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]

Topics for today's session

3. **There are three papers for discussion:**

   (a) **<u>Agenda paper 1A</u>—If the effects of changes in credit risk are excluded from P&L, should amounts ever be recycled into P&L? [Question 7 in the ED]**

   (b) **<u>Agenda paper 1B</u>—If the effects of changes in credit risk are excluded from P&L, should that amount be presented in the performance statement via a one-step or two-step approach? [Questions 4 and 5 in the ED]**

   (c) **<u>Agenda paper 1C</u>—Should the tentative decisions be applied to (i) loan commitments and (ii) financial guarantee contracts that are within the scope of IAS 39 and designated under the FVO? [a question raised by respondents to the ED]**

Meeting on 5 October

4. At the meeting on 5 October, we plan to discuss the effective date and transition requirements for this amendment to IFRS 9. [Questions 9 and 10 in the ED]

Proposed timing for issuance

5. On the basis of the plan outlined above, 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.