IASB meeting

Staff Paper

IASB Agenda Paper No.	**14C**
Board meeting date	**Week beginning 15 March 2010**

Project	**Financial instruments: classification and measurement of financial liabilities**
Topic	**Other issues**

Purpose of this paper

1. The Board has discussed all of the major issues related to its proposed approach for the classification and measurement of financial liabilities.

2. **The purpose of this paper is to discuss two remaining "sweep" topics:**

   (a) reclassification between amortized cost and fair value; and

   (b) measurement of particular loan commitments and financial guarantee contracts

3. We recommend that the Board retain the existing requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for those two topics. Our recommendation is consistent with the Board's proposal to effectively retain the measurement requirements in IAS 39 for financial liabilities (except for some proposed changes to the fair value option).

Reclassification

IAS 39

4. Paragraph 50 of IAS 39 **prohibits** reclassification for financial liabilities.

5. While the issue of reclassification of financial **assets** has been a "hot topic" recently and many constituents have told the Board that an entity should be able

to reclassify particular assets in particular circumstances[1], we are **not** aware of similar views or requests related to financial **liabilities**.

Exposure draft "Financial Instruments: Classification and Measurement"

6. The exposure draft proposed to prohibit reclassification between amortized cost and fair value for both assets and liabilities. The Board's rationale for that proposal is set out in paragraphs BC55–BC59 of the exposure draft. Most respondents disagreed with that proposal, but consistent with the views expressed related to IAS 39, respondents seemed to focus on reclassifying financial **assets**.

7. The Board was persuaded by the feedback received, and thus, IFRS 9 requires reclassification of financial assets if the entity's business model for managing its assets changes. The Board's rationale for that requirement is set out in paragraphs BC65–BC74 of IFRS 9.

Staff recommendation

8. **We recommend that the Board carry forward the requirements in IAS 39 and prohibit reclassification of financial liabilities between amortized cost and fair value.**

9. As mentioned above, we are **not** aware of any requests or views that support reclassification of financial liabilities.

[1] For example, in October 2008 the IASB amended IAS 39 to address differences between the reclassification requirements for financial assets in IFRS and US GAAP.

Question 1: reclassification
Does the Board agree with the staff recommendation in paragraph 8?   If not, what does the Board want to do instead and why?

Loan commitments and financial guarantee contracts

IAS 39

10. Paragraph 2(e) and 2(h) of IAS 39 discuss which loan commitments and financial guarantee contracts are within the scope of that standard. Paragraph 47 discusses how to subsequently measure liabilities that are within the scope of IAS 39.

Exposure draft "Financial Instruments: Classification and Measurement"

11. The exposure draft carried forward the scope of IAS 39 **and** the requirements for loan commitments and financial guarantee contracts. (IFRS 9 also carried forward the scope of IAS 39 but financial liabilities are not within the scope of that IFRS.)

Staff recommendation

12. **We recommend that the Board carry forward the subsequent measurement requirements in IAS 39 for loan commitments and financial guarantee contracts.**

13. The Board has committed to re-consider all aspects of IAS 39. Therefore we think that the Board will discuss the issue of scope, which will include a discussion of **which** loan commitments and financial guarantee contracts will be within the scope of IFRS 9. Also the Board's work on phase II of the insurance project may affect which financial guarantee contracts are within the scope of the financial instruments standard.

14. We recommend that the Board retain the guidance in IAS 39 until it comprehensively addresses the scope of IFRS 9.

Question 2: loan commitments and financial guarantee contracts
Does the Board agree with the staff recommendation in paragraph 12? If not, what does the Board want to do instead and why?