



ED Financial Instruments: Classification and Measurement

IASC Foundation

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Timetable

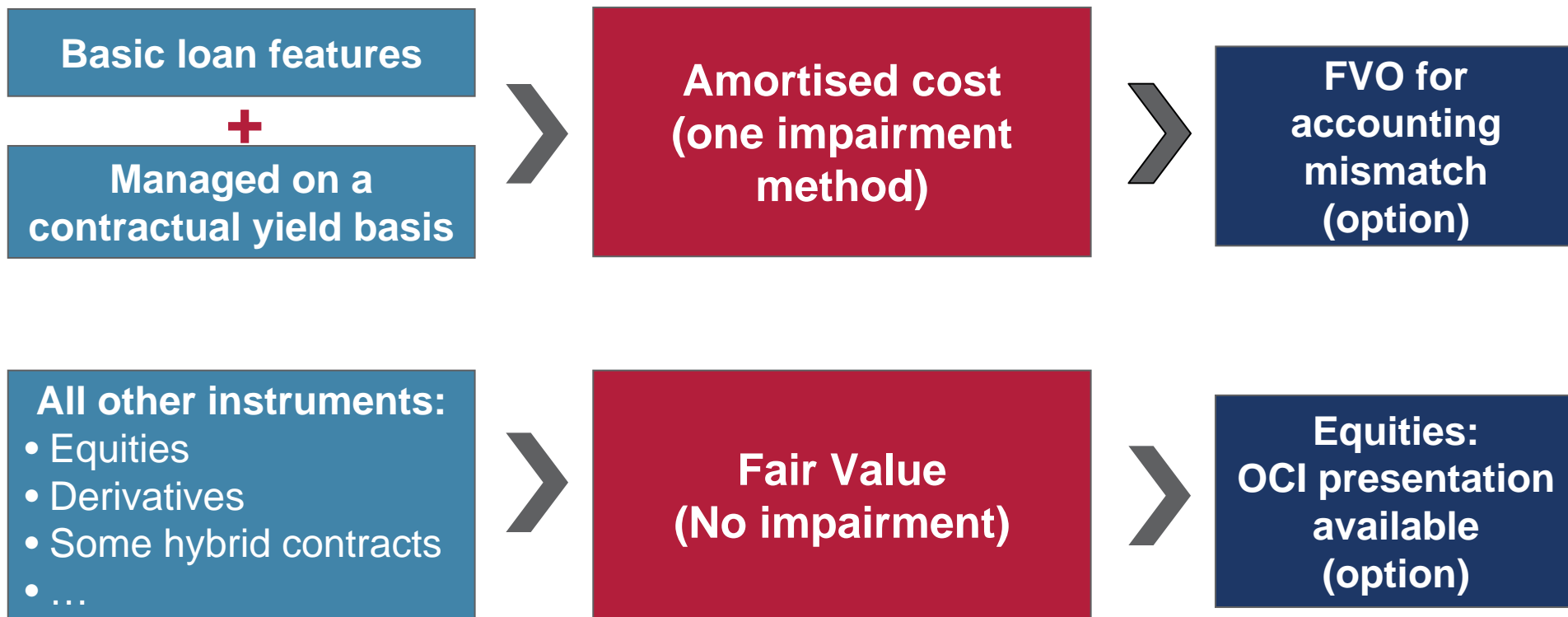
One project – three phases

Project phase	Exposure Draft	Finalisation
1. Classification and measurement	July 2009	In time for 2009 year end financial statements
2. Impairment methodology (Board deliberations ongoing)	October 2009	In 2010
3. Hedge accounting (Board deliberations not started yet)	December 2009	In 2010

* The above is in addition to a project on derecognition of financial instruments.
ED *Derecognition* was published in March 2009.



Overview of model



Amortised cost - Basic loan features

Basic loan features

+

Managed on a
contractual yield basis

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Basic loan features



Contractual terms that give rise to
payments of



Principal



Interest



Interest =
Consideration for
•time value of money
•credit risk



Amortised cost –Managed on a contractual yield basis

Basic loan features

+

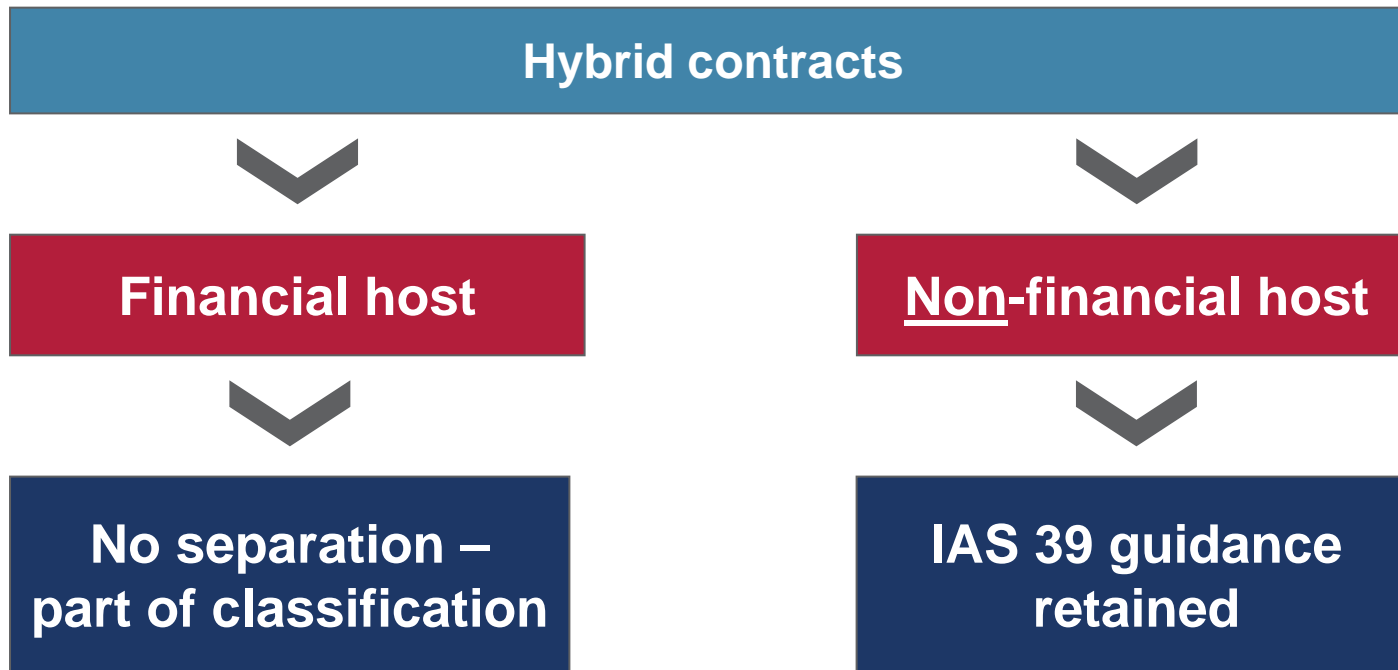
Managed on a contractual yield basis

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- If business model is
 - to manage & evaluate based on collection or payment of contractual cash flows generated when holding or issuing the instrument
 - not an instrument by instrument approach to classification
- No ‘tainting’ rules for assets at amortised cost
 - Gains or losses from derecognising such items to be presented separately with additional disclosures



Amendments to embedded derivatives



Alternative presentation of fair value changes in other comprehensive income (OCI)

- Scope – investments in equity instruments not held for trading
- Features:
 - option available instrument by instrument
 - no recycling, impairment or change in presentation
 - dividends recognised in OCI



Fair value option (FVO)

Fair value option available, if...

Accounting mismatch

~~Managed on fair value basis~~

~~Embedded derivative(s)~~

Not managed on a contractual yield basis = FV

Hybrid contracts with financial host classified in entirety





Examples...

– effect of applying classification and measurement approach



Held for trading



Fair value - with changes recognised in profit or loss
(no impairment)

Not held for trading



Fair value – irrevocable choice of recognising changes in profit or loss or OCI (no impairment)



AFS debt instrument (with basic loan features)

Managed on a contractual yield basis



Amortised cost (subject to impairment)
(FVO available if criteria met – then no impairment)

Not managed on a contractual yield basis



Fair value through profit or loss
(no impairment)



Debt instrument with embedded derivative features

Hybrid contract (as a whole) has basic loan features and is managed on a contractual yield basis



Whole instrument at amortised cost (subject to impairment)

All other hybrid contracts with financial hosts



Whole instrument at fair value through profit or loss (no impairment)



Transition

- Generally fully retrospective with some exceptions
- Early adopters subject to some additional disclosures

Effective date

- Available for voluntary application in 2009 year end financial statements
- Mandatory adoption – not before 1 January 2012



Project to replace IAS 39

Next steps

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