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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**17 March 2009, London**
Project:	**Financial Instruments–Recognition and Measurement**
Subject:	**Financial Instruments– Additional approach (Agenda paper 5A)**

Introduction

1. Paper 5 describes two approaches to changing impairment requirements for *debt securities* that the FASB will discuss at its meeting on 16 March 2009. Approaches A and B (and its variants, B1 and B2).

2. This paper describes an additional approach that will be considered – Approach C. Approach C would apply to both *debt and equity securities.*

Approach C

3. Approaches A and B would change the presentation of an other-than-temporary impairment, but the balance sheet and total comprehensive income would not change. However, Approach C would change the method for determining whether an other-than-temporary impairment exists.

4. Instead of assessing whether an entity has the ability and intent to hold a security to recovery, the entity would be required to assess whether it intends to sell the security or whether it its more-likely-than-not that it will be required to sell the security prior to recovery of its cost basis. If the entity intends to

sell the security or it is more-likely-than-not that the entity will be required to sell the security prior to recovery of its cost basis, the entire impairment would be recognized as an other-than-temporary impairment in earnings, regardless of the amount of the impairment that relates to credit losses (for a debt security). If the entity does not intend to sell the security and it is not likely that the entity will be required to sell the security prior to recovery, the security would not be considered other than temporarily impaired unless there are credit losses associated with the debt security. If such credit losses exist, only the amount of the total impairment charge related to credit losses would be recognized in earnings. The remainder of the impairment would be recognized as part of other comprehensive income.

5. Under Approach C, subsequent changes in the fair value of an available-for-sale security for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income would be reflected in other comprehensive income as unrealized gains or losses unless there is an indication of additional credit losses, the entity intends to sell the security, or the entity can no longer assert that it is more-likely-than-not that the entity will not be required to sell the security prior to recovery.