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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 16 November 2006, London

**Project:** Financial Instruments – Due Process Document (DPD)

**Subject:** Recognition and Measurement – Cover paper  
(Agenda Paper 5)

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### **BACKGROUND TO PAPERS**

1. The IASB and FASB (the boards) agreed in June 2006 that the long-term objective of fair value measurement for all items in the scope of the DPD should be assumed in drafting the document.
2. The Measurement section of the document will include the reasoning for fair value measurement and the problems with the alternatives. This series of papers considers some issues related to recognition and measurement.
3. The approach taken in these papers is to provide a concise analysis of the key issues rather than attempt to recite all the discussions and analysis with which Board members are already familiar (an example being those issues discussed in FASB Statement No. 157, *Fair Value Measurements* and that are currently being deliberated by the IASB). We will provide any additional information and

analysis required for the next meeting, at which recognition and measurement issues are also scheduled to be discussed.

## **CONTENTS OF THE PAPERS**

4. Paper 5A discusses the:
  - a. Reliability of fair value measurement
  - b. Unit of account for recognition
  - c. Initial measurement of items in the scope of the DPD
  - d. Unit of measurement
5. Paper 5B discusses the:
  - a. Reporting of unrealized gains and losses
  - b. Measurement of guaranteed liabilities
  - c. Reporting of fair value changes arising from changes in an entity's own credit risk or own share price.
6. Paper 5C discusses the measurement of certain options and embedded options.
7. Paper 5C considers a 'cross-cutting' issue that affects many projects (including Insurance, Leasing and Financial Instruments) – the issue of which expectations of future cash flows we should include in measuring the present rights and obligations created by a contract. This issue is important for many sectors (such as insurance and banking), and forms part of the DPD project plan approved by the Boards.
8. Paper 5D discusses the recognition of financial instruments not normally currently recognized such as loan commitments, lines of credit, letters of credit, and certain credit card contracts.

## **PLANNED PAPERS FOR THE NEXT MEETING**

9. As previously mentioned, the project plan envisages two meetings to discuss recognition and measurement issues.
  
10. Specifically, we plan to bring papers to the next meeting discussing the recognition and measurement of deposit agreements and the measurement of liabilities with a demand feature.