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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: 21 September 2007, London

Project: Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation (ED)

Subject: Board re-deliberations (Agenda paper 4 ADDENDUM)

PURPOSE OF THIS PAPER

1. Agenda Paper 4 paragraph 30 proposes a criterion designed to prevent an instrument other than the puttable instrument absorbing most of the performance variability of an entity. Since posting paper 4 the staff has received feedback from some constituents regarding how such a criterion might be applied suggesting that implementation may be less troublesome than suggested in paper 4.
2. However, the staff proposes some drafting changes to the proposed new criterion in paragraph 30 and to the *no fixed or guaranteed return* criterion in paragraph 25. These changes are aimed at making the criteria more understandable, operational and consistent with each other.
3. **Amended paragraph 30:** *No other financial instrument or contract has total cashflows based substantially on the net earnings or changes in net assets of the entity (computed before the reduction in net earnings for such instrument or contract) that has the effect of substantially restricting or fixing the residual return to the puttable interest holders. If a determination cannot be made that these conditions are met, the puttable instruments are classified as liabilities.*

4. **Amended paragraph 25.** Change *total returns* in paragraph 25 to *total cashflows*.
5. Based on the feedback from some constituents and the suggested re-wording, the recommendation of the staff is to include both criteria (as re-worded) in the final amendment. The staff also recommend including application guidance to explain the criteria.
6. **Revised Questions for the Board: Do the Board wish to**
 - a) **Accept the staff recommendation to revise the approach to the amendment? This would include amending the *no fixed or guaranteed criterion* as per paragraph 25 and 43 of paper 4, and including the additional criterion as drafted in paragraph 3 of this addendum? If so:**
 - i) **What, if any, additional due process steps are required?**
 - b) **Do something else? If so, what?**