB developed a plan with the FASB to ensure that the remaining phases of our financial instruments project and the equivalent FASB projects will be considered together.</p>
<p>4.2 To ensure the widespread acceptance of its work in urgent situations, the Boards should define in advance the circumstances under which it is appropriate to act on the basis of expedited due process. The Boards should also develop procedures to ensure that, in such circumstances, the maximum consultation practicable is obtained.</p>	<p>September 2009: the IASC Foundation publishes its proposals on the second part of the Constitution Review. In the document the IASC Foundation proposes to establish a procedure for the possibility of an accelerated due process that would allow in exceptional circumstances a shorter than the currently allowed 30-day minimum comment period.</p> <p>January 2010: At their forthcoming meeting the Trustees will discuss the comments received on the proposals, including those on an accelerated due process. In accordance with the timetable for the Constitution Review, the Trustees plan to implant changes arising from the Constitution Review in 2010.</p>
<p>4.4 To protect its independence from undue influence, the IASB must have a permanent funding structure under which sufficient funds are provided to it on an equitable and mandatory basis.</p>	<p>As a non-profit, private sector organisation the IASC Foundation has no authority to impose funding regimes on countries. However, in 2008 the IASC Foundation established financing principles that are aimed at establishing a broad-based, compelling, open-ended and country specific funding for the organisation.</p> <p>The Trustees have worked closely with regulatory and other public authorities and key stakeholder groups to create these national funding regimes. As a result levy systems and national contributions through regulatory and standard-setting authorities or stock exchanges have been introduced in a number of jurisdictions and more countries have committed to introducing such systems.</p>
<p>4.5 To bolster the authority of the Monitoring Board, its composition should be broadened geographically to include</p>	<p>January 2009: the IASC Foundation establishes as part of its five-yearly Constitution Review and in an effort to strengthen the organisation's public accountability an</p>

FCAG Recommendation	IASC Foundation/IASB: measures accomplished and ongoing
<p>securities regulators from a wider range of nations.</p>	<p>official link to a Monitoring Board of public authorities.</p> <p>The members of the Monitoring Board are, at this moment, the Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO), Financial Services Agency of Japan (JFSA), and US Securities and Exchange Commission (SEC). The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer.</p> <p>The Trustees are aware of the desire for broadened representation on the Monitoring Board and will refer this issue to the Monitoring Board itself, which has responsibility for issues related to its own composition.</p>

ADDITIONAL NOTES FROM THE FASB:

- As indicated in our work plan for the Financial Instrument Project, we believe that a proposal for the replacement of the FASB's financial instruments standards is best presented to constituents in a comprehensive manner. Thus, we plan to issue a comprehensive proposal, covering classification, recognition, and measurement, impairment, and hedge accounting, during the first quarter of 2010, with the aim of issuing a final standard by the end of that year.
- As indicated in the FASB/IASB Joint Statement of November 5, 2009, the two boards have agreed on a set of core principles for the Financial Instruments project (Appendix C to this letter). Along with more frequent (generally monthly) joint meetings and our participation in the Expert Advisory Panel on impairment, these will help in our efforts to achieve as much convergence as possible while making meaningful improvements for U.S. capital market participants in this critical area.
- We, too, have been engaging in wide consultation throughout the project, including discussions with prudential regulators.
- In the area of consolidation/derecognition ("off-balance sheet") standards, our initial focus was on fixing the standards on variable interests (Interpretation 46(R) and Statement 140) to address the issues that were seen concerning securitizations during the financial crisis, especially in the U.S. We are encouraged that prudential regulators have been in agreement with us on the importance of implementing the new standards without further delay (FCAG recommendation 1.9) and have indicated a willingness toward possibly phasing-in capital requirements for the additional on-balance sheet assets instead.
- As indicated in the Joint Statement, with those fixes behind us, we are now working with the IASB to seek convergence on the broad area of consolidation standards, also covering voting interest entities, and to determine how we can also achieve convergence on derecognition standards.
- With the Joint Statement, we have also reaffirmed our commitment to completing the other projects in our Memorandum of Understanding with the IASB, and have laid out key milestones for each of them.
- Finally, along with our parent organization, the Financial Accounting Foundation, we have been reaching out to key staff and members of Congress and the Administration, keeping them apprised of our activities and addressing questions that they have as they pursue financial system reform in the U.S. and globally.