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This document is provided as a convenience to observers at the Standards Advisory Council meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the SAC meeting. Paragraph numbers correspond to paragraph numbers used in the SAC agenda paper.

INFORMATION FOR OBSERVERS

SAC Meeting: **June 2008, London**

Project: **The credit crisis**
(Agenda Paper 1)

Introduction

- 1 The current state of the financial markets has generated a significant amount of debate and led to the publication of many reports that attempt to identify actions that regulators, preparers, auditors, rating agencies, accounting standard setters and others might take.
- 2 The Financial Stability Forum (FSF) was convened in April 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance. In April 2008 the FSF issued a report, *Enhancing Market and Institutional Resilience the Financial Stability Forum*, to the G7 Ministers and Central Bank governors.

Financial Stability Forum

- 3 The FSF report analyses the causes and weaknesses that have led to the current financial market turmoil and sets out recommendations for increasing the resilience of markets in the future.

- 4 The report is the result of an intensive collaborative effort of many national bodies and international organisations, including the IASB. The report recommends actions in the following areas:
 - (a) Strengthened prudential oversight of capital, liquidity and risk management
 - (b) Enhancing transparency and valuation
 - (c) Changes in the role and uses of credit ratings
 - (d) Strengthening the authorities' responsiveness to risks
 - (e) Robust arrangements for dealing with stress in the financial system
- 5 Specifically, the report recommends that the IASB:
 - (a) improve the accounting and disclosure standards for off-balance sheet vehicles;
 - (b) improve the guidance and disclosures about valuations, methodologies and the uncertainty associated with valuations;
 - (c) examine the requirements and principles for disclosures about the valuation of financial instruments to identify areas in which they can be improved; and
 - (d) enhance guidance on valuing financial instruments when markets are no longer active.

IASB response

- 6 In response to the credit crisis, and the FSF recommendations, we have increased the priority being given to the consolidation and derecognition projects—both of which we had been working on before the current credit crisis developed. As part of our ongoing work, we have also started a review of IFRS 7 *Financial Instruments: Disclosures* and established an expert advisory panel to consider the valuation of financial instruments in inactive markets.

Consolidation

- 7 Consolidation involves identifying the circumstances in which an entity should combine its financial statements with those of another entity- including special purpose entities and structured investment and securitisation vehicles.
- 8 The goal of the Consolidation project is to publish a single IFRS on consolidation to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC-

12 Consolidation – Special Purpose Entities. That is to say, the control criteria within a single IFRS should be developed for all entities.

- 9 Our work on a revised control definition will focus on the consolidation of structured entities. Other issues include assessing whether reputational risk is an appropriate basis for consolidation. We are also improving the guidance in relation to power with less than a majority of the voting rights; potential voting rights; veto rights; economic dependence and applying the control concept to fiduciaries.
- 10 Our work on disclosures aims to provide users of financial statements with information about:
 - (a) the judgements made by management when reaching decisions to consolidate or not;
 - (b) the nature and financial effect of restrictions on assets and liabilities resulting from legal entity boundaries that exist within the reporting group; and
 - (c) the nature of, and risks associated with, the reporting entity's significant involvement with legal entities that it does not control.

Derecognition

- 11 Derecognition involves identifying the circumstances in which it is appropriate for an entity to remove a (financial) asset from its balance sheet. We are accelerating our work on this project. Paper 3b provides a description of the project, as part of our formal agenda proposal process.

IFRS 7 review

- 12 We have begun reviewing IFRS 7 to assess its effectiveness in ensuring that entities disclose information that reflects their exposure to risk and any potential losses arising from financial instruments with the off-balance sheet entities with which they are involved. IFRS 7 includes disclosure requirements in relation to fair value measurement and these requirements are included in our review.

Expert advisory panel

- 13 We have created an expert advisory panel to discuss the valuation of financial instruments in inactive markets and the related disclosures. The discussions of the panel will provide input for our work on financial instruments and fair value measurement. The panel will assist us in:

- (a) reviewing best practices in the area of valuation techniques, and
 - (b) formulating any necessary additional practice guidance on valuation methods for financial instruments and related disclosures when markets are no longer active.
- 14 The discussions of the panel members over the next few months will give the Board insight into the type and extent of additional guidance that might be necessary in this area and the form of any such guidance.
- 15 The discussions of the panel will provide input for our work on financial instruments and fair value measurement. The panel's views will be discussed with other interested parties before the Board makes any decision on guidance to be issued.

Membership

- 16 The expert advisory panel comprises experts from preparers and users of financial statements, as well as regulators and auditors. Participants have been selected based on their practical experience with the valuation of financial instruments in the current market environment.
- 17 The following organisations are participating in the panel. (A few additional organisations have also been identified and we are waiting for confirmation of their participation.)

AIG (American International Group)
Basel Committee on Banking Supervision
BNP Paribas
Capital International Research Inc.
Citigroup
Deloitte
Deutsche Bank
Ernst & Young
Financial Stability Forum
Fitch Ratings
Goldman Sachs
HSBC
International Association of Insurance Supervisors
International Organization of Securities Commissions (IOSCO)
KPMG
Pioneer Investments
PricewaterhouseCoopers
Swiss Re

UBS
Financial Accounting Standards Board (staff observer)

Meeting

- 18 By the time the SAC meets, the first meeting of the panel will have been held (on 13 June 2008). For the first meeting we have asked the participants of the panel to submit a description of practical issues experienced with the valuation and disclosure of financial instruments in the current market environment. To ensure that the panel is able to discuss freely the practical issues that have arisen in the crisis, this meeting will be held in a private session. However, a summary of the meeting will be available on the IASB website.