Project	**Financial Instruments: Recognition and Measurement**
Topic	**Unquoted equity instruments: elimination of cost exception**

Objective of the paper

1. **This paper continues the discussions on the elimination of the cost exception for some unquoted equity instruments and related derivatives as proposed in ED/2009/7 *Financial Instruments: Classification and Measurement* ('the ED').**

2. The staff notes that we need a decision from the Board in order to start drafting the final IFRS.

Alternatives for the Board

3. At the additional meetings on the 22nd and 29th of September 2009 the Board discussed the proposed elimination of the existing cost exception in IAS 39 *Financial Instruments: Recognition and Measurement*. However, the tentative decisions made were not conclusive.

4. The staff believes the alternatives available have been presented and discussed extensively in the previous meetings. Hence, we refer to the agenda papers for an overview of the alternatives[1].

5. The staff believes the Board has two choices to address the current cost exception:

[1] Agenda paper 2 of the 22 September 2009 meeting and agenda paper 4 of the 29 September 2009 meeting.

(a) **<u>eliminate</u> the cost exception <u>as proposed</u> in the ED**[2]

(b) **<u>retain</u> a cost exemption if it is <u>impracticable</u> to determine fair value for investments unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such equity instruments. An impairment test based on the 'value in use'-approach in IAS 36 *Impairment of Assets* would be required.**[3]

6. The staff notes that alternative (b) includes particular derivatives over unquoted equity instruments where it is impracticable to determine fair value. That is different from the original staff recommendation at the 29 September meeting. After further discussions with Board members, we believe it is appropriate to extend the exemption to this type of derivatives.

7. **The staff recommends alternative (b).**

Cost exemption
Does the Board agree with the staff recommendation to retain a cost exemption if it is impracticable to determine fair value for investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such equity instruments (subject to an IAS 36 impairment test)? If not, what does the Board wish to do, and why?

8. **If the Board <u>does not agree with either of proposed alternatives</u>, we think the Board should keep the current cost exception in IAS 39.**

[2] This is the original staff recommendation as set out in agenda paper 2 of the 22 September 2009 meeting.

[3] This is the staff recommendation as set out in agenda paper 4 of the 29 September 2009 meeting modified to include physically settled derivatives that have such unquoted equity instruments as underlying.