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International
Accounting Standards
Committee Foundation

This document is provided as a convenience to observers at IASCF meetings, to assist them in following the discussion.

INFORMATION FOR OBSERVERS

IASCF Trustees Meeting
New York, 7 October 2009

REPORT OF THE IASB CHAIRMAN

Agenda Paper 1

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.

Furthermore, consistent with G20 recommendations, the IASB has deepened its engagement with its stakeholders and its taking account of the Basel Committee guiding principles and the report of the Financial Crisis Advisory Group (FCAG). While recognising the IASB's commitment to investors as the primary users of financial information, the IASB, amongst other actions, has already established an enhanced technical dialogue with prudential supervisors, market regulators and other stakeholders. This dialogue will ensure their deeper input in the development of new standards. The first meeting of this enhanced technical dialogue occurred on 27 August in London. The IASB is also meeting regularly with the Basel Committee and is a member of the Financial Stability Board (FSB), where financial reporting issues are regularly discussed. The IASB participated in the FSB meeting in Paris on 15 September.

This paper summarises the status of the IASB's response and provides a timeline regarding the IASB's future work, particularly in relation to the IASB's comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement*. As the Trustees know, the IASB has accelerated a portion of its project to revise IAS 39. As part of that accelerated portion, the IASB published an exposure draft, *Financial Instruments: Classification and Measurement*. 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 classifications and the associated impairment problems. 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. The public comment period ends on 28 September 2009.

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. There is a general sense among participants in the round tables and commentators on the consolidation proposals that the IFRS standards in these areas fared well, but could be improved in the process of bringing about convergence with US GAAP. 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 2010.

Recently, in the context of the G20 and FSB discussions, stakeholders have raised a couple of issues regarding the IASB's proposals:

- differences in accounting requirements of the IASB and FASB for netting/offsetting of assets have an impact in the calculation of a banks' total assets and thus potentially effect capital ratio, if prudential supervisors do not make appropriate adjustments.
- concern that the proposal would require repurchase agreements to be treated as sales and forward contracts in certain situations (thus leading to off-balance sheet treatment), instead of as financing transactions on the balance sheet, as under current IASB and FASB standards and under FASB's new derecognition standard.

The IASB will examining both issues as it considers the comments received in response to its proposals and at the round tables.

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 for that document 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 and published its exposure draft on those topics in July. The IASB will issue a final standard related to the prioritised portion of the IAS 39 replacement by year-end that will be available for use in 2009 year-end financial statements. A snapshot of the proposal is included as part of the meeting's materials.

There are several benefits resulting from the IASB's acceleration of this portion. First, though mandatory implementation could begin in 2012, 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 classification categories of financial assets and the associated different 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.

The exposure draft comment period closed on 14 September 2004. 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 (see below) in 2009. The revisions will respond to other issues raised by the G20, the FSB, and securities regulators.

The Trustees should be aware that the G20 Finance Ministers recently stated, "Within the framework of the independent accounting standard setting process, the IASB is encouraged to take account of the Basel Committee guiding principles on IAS 39 and the report of the Financial Crisis Advisory Group." The IASB believes that the proposals are consistent with the view of many stakeholders, including the Basel Committee, that cost-based accounting is appropriate for some categories of financial instruments. In making their proposals and in order to provide transparency and reflect economic reality, the IASB's emphasis has been to define in a balanced and transparent way the appropriate criteria for classifying instruments to be measured at cost and fair value—not to increase or decrease arbitrarily the use of fair value. Whether there is a decrease or an increase of fair value will depend on a particular institution's business model and holdings. The IASB is not proposing that the loan book of banks will be held at fair value.

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. In June 2009 the IASB published a Request for Information on the feasibility of an expected loss model for the impairment of financial assets, and has held numerous detailed discussions with banks, insurers, regulators and others about the feasibility of such an approach.

Hedge accounting. The IASB will publish an exposure draft to improve and simplify hedge accounting by the year end.

Fair value gains related to own credit risk. In June the IASB published an Invitation for Comment on the issue of the effects of fair value gains arising from changes in a company's own credit risk. This issue will be considered in finalising the standard on classification and measurement.