IASB/FASB joint meeting

Staff Paper

IASB Agenda Paper No.	**10**
FASB Memo No.	**28**
Date	**January 2010**

Project	**Financial instruments – Replacement of IAS 39**
Topic	**Classification and measurement: financial liabilities**

Background

1. The IASB and the FASB are committed to improve and simplify the reporting for financial instruments. While the boards' aim is to achieve a solution that provides comparability internationally, those efforts have been complicated by the differing project timetables established to respond to the respective stakeholder groups.

2. The IASB received requests, including from G20 leaders, that the Board take action by the end of 2009. To achieve this, the IASB divided its project into three phases—(a) classification and measurement, (b) impairment methodology, (c) and hedge accounting.

3. Related to the classification and measurement phase, in July 2009 the IASB published an exposure draft *Financial Instruments: Classification and Measurement*. IFRS 9 *Financial Instruments* followed in November 2009 and applies to all financial assets within the scope of IAS 39.

4. The FASB decided that it is important to its constituents to be able to comment on a proposed standard including classification, measurement, impairment, and hedge accounting at the same time. The Board expects to publish an exposure draft by the end of March 2010. A summary of the FASB's tentative decisions to date is available on the FASB's website.

This paper has been prepared by the technical staff of the IASCF and the FASB for discussion at a public meeting of the IASB or the FASB.

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Purpose of this paper

5. At the December 2009 joint meeting, the boards reiterated their commitment to reaching a converged solution and confirmed that they would discuss jointly the issues related to the classification and measurement of financial liabilities (among other topics).

6. Both boards recently have discussed financial liabilities but the boards have **not** deliberated **jointly**. As a result, the boards have discussed different topics and, in some cases, have expressed different leanings or made different tentative decisions.

7. As a result of those differences, we think it is important that each board is up-to-speed on the other's previous discussions before beginning joint deliberations. Therefore we have prepared agenda papers 10A and 10B, which summarize each board's respective discussions to-date:

   (a) **Agenda paper 10A** summarizes the IASB's discussions; and

   (b) **Agenda paper 10B** summarizes the FASB's discussions

8. These papers are for educational purposes only. They do not have any questions for the boards. Additionally, the appendices for agenda paper 10A (distributed as a separate document) include additional background reading (eg previous agenda papers on issues related to financial liabilities), which Board members may find helpful.

High level observations about the boards' discussions

9. To help board members compare and contrast the decisions made to date, we have made a couple high level observations. This is **not** a detailed analysis of the differences and similarities.

Symmetry between financial assets and financial liabilities

10. In general, the FASB has reached tentative decisions that would result in a symmetrical classification approach for financial assets and financial liabilities (there is a limited exception for particular liabilities). That is, how a liability is

subsequently accounted for would be determined using the same criteria that are used to determine how an asset is subsequently accounted for.

11. In contrast, while the exposure draft proposed a symmetrical approach, the IASB did not finalize that approach in IFRS 9 and has received almost unanimous feedback that a symmetrical approach is not necessary and is unlikely to result in useful information about financial liabilities. The approaches described in agenda paper 10A, which have been discussed during our outreach meetings, would not (to varying degrees) result in a symmetrical classification approach for financial assets and financial liabilities.

How liabilities would be subsequently measured (the "remeasurement buckets")

12. Under the FASB's tentative approach, financial liabilities would be subsequently measured at **fair value**. Changes in fair value would be recognized in either net income (eg derivative liabilities) or other comprehensive income (eg "vanilla" issued debt that the entity will hold to maturity to pay the contractual cash flows.) The FASB's approach would allow for a **limited amortized cost** measurement option for particular liabilities (this option is described in agenda paper 10B).

13. Under the IASB's tentative approach some financial liabilities would be measured at **fair value** (eg derivative liabilities) and some would be measured at **amortized cost** (eg "vanilla" issued debt that the entity will hold to maturity to pay the contractual cash flows). In addition to those two measurement attributes, the IASB has discussed other measurement methods to address the issue of own credit risk (eg, the "frozen credit spread" measurement method or bifurcation) for "non-vanilla" liabilities that the entity holds to pay the contractual cash flows. (Those other measurement methods are described in agenda paper 10A.)

Next steps

14. To meet the timeline discussed by the boards in December 2009, we intend to have extra board meetings during the first quarter of 2010. We anticipate that the first decision-making meeting will be in late January or early February.

15. At that meeting, we will ask the boards to discuss the different measurement attributes that may be appropriate for financial liabilities (ie **how** should financial liabilities be measured?). Agenda papers 10A and 10B discuss some attributes that the boards may decide are appropriate.

16. At subsequent meetings, we will ask the boards **which** liabilities should be measured at each measurement attribute (for example, **when** should a liability be measured at amortized cost?).