Project	**Fair value option for financial liabilities**
Topic	**Cover paper**

Background

1. At the July meeting the Board discussed a paper containing a summary of comment letters received on the proposals in the exposure draft *Fair Value Option for Financial Liabilities* (ED). That paper also summarized the feedback received as a result of our outreach activities, most notably with users of financial statements.

2. At the meeting on 14 September, the Board began the re-deliberations of the proposals in the ED and made the following tentative decisions:

   (a) For all liabilities designated under the fair value option (FVO), the effects of changes in a liability's credit risk will be required to be presented in other comprehensive income (OCI) unless such treatment would create a mismatch in profit or loss (P&L).

   If such a mismatch would be created, the entire fair value change would be required to be presented in P&L.

   To make that determination about mismatches, an entity would assess whether it expects that the effects of changes in the liability's credit risk will be offset in P&L by a change in the fair value of an asset.

   An entity would make that determination at initial recognition and it would not be reassessed. An entity will be required to disclose the basis for its determination in the notes to the financial statements and apply it consistently.

   [These tentative decisions addressed questions 1, 2, 3, and 6 in the ED]

   (b) The guidance in IFRS 7 will be used for the purposes of determining the amount of change in a liability's fair value that is attributable to changes in its credit risk, with some additional examples and guidance.

[This tentative decision addressed question 8 in the ED]

3. At the meeting on 24 September, the Board made the following tentative decisions:

   (a) The effects of changes in a liability's credit risk will be presented in the statement of comprehensive income via a 'one-step approach'. Under that approach, the portion of the change in fair value attributable to changes in the liability's credit risk will be presented directly in OCI. All other changes in fair value will be presented in P&L.

   [This tentative decision addressed questions 4 and 5 in the ED]

   (b) Any finalized requirements on the treatment of own credit risk will not apply to loan commitments and financial guarantee contracts designated under the FVO. All fair value changes for those items will continue to be presented in P&L.

   [This issue was raised by respondents to the ED.]

4. At the meeting on the 24^{th}, the Board discussed whether amounts should be recycled from OCI to P&L when a liability is derecognized and the effects of changes in a liability's credit risk are realized. The Board decided to continue that discussion at the meeting on 5 October. [This discussion addresses question 7 in the ED.]

Topics for today's session

5. There are three topics for discussion:

   (a) **Recycling amounts from OCI to P&L—** As noted above, the Board discussed whether amounts should be recycled from OCI to P&L. The majority of the Board members present at that meeting tentatively agreed that recycling should be **prohibited** (12 board members were present and 7 supported that majority view). However the Board decided to confirm that decision at the next Board meeting. Therefore, at this meeting we will ask the Board to confirm that an entity is prohibited from recycling the effects of changes in own credit risk from OCI to P&L when the liability is derecognized. We have asked the two Board members who were unable to attend the meeting on 24

September to listen to the recording of that meeting to ensure that they have heard the views expressed.

[There is not a separate agenda paper for this issue. The question for the Board is at the end of this cover paper.]

(b) **<u>Agenda paper 1A</u>—Effective date and transition [Questions 9 and 10 in the ED]**

(c) **<u>Agenda paper 1B</u>—The treatment of the implementation guidance in IAS 39 related to the requirements that will be relocated (unchanged) from IAS 39 to IFRS 9 (ie subsequent measurement of liabilities and derecognition of financial assets and financial liabilities)**

Proposed timing for issuance

6. We expect that this will be the final board meeting on the proposals in the ED. We aim to distribute a preballot draft of these amendments to IFRS 9 during the first week of October, with an aim to finalize the amendments at the end of October.

Question 1
Does the Board confirm its decision that an entity is prohibited from recycling the effects of changes in own credit risk from OCI to P&L? If not, when should recycling be required and why?