

June 2009

International Financial Reporting Standards



Financial Instruments Recognition and Measurement: Replacement of IAS 39

June 23 2009 Project Update

IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB



Timetable

One project – three stages

Project stage	Exposure Draft	Finalisation
1. Classification and Measurement (Board deliberations ongoing)	July 2009	In time for year end financial statements 2009
2. Impairment (Board deliberations ongoing)	October 2009	Full replacement of IAS 39 during 2010
3. Hedge Accounting (Board deliberations not started yet)	December 2009	Full replacement of IAS 39 during 2010



Classification and measurement

Overview of approach considered

Amortised cost

- Basic loan features &
- Managed on contractual yield basis
- (No tainting and no need to assert intent and ability to HTM)

Fair Value

- All other instruments
- elective OCI presentation available for equity investments not held for trading
- Fair value option for mismatches



Approach considered for embedded derivatives

- Embedded derivatives with financial hosts
 - Bifurcation of embedded derivatives will be eliminated
 - **One classification approach (excluding hybrids with non-financial hosts)**
 - Also applied to concentration of credit risk
- Embedded derivatives with non-financial hosts
 - not addressed at this stage



Approach considered for presentation in other comprehensive income (OCI)

- Scope – available for all equity instruments that are not held for trading
- Characteristics:
 - Optional instrument by instrument
 - No recycling, impairment or change in presentation
 - Dividends recognised in OCI



Approach considered for fair value option (FVO)

- **FVO for accounting mismatches only**
- The classification approach being considered makes two of the existing FVO criteria irrelevant
 - instruments that have basic loan features and are managed on a contractual yield basis measured at amortised cost
 - embedded derivative accounting is eliminated for hybrid contracts with financial hosts



Classification and measurement

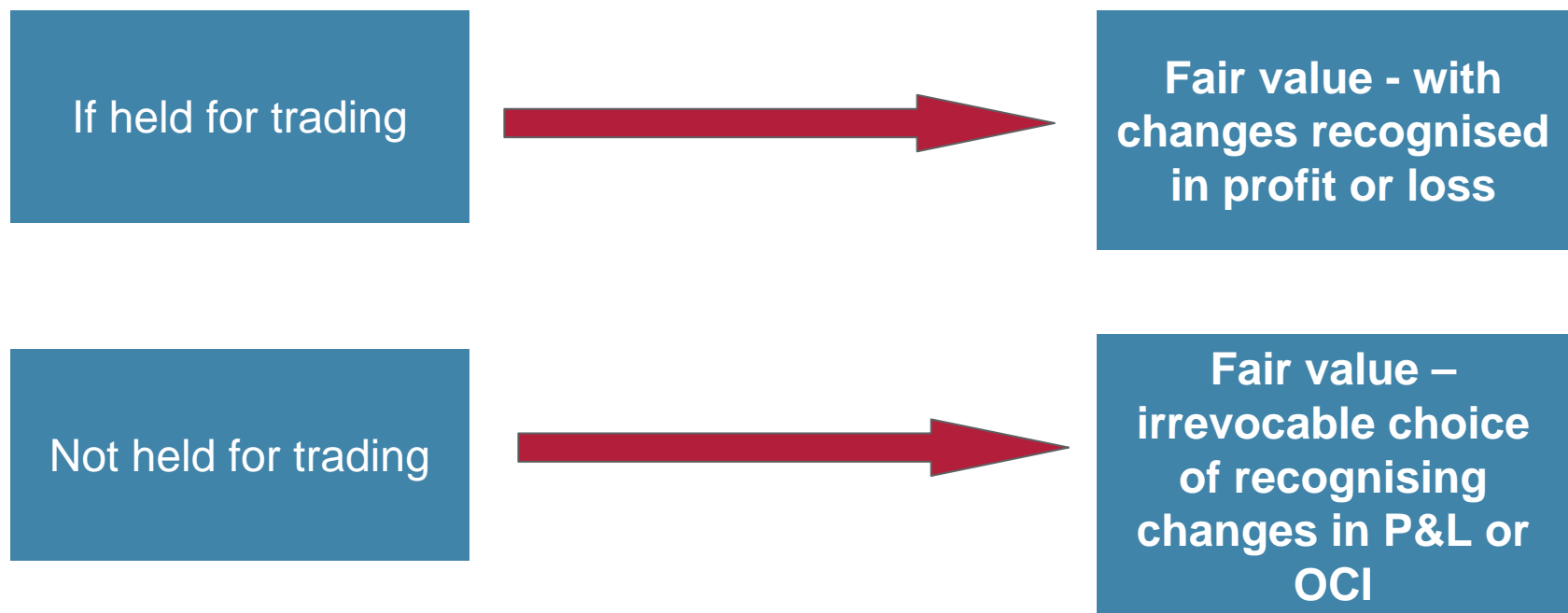
What would this approach change?

IAS 39	Approach being considered
Many classification categories eg held to maturity investments, available for sale financial assets, loans and receivables, fair value through profit and loss...all with different measurement methods	Two measurement methods: Fair value or Amortised cost Elective presentation of fair value changes of equity instruments in OCI (unless held for trading) with no recycling or impairment requirements
Tainting rules for held to maturity category	No tainting rules or need to assert HTM
Cost exemption for unquoted equity instruments and related derivatives	No cost exemption
Reclassification under certain circumstances	No reclassification
Hybrid instruments are assessed for embedded derivatives which may result in bifurcation of the hybrid instrument into a derivative financial instrument and a non-financial host	No bifurcation of embeddeds for financial hosts – use classification categories above Retain existing requirements for non-financial hosts



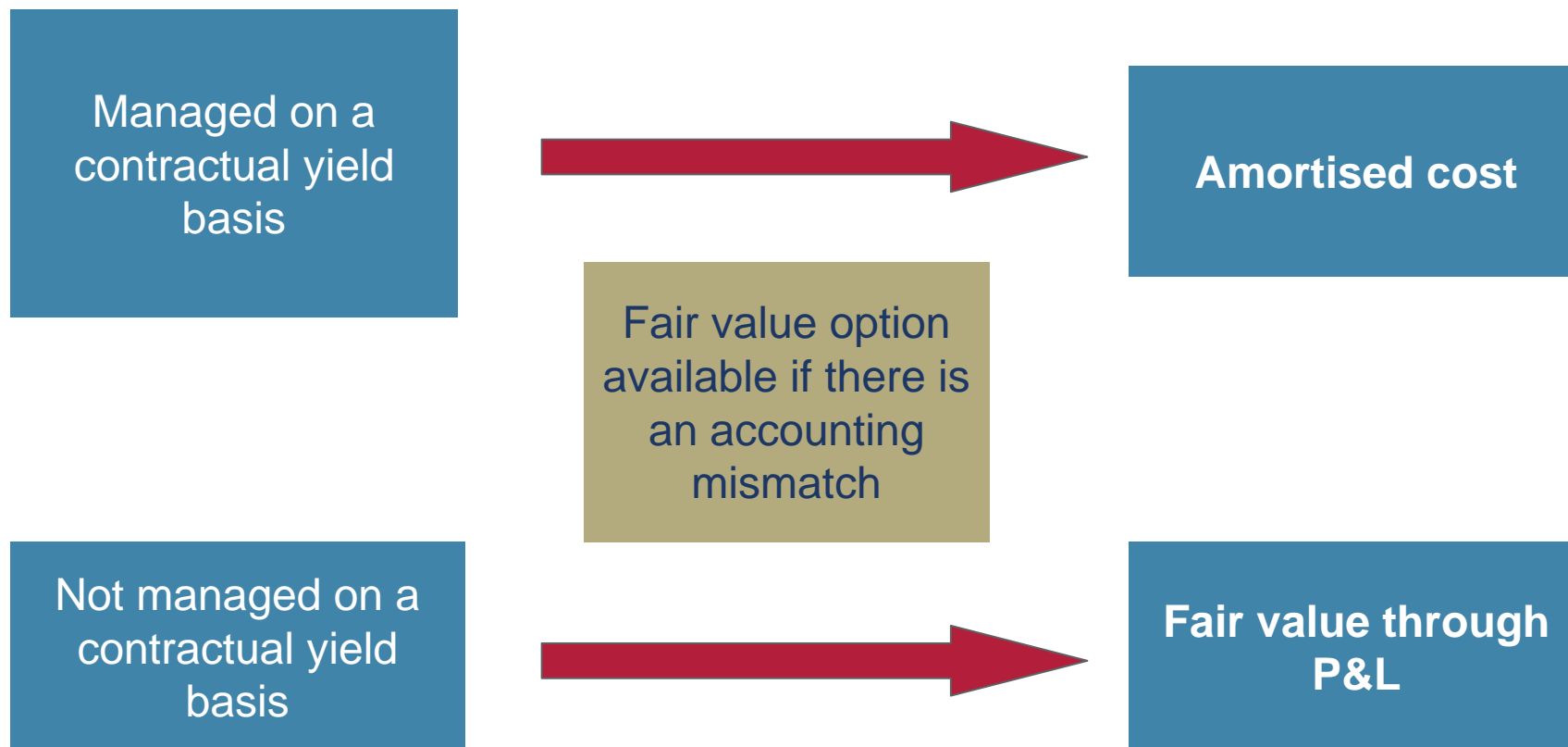
Example 1 – effect of classification and measurement being discussed

AFS equity instrument – changed to:



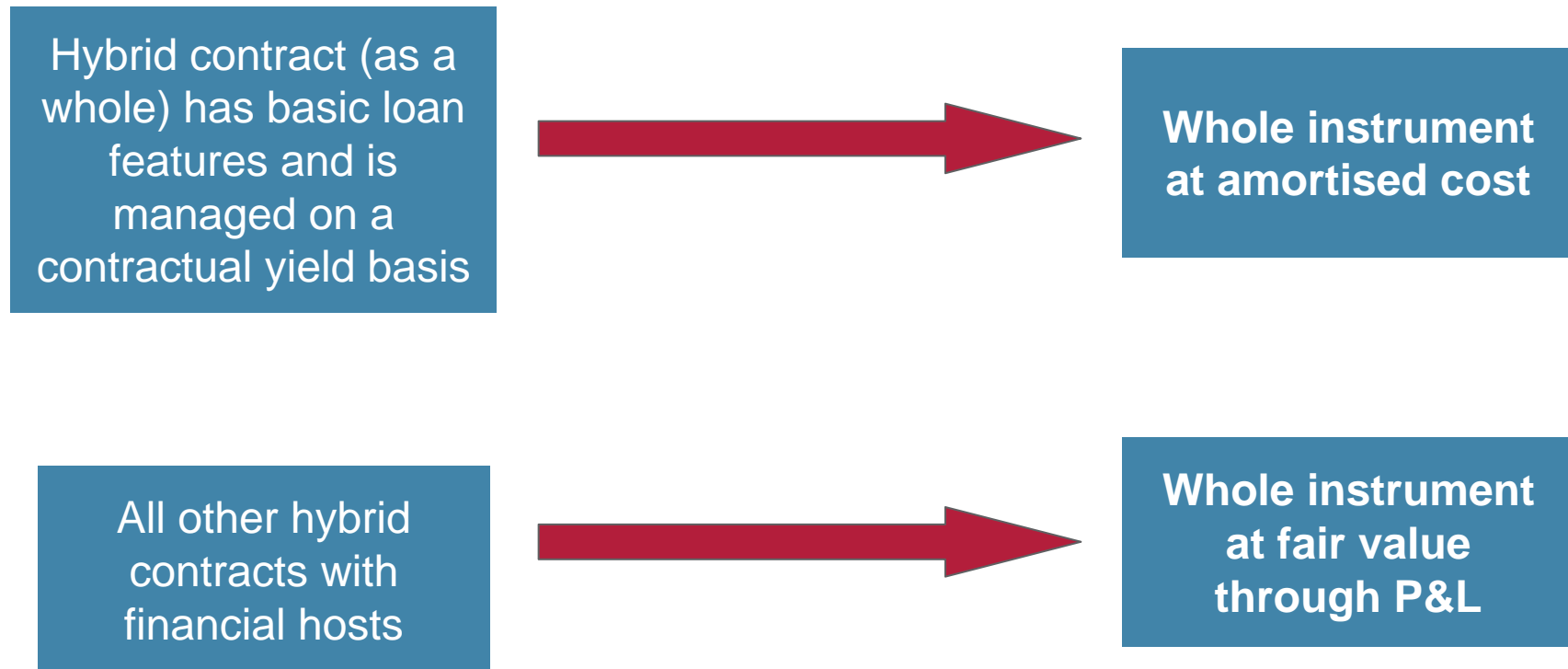
Example 2 – effect of classification and measurement being discussed

AFS debt instrument (basic loan features):



Example 3 – effect of classification and measurement being discussed

Debt instrument with embedded derivative features:



Approach considered for transition and effective date

- Retrospective, but with some transition reliefs
 - On adoption assets and liabilities will be classified under the new criteria – so reclassification required
- Likely mandatory date for adoption – not before 1 January 2012
- Available for 2009 year end financial statements



Classification and measurement

Possible alternative features discussed

Same as approach considered, except:

- Two measurement models applied:
 - Fair value in balance sheet, except loans & receivables
 - Amortised cost in P&L for basic loan instruments managed on contractual yield basis, with OCI the balancing item



Impairment

Where have the IASB got to?

- IASB has already had extensive discussions about a possible expected loss impairment approach
 - included discussions with some interested stakeholders
- Education sessions conducted – presentations on operational aspects of expected loss impairment and dynamic provisioning
- Wider consultation needed given the significant impact any proposed change could have
 - Request for initial input via website posting
- IASB will issue ED in October 2009



Replacement of IAS 39

Outlook and associated areas

- Classification and measurement ED in July 2009
- Invitation to comment on own credit risk in liability measurement
 - Comment period until 1 September 2009
- Request for information on feasibility of an expected cash flow approach to impairment
 - To be posted on the IASB website by end of June 2009

