



Project	<b>Financial Instruments: Recognition and Measurement</b>
Topic	<b>Cover note</b>

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## Introduction

### *Background*

1. At the 1<sup>st</sup> and 5<sup>th</sup> June 2009 meetings, the IASB discussed the model for classification of financial instruments to be proposed in the exposure draft (the 'ED'). It further discussed possible approaches to transition.
2. With regard to the classification model the Board reaffirmed its tentative decision to propose a model with the following features:
  - (a) all financial instruments within the scope should be measured at either amortised cost or fair value;
  - (b) financial instruments qualify for amortised cost measurement if they have basic loan features and are managed on a contractual yield basis (subject to further consideration of embedded derivatives with financial hosts including the effect of credit concentrations – see below);
  - (c) no reclassifications between these measurement bases will be permitted after initial recognition;
  - (d) no tainting requirements, but gains and losses on sales of instruments measured at amortised cost to be separately presented;
  - (e) retain a fair value option to eliminate or significantly reduce accounting mismatches;

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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

- (f) the guidance on separation of embedded derivatives for financial hosts will either be retained, or the classification criteria will be further considered<sup>1</sup>; and
  - (g) a principle should be established to identify equity instruments whose fair value changes should be recognised in other comprehensive income (OCI). If such a principle is used the issue of whether to require reclassifications should the circumstances relevant for the application of the principle change after initial classification shall be reconsidered.
3. Further, the Board tentatively agreed that the ED proposes retrospective application of the requirements, subject to further analysis.
  4. Finally, the Board tentatively agreed that the ED proposes to eliminate the cost exemption for some unquoted equity instruments and related derivatives.

### **Papers to be discussed at the June main meeting**

5. The following papers are **follow up papers** as a result of the Board's discussions over the last meetings:
  - (a) Agenda paper 3A – **Classification (including embedded derivatives with financial hosts)**
  - (b) Agenda paper 3B – **Equity instruments: OCI method**
  - (c) Agenda paper 3C – **Transition: retrospective application**
  - (d) Agenda paper 3D – **Fair value option**

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<sup>1</sup> The Board tentatively decided not to propose changing the embedded derivative requirements in IAS 39 for non-financial host contracts.

## IASB Staff paper

6. The following papers address **new topics** for deliberation by the Board:
  - (a) Agenda paper 3E – **Consequential amendments to IFRS 1**
  - (b) Agenda paper 3F – **Consequential amendments to IFRS 7**
  - (c) Agenda paper 3G – **Sweep issues** (as required)
7. To meet the timeline for the exposure draft it is important that any issues Board members identify when reading the papers are raised with the staff as soon as possible and preferably in advance of the Board meeting.