

The IASB's response to issues arising from the financial crisis

From the outset of the crisis, the IASB has worked on a defined programme with time lines to address issues related to financial reporting. A number of official bodies, including the Group of 20 (G20), the Financial Stability Board (FSB), the European Commission, and other stakeholder groups internationally have requested that the IASB respond to specific issues identified. Therefore, at the outset of the crisis and on a continuing basis, the IASB reassessed its existing work programme and accelerated its work on issues related to the financial crisis. The IASB has completed the requested actions on schedule or is in the process of meeting the announced time lines.

This paper summarises the status of the IASB's response and provides a timeline regarding the IASB's future work, particular in relation to the IASB's comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement*. Of particular importance to the FSB, the IASB has now proposed to accelerate a portion of its project to revise IAS 39. As part of that accelerated portion, the IASB is proposing that all the present impairment and recycling rules affecting available-for-sale securities would be eliminated. The IASB will issue a final standard related to the accelerated portion of the project by year-end. The new standard would respond to concerns raised by EU Finance Ministers, the European Commission, and other stakeholders related to the issues of impairment and classifications. At the same time, the IASB approach would address the call of G20 leaders call 'to reduce the complexity of accounting standards for financial instruments'

Steps taken to address issues raised on the global level

The IASB's initial financial crisis response focused on the three areas identified by the Financial Stability Forum (FSF, the FSB's predecessor): 1) the application of fair value in illiquid markets; 2) accounting for off-balance sheet items; and 3) disclosures related to risk. The IASB met the timelines set out by the FSF in 2008.

Fair value in illiquid markets: The FSF identified concerns regarding the application of fair value in illiquid markets. As a response to the request for guidance in this area, in May 2008, the IASB established an Expert Advisory Panel. The panel comprised experts from preparers and users of financial statements, as well as regulators and auditors. Participants were selected based on their practical experience with the valuation of financial instruments in the current market environment.

After a series of seven meetings and a round of public input, in October 2008, the IASB published its Expert Advisory Panel's report, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. In October, the IASB also indicated that IASB and FASB guidance were consistent.

Recently concerns were expressed about possible divergences in US generally accepted accounting principles (US GAAP) and International Financial Reporting Standards (IFRSs) after the April 2009 FASB Staff Position (FSP) on this topic. It is for this reason that immediately after the FASB's publication, the IASB posted a press release reiterating that our approach was consistent with the FASB's. As an extra precaution to ensure global

consistency is maintained, on 28 May 2009 the IASB published an exposure draft on fair value measurement that directly incorporates the relevant FASB guidance.

Off-balance sheet items: The FSF and the G20 have emphasised the importance of improving the transparency of accounting related to off-balance sheet items. The IASB has now published proposals related to off balance sheet items (consolidation in December 2008 and derecognition in March 2009).

Recently, the IASB held round tables on the consolidation and derecognition proposals, in conjunction with the FASB, in London, Toronto, and Tokyo. Using the information gained from those round tables and the comments received on the proposals, the IASB will advance its proposals. The IASB plans to finalise the consolidation standard by the end of 2009 and the derecognition standard in early 2010.

Disclosures related to risk: The FSF recommended improved disclosures related to risk. In March 2009 the IASB published improvements to the disclosure requirements about fair value measurements and reinforced existing principles for disclosures about the liquidity risk associated with financial instruments.

Reducing complexity of accounting for financial instruments

At the 2 April 2009 summit, the G20 leaders called for accounting standard-setters 'to reduce the complexity of accounting standards for financial instruments'. The IASB had already committed itself to achieving that objective, but the call for a common global approach from the G20 has provided impetus to the IASB's efforts and highlights the urgency of the project.

On 1 April, the IASB announced that it would undertake an urgent six-month comprehensive project to produce a proposal aimed at a comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement*. In making this announcement, the IASB was building on existing work undertaken by both the FASB and the IASB. In March 2008 the IASB and the FASB issued for comment a discussion paper Reducing Complexity in Reporting Financial Instruments in March 2008. The comment period had ended on 19 September 2008.

While the IASB is still committed to making any changes in financial instruments accounting as part of its comprehensive review, the recent US FSP regarding impairment required the IASB to accelerate the timing of the approach announced on 1 April. A number of key parties had expressed concern regarding the timing of the IASB's response and the possibility of competitive distortions resulting from the FSPs.

Therefore, the IASB has now prioritised the portion of the comprehensive project concerning classification, measurement, and related impairment issues. The IASB will issue a final standard related to the prioritised portion of the IAS 39 replacement by year-end for use in 2009 financial statements.

The proposal being considered is to use as a starting point the classification approach for financial instruments in the forthcoming IFRS for small and medium sized entities (SMEs), which significantly reduced the complexity of financial instrument accounting. The proposal being considered is to simplify the requirements by reducing the number of categories of financial assets and liabilities to two (fair value and amortised cost) and to only use one impairment approach (today, several approaches are used). One outcome of this simplification would be that all the present impairment and recycling rules relating

specifically to available for sale financial assets would be eliminated. Furthermore, anticipating a problem that will arise in the future, the IASB is considering proposing that the restrictive tainting rules affecting held to maturity assets be replaced by simply showing the gains and losses on sales of financial instruments measured at amortised cost separately from other gains and losses.

There are several benefits resulting from the IASB's acceleration of this portion. First, though mandatory implementation could be in 2010 or later, the IASB will make its solution, which will be completed this year, available for year end 2009 financial statements. Second, the new approach will reduce complexity by reducing the number of categories of financial assets and the variety of impairment rules, thereby addressing the G20's recommendation. Third, the IASB's approach provides a lasting solution to the contentious issues of IAS 39, thereby avoiding the confusion and cost that would arise from repeated changes in reporting requirements. Fourth, the IASB's solution for year end 2009 responds to concern raised by the European Union and other parties on specific issues.

To complete this accelerated portion of the IAS 39 revision, the IASB will publish an exposure draft in July 2009. The exposure draft will be open for two months to public comment to ensure conclusions follow a transparent and open due process that considers the views of all stakeholders. Additional board meetings have already been held, and will continue to be scheduled as required to complete the project in time for 2009 financials.

Additionally, this accelerated portion of the project will tie into the IASB's efforts to publish proposals on the remaining portion of the comprehensive review of IAS 39 in 2009. The revisions will respond to other issues raised by the G20, the FSB, and securities regulators.

Provisioning, including consideration of an expected loss model. The IASB is working closely with the Basel Committee on Banking Supervision on provisions. The IASB is now meeting with prudential supervisors who have implemented dynamic provisioning, and is working with financial institutions to test the feasibility of approaches to an expected loss model. The IASB will publish initial proposals on its website in June to seek input regarding feasibility of an expected loss model before issuing an exposure draft in October.

Hedge accounting. The IASB will publish an exposure draft on hedge accounting by the year end.

Fair value gains related to own credit risk. In June the IASB will publish an Invitation for Comment on the issue of the effects of fair value gains arising from changes in a company's own credit risk.

Consultation with the official community

Building off the work of the Financial Crisis Advisory Group, the IASB is now seeking an enhanced global engagement with prudential supervisors, in addition to its regular consultations with securities regulators and other interested parties. The crisis has highlighted the interdependence of accounting and prudential regulation, and the need to ensure that this is properly reflected in the process of creating standards. Many of the issues now under consideration regarding IAS 39 are in areas that primarily affect financial institutions.

The IASB wishes to ensure that any changes provide transparency to investors and take into account the needs of supervisors and regulators. At the same time, the IASB understands the

relevance of this issue as policymakers consider their response to the crisis and want to ensure that we are working together and communicating to reinforce market confidence.

For this reason, the IASB is working with prudential supervisors and the FSB to establish a mechanism to receive the input of prudential supervisors on financial reporting for financial institutions. This mechanism would provide a forum in which all relevant issues can be raised and direct consultation can take place.