



Project	Financial Instruments: Replacement of IAS 39
Topic	Classification and measurement: classification conditions—cover paper

Introduction

1. This set of papers assumes that the Board agreed with the staff recommendation in agenda paper 2. As a result, these papers discuss both assets and liabilities. If the Board decided in agenda paper 2 to address only assets, these agenda papers are still relevant but, of course, the analysis and discussion will be limited to assets.

Purpose of agenda papers 3A and 3B

2. Agenda paper 7A, which was discussed on 18 September, set out a strategy for re-deliberations. Consistent with that project plan, the first topic that we will present to the Board for re-deliberation is the proposed classification conditions. That is, we will discuss how to make “the cut” between those instruments that should be measured at fair value through profit or loss (FVTPL) and those that should not.
3. Agenda paper 3A discusses *basic loan features* and agenda paper 3B discusses *managed on a contractual yield basis*.
4. **The objective of these agenda papers is to discuss whether the conditions proposed in the exposure draft (reproduced in paragraph 1 of agenda paper 2) are appropriate to identify the instruments that should not be**

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.

measured at FVTPL—or whether other conditions would be more appropriate.

5. **Most respondents supported the proposed conditions—that is, they supported an approach that determines classification on the basis of contractual terms of the instruments and how an entity manages the instrument. As a result, these papers primarily focus on how to better articulate the conditions and enhance them with additional examples.**
6. The conditions proposed in the exposure draft (ED) identify the instruments that should **not** be measured at FVTPL. In other words, they identify instruments that are sufficiently basic or “vanilla” such that they do not have to be measured at FVTPL. This set of agenda papers continue to focus on identifying those vanilla instruments.
7. **This set of papers do not discuss:**
 - (a) the interaction between the two conditions—eg whether (i) one condition should have primacy over the other or (ii) one condition needs to be (or should be) applied first;
 - (b) measurement issues related to more complex instruments—eg hybrid contracts, structured debt, contractually subordinated interests, or assets acquired at a discount that reflects incurred credit losses;
 - (c) what the measurement category should be if an instrument is not measured at FVTPL— ie what the “other” measurement category should be (amortized cost or fair value through other comprehensive income (OCI)); or
 - (d) whether there should be exceptions to the approach—ie an option whereby fair value changes for particular instruments would be presented in OCI.
8. Those issues will be discussed in subsequent agenda papers.

Structure of agenda papers 3A and 3B

9. Each paper sets out:
- (a) a brief summary of the proposal in the ED
 - (b) feedback on the proposed condition (including input received in the comment letters and during other outreach activities)
 - (c) possible modifications of the proposed condition and alternative conditions that could be used (including the FASB's proposed conditions)
 - (d) a staff recommendation and a question to the Board.

Relevant questions in the ED

10. Questions 2 and 3 in the ED asked respondents about those two conditions:

Question 2

Do you believe that the exposure draft proposes sufficient, operational guidance on the application of whether an instrument has 'basic loan features' and 'is managed on a contractual yield basis'? If not, why? What additional guidance would you propose and why?

Question 3

Do you believe that other conditions would be more appropriate to identify which financial assets or financial liabilities should be measured at amortised cost? If so,

- (a) what alternative conditions would you propose? Why are those conditions more appropriate?
- (b) if additional financial assets or financial liabilities would be measured at amortised cost using those conditions, what are those additional financial assets or financial liabilities? Why does measurement at amortised cost result in information that is more decision-useful than measurement at fair value?
- (c) if financial assets or financial liabilities that the exposure draft would measure at amortised cost do not meet your proposed conditions, do you think that those financial assets or financial liabilities should be measured at fair value? If not, what measurement attribute is appropriate and why?