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**International
Accounting Standards
Board**

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: November 2008, London

Project: The Credit Crisis

(Agenda Paper 5)

This paper summarises the IASB's response to the credit crisis. It can be found here: <http://www.iasb.org/credit+crisis.htm>. It is updated regularly.

In responding to the credit crisis, the IASB recognises the need to clarify International Financial Reporting Standards (IFRSs) to address new market developments.

The IASB's response has been primarily focused on the recommendations of the Financial Stability Forum, while also avoiding inconsistencies in accounting treatments under IFRSs and US generally accepted accounting principles (GAAP).

Recommendations of the Financial Stability Forum

In April 2008 the Financial Stability Forum published a report to the G7 group of Finance Ministers and Central Bank Governors making recommendations for Enhancing Market and Institutional Resilience.

The report was the result of collaboration by the main international bodies and national authorities in key financial centres, including the IASB. It set out 67 recommendations, which were endorsed by the G7 on 11 April.

Of the recommendations, three relate to enhancements to financial reporting. Those recommendations form the core of the IASB's response to the credit crisis.

- 1. Off balance sheet: The IASB should improve the accounting and disclosure standards for off balance sheet vehicles on an accelerated basis and work with other standard-setters toward international convergence.**

Response: The IASB already had two projects under way directly related to off balance sheet vehicles. The Consolidation project aims to identify when an entity should be brought on to another entity's balance sheet, and the Derecognition project is examining when assets should be removed from the balance sheet. Both of these projects are described by the Memorandum of Understanding between the IASB and the US Financial Accounting Standards Board (FASB) which sets out a roadmap for the convergence of IFRSs and US GAAP.

The IASB has given both projects priority in order to accelerate their completion. A working draft of a revised standard on consolidation has been prepared by IASB staff, and will be discussed during a series of round-table discussions, the first of which was held in London on 17 September 2008.

At its meeting on 2 October, the IASB addressed the topic of off balance sheet items as part of its Consolidation project. On the basis of continued progress on that project, the IASB intends to have a proposal on consolidations ready to publish for comment in November. The IASB is also developing a proposal on the derecognition of financial assets and expects to publish an exposure draft on this subject in the first quarter of 2009.

2. **Fair value in illiquid markets: The IASB should enhance its guidance on valuing financial instruments when markets are no longer active. To this end, it will set up an expert advisory panel in 2008.**

Response: At its meeting in May 2008, and as part of its Fair Value Measurement project, the IASB announced plans to set up an expert advisory panel to identify valuation and disclosure issues encountered in practice in the current market environment. Since its formation in May 2008 the panel has met on seven occasions (the last on 10 October).

Although the panel meetings were held in private, summaries of the discussions were presented to the IASB in public meetings and are available on the Fair Value Measurement project page.

On 16 September as a first step in developing guidance on the application of fair value in illiquid markets, the IASB staff released draft guidance emanating from discussions of its expert advisory panel. The panel met on 10 October to discuss comments received on the document.

On 30 September a clarification to the US standard FAS 157 *Fair Value Measurements* was made by the US Securities and Exchange Commission (SEC) and staff of the Financial Accounting Standards Board (FASB). The IASB considers this clarification consistent with IFRSs and a useful contribution.

3. **Disclosure: The IASB will strengthen its standards to achieve better disclosures about valuations, methodologies and the uncertainty associated with valuations.**

The IASB is reviewing IFRS 7 *Financial Instruments: Disclosures* (including as

part of its Consolidation project) 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.

Steps taken to date include consultation with preparers and users of IFRS-compliant financial statements, an analysis of good disclosure practice observed in financial reports and a review of good practice suggestions made by regulatory bodies.

At its meeting in September the IASB considered a comprehensive package of proposed amendments to IFRS 7. The package included disclosures related to off balance sheet risk, fair value measurement and financial instrument risk, including disclosures related to liquidity risk.

The IASB published an exposure draft on Wednesday 15 October that proposes enhancements to disclosure about fair value measurement and about liquidity risks.

Other responses to the credit crisis

The IASB has committed itself to undertake the following:

- **Formation of an international advisory group jointly with the US FASB**

The IASB and the US FASB at their joint meeting in October decided to form an international advisory group. The group shall be comprised of senior leaders with broad international experience with financial markets.

They will be tasked with considering how improvements in financial reporting could help enhance investor confidence in financial markets; identifying the accounting issues requiring urgent and immediate attention of the boards as well as issues for longer-term consideration.

The boards will seek to identify external chairs and members of the group as soon as possible in order to enable the advisory group to begin its work expeditiously. The high-level advisory group will also draw upon work already under way in a number of jurisdictions on accounting and the credit crisis.

The advisory group will meet in public session with Webcasting facilities available to all interested parties.

- **Organisation of public round tables in Asia, Europe and North America**

In the coming weeks the IASB and the FASB will organise three round tables - one each in Asia, Europe and North America. The purpose of these public round tables is to gather input on reporting issues arising from the global financial crisis - including responses by governments, regulators and others.

This should enable the boards to act rapidly and the advisory group, once established, to advance its deliberations efficiently. The first round table will be held in Europe.

- **Permitting the possibility of reclassifications of certain financial instruments to align IFRSs with US GAAP**

The IASB issued amendments to IAS 39 introducing the possibility for companies applying IFRSs to reclassify assets, which was already permitted under US GAAP in rare circumstances.

- **Consideration of the possible impact of the US Emergency Economic Stabilization Act of 2008 and other similar programmes internationally on the valuation of assets and liabilities**

The IASB will work closely with the FASB to develop a common approach to accounting questions related to the valuation of financial assets and liabilities resulting from purchases made through the US Emergency Economic Stabilization Act of 2008 and any other similar programmes internationally, if and when those are initiated.

- **Willingness to participate in any study on the impact of accounting in the credit crisis**

The IASB recognises the need to continue to examine IFRS accounting principles for financial instruments. Earlier this year, the IASB published a discussion paper *Reducing Complexity in Reporting Financial Instruments*.

The discussion paper is the starting point for considering a possible replacement for IAS 39. Working with regulators, investors and industry, the IASB will draw lessons from the credit crisis as it moves forward with its project to reconsider IAS 39.

Consistently with discussions in the United States, the IASB will be willing to assist in any study that examines the quality of existing fair value information provided to investors and any impact of financial reporting on the credit crisis.

Key announcements and measures taken by the IASB in response to the credit crisis (2008)

October

- IASB and FASB commit to a global approach to enhance market confidence, rapid appointment of members of the advisory group and the organisation of three round tables
- IASB and FASB to create an advisory group to review reporting issues related to credit crisis
- IASB proposes improvements to financial instruments disclosures
- IASB provides update on applying fair value in inactive markets
- IASB issues amendments to permit the reclassification of certain financial instruments
- Trustees express their support of IASB's accelerated steps on the credit crisis
- IASB announces next steps in response to credit crisis
- IASB staff confirm clarification by the SEC staff and the FASB staff is consistent with IAS 39 *Financial Instruments: Recognition and Measurement*

- Additional Board meeting takes place to discuss amendments to IFRS 7 and Disclosures

September

- IASB organises round-table discussion of the revised staff proposal of an exposure draft on Consolidation
- IASB discusses a comprehensive package of proposed amendments to IFRS 7 *Financial Instruments: Disclosures*
- Following six panel meetings the IASB issues draft report from expert advisory panel and provides an update on response to the credit crisis

August

- Expert Advisory Panel on fair value in illiquid markets discusses a draft document summarising disclosure issues raised at previous meetings
- Expert Advisory Panel on fair value in illiquid markets discusses disclosure requirements regarding the measurement of financial instruments in illiquid markets

July

- Staff presents a first staff draft of an exposure draft of a standard on consolidation to the Board in its July meeting
- SAC meets to discuss the IASB's responses to the crisis (see Observer notes and listen to the MP3 recording of the debate)

June

- Expert Advisory Panel on fair value in illiquid markets meets for the first time (see also Meeting summaries)
- IASB forms an Expert Advisory Panel to identify valuation and disclosure issues in illiquid markets