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Project	**Financial instruments: classification and measurement**
Paper topic	Bifurcation: staff analysis and recommendation

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Introduction

1. This is the final paper in a series considering bifurcation of financial assets and financial liabilities[1]. The main purpose of this paper is to lay out the alternatives available to the boards and to provide the staff analysis and recommendation.

2. The questions for the boards are at the end of the paper. Depending on the boards' conclusions on the primary questions—whether bifurcation should be included in the classification and measurement (C&M) model for financial assets and/or financial liabilities, and if so, what the bifurcation methodology should be—additional sub-questions may be relevant.

Overview of the bifurcation combinations

3. As set out in the papers in this series, there are three approaches to bifurcating financial instruments:

[1] For an explanation of how this paper fits into the series, see IASB AP 6B / FASB memo 140.

(a) Do not bifurcate

(b) Use P&I bifurcation methodology

(c) Use Closely related bifurcation methodology

4. Since the boards may reach a different conclusion for financial assets and financial liabilities respectively, there are nine possible bifurcation combinations, which are reflected in the table below:

		Financial assets		
Financial liabilities		Do not bifurcate	P&I bifurcation	Closely related bifurcation
	Do not bifurcate	1	2	3
	P&I bifurcation	4	5	6
	Closely related bifurcation	7	8	9

5. The next section discusses these combinations and **identifies:**

(a) those that the staff **do not recommend to both boards** – because they are impractical, illogical or would not align well with the analysis and feedback outlined in AP 6B – 6E / FASB Memos140 and 140A – C – and

(b) those that, in the staff view, **could be considered by both boards** and hence warrant further analysis. This analysis is provided later in the paper along with the staff recommendation and questions to the boards.

Discussion of the bifurcation combinations

6. **Asymmetrical bifurcation methodologies for financial assets and financial liabilities** – In theory, if the boards decided to bifurcate both financial assets and liabilities, they could require different bifurcation methodologies for financial assets and financial liabilities. For example, the boards could require the P&I bifurcation

methodology for financial assets, which would be consistent with the contractual cash flow characteristics assessment required for financial assets that is based on the notion of solely P&I, and the closely related bifurcation methodology for financial liabilities, which would be consistent with IFRS 9 and the FASB's tentative model for financial liabilities. However, the staff believe that a model with asymmetrical bifurcation methodologies would be overly complex and difficult to apply and to understand. Besides, the staff note that in many cases, especially if the P&I bifurcation methodology includes additional criteria that consider the residual non-P&I component and/or how the components are managed, the two bifurcation methodologies would often identify the same components. Therefore the staff do not believe that the benefits (if any) of requiring asymmetrical bifurcation methodologies would outweigh the costs or justify the complexity. Consequently, the staff do not recommend combinations 6 and 8 illustrated by the shaded areas in the table below:

		Financial assets		
Financial liabilities		Do not bifurcate	P&I bifurcation	Closely related bifurcation
	Do not bifurcate	1	2	3
	P&I bifurcation	4	5	6
	Closely related bifurcation	7	8	9

7. **Bifurcating <u>only</u> financial assets or <u>only</u> financial liabilities** – The staff believe that there are differences between financial assets and financial liabilities such that an asymmetrical approach could be justified. However, the staff note that there are more compelling arguments for bifurcating financial liabilities rather than financial assets. In particular, bifurcating financial liabilities assists in addressing the issue of own credit risk (discussed in detail in paragraphs 32-37 of the IASB AP 6C/FASB Memo 140A) because the host would be measured at amortised cost and only the embedded feature would be measured at FVPL. For this reason, many IASB and FASB

constituents (including both preparers and users) believe that bifurcation is appropriate for hybrid financial liabilities. Overall there was less support for bifurcating hybrid financial assets. Additionally, some users have indicated that hybrid financial assets should be reported at fair value. Therefore, the staff do not recommend bifurcating only financial assets, ie combinations 2 and 3 illustrated by the shaded areas in the table below.

8. However, for the reasons stated in the preceding paragraph, the staff believe that the boards could decide to bifurcate only financial liabilities. However, the staff do not think requiring the P&I bifurcation methodology for financial liabilities only would be generally preferred. This is because, in the staff view, the P&I bifurcation methodology would only work well in conjunction with the P&I contractual cash flow characteristics assessment. As noted in AP 6C/ FASB Memo 140A, there is no contractual cash flow characteristics for financial liabilities under IFRS 9, while the FASB's tentative model requires a contractual cash flow characteristics assessment for financial liabilities that is not based on the notion of solely P&I (although it is directionally consistent). Therefore, requiring the P&I bifurcation methodology for financial liabilities may be a potential approach for the FASB. Furthermore, both IAS 39 and IFRS 9, as well as current US GAAP and the FASB's tentative model, require the closely related bifurcation methodology for financial liabilities. Feedback received by the IASB and the FASB in response to their respective exposure drafts and in the outreach activities has generally been supportive of the retention of that bifurcation methodology.

9. Finally, the staff are mindful that there is a risk of unintended consequences resulting from changing established practice and do not see a benefit in changing such practice if bifurcation is required for financial liabilities only. Consequently, the staff do not recommend combination 4 as illustrated by the shaded area in the table below (combinations 6 and 8, which have been ruled out in paragraph 6, are shaded in a darker colour in the table).

Financial liabilities		**Financial assets**		
		Do not bifurcate	P&I bifurcation	Closely related bifurcation
	Do not bifurcate	1	2	3
	P&I bifurcation	4	5	6
	Closely related bifurcation	7	8	9

10. **Closely related bifurcation methodology for financial assets** – The staff think the boards should not pursue the closely related bifurcation methodology for financial assets. That methodology does not overlay well with, and would potentially undermine, the P&I-based cash flow characteristics assessment, which the boards have agreed to use in their respective C&M models for financial assets. To illustrate, consider a hybrid financial asset that does not have contractual cash flows that are solely P&I. Assume this financial asset is a bond that pays interest at 1.5 x LIBOR. Based on the February 2012 decisions, this asset is not considered to have cash flows that are solely P&I. Hence, absent bifurcation, this hybrid financial asset would be measured at FVPL. When the closely related bifurcation methodology is applied, the hybrid financial asset would not qualify for bifurcation because the embedded derivative (ie the non-P&I component) is closely related (ie it meets the 'double-double' test). This example raises the difficult issue of whether the hybrid financial asset should be measured:

    (a) at FVPL in its entirety because its cash flows are not solely P&I and the asset does not qualify for bifurcation; or

    (b) according to its business model, ie potentially at amortised cost in its entirety, because the embedded feature is closely related.

11. If the boards decide that a hybrid financial asset with a closely related embedded derivative should be measured at FVPL in its entirety, such measurement would produce counter-intuitive results. That is, more complex financial assets with non-closely related embedded derivatives would require bifurcation—and the host would be eligible for a measurement category other than FVPL— whereas more simple assets with closely related embedded derivatives would be measured at FVPL in their entirety. (For example, if the asset paid interest at 20 x LIBOR instead of 1.5 x LIBOR the host component could be measured at amortised cost subject to business model.)

12. However, if the boards decide that the hybrid financial asset with the closely related embedded derivative should be measured according to its business model, such measurement would override – and hence void – the contractual cash flow characteristics assessment. As a result, a hybrid financial asset with cash flows that are not solely P&I would be eligible for a measurement category other than FVPL.

13. Therefore, the staff believe that if the boards were to require the closely related bifurcation methodology for financial assets, they would have to reconsider the contractual cash flow characteristics assessment for financial assets. The staff acknowledge that this would be a fundamental conceptual change to IFRS 9 for financial assets that would be contrary to the feedback received by the IASB and would not be consistent with the IASB's objective to keep the changes to IFRS 9 to a minimum.

14. However, some staff believe that the closely related bifurcation methodology should be pursued by the boards for financial assets if the boards decide to require closely related bifurcation for financial liabilities and believe a symmetrical model is important (combination 9).

15. Nonetheless, the majority of the staff do not recommend combinations 3, 6 and 9 as a **converged** possibility for the boards and on this basis eliminates these alternatives which is illustrated by the shaded areas in the table below. The staff note that combinations 3 and 6 have also been eliminated by the staff analysis and recommendations in paragraphs 6 and 9 (other combinations that were previously eliminated by the staff's analysis are shaded in a darker colour).

	Financial assets			
Financial liabilities		Do not bifurcate	P&I bifurcation	Closely related bifurcation
	Do not bifurcate	1 (A)	2	3
	P&I bifurcation	4	5 (C)	6
	Closely related bifurcation	7 (B)	8	9

16. Therefore, three alternatives remain for further analysis and consideration by the boards:

    (a) Alternative A – do not bifurcate financial assets or financial liabilities (discussed in Agenda Paper 6C/FASB memo 140A)

    (b) Alternative B – do not bifurcate financial assets but bifurcate financial liabilities using the closely related methodology (no bifurcation discussed in Agenda Paper 6C/FASB memo 140A and closely related bifurcation discussed in Agenda Paper 6E/FASB memo 140C)

    (c) Alternative C – bifurcate both financial assets and financial liabilities using the P&I bifurcation methodology (discussed in Agenda Paper 6D/FASB Memo 140B).

17. Some of these three alternatives have specific issues or sub-questions, which are discussed in the following section. That section is followed by the staff recommendation and questions to the boards.

Alternative A – no bifurcation of financial assets or financial liabilities

18. Under this alternative, neither financial assets nor financial liabilities would be bifurcated. Rather, both would be classified in their entirety. This would represent a change to both IFRS 9, which bifurcates financial liabilities, and the FASB's tentative model, which bifurcates both financial assets and financial liabilities.

19. Financial assets would be classified on the basis of their contractual cash flow characteristics (consistent with the boards' tentative decisions in February 2012) and the business model within which they are held (the boards will discuss the business model assessment at this and subsequent meetings). Classifying assets on the basis of those two criteria is consistent with IFRS 9. As a result of the February 2012 decisions, the FASB's tentative model also classifies financial assets on the basis of those two criteria but bifurcates hybrid financial assets (thus, the criteria are applied separately to components of hybrid financial instruments).

20. Consistent with the analysis in AP 6C/ FASB Memo 140A, if the boards pursue Alternative A, the staff believe that the boards would need to consider the overall C&M model for financial liabilities. The staff believe that the boards could apply the same criteria for classifying and measuring financial liabilities that are used for financial assets, ie use the assessment of whether the contractual cash flows are solely P&I and the assessment of the business model within which they are held[2]. That would represent a change to both IFRS 9, which currently does not require such an assessment for financial liabilities and to the FASB's model, which requires a non-P&I based cash flow characteristics assessment. If the boards decide to pursue this alternative, the staff will bring further analysis on application of P&I based contractual cash flow characteristics assessment and the business model assessment for financial liabilities to a future meeting.

21. The staff note that some IASB constituents have continued to express concerns about not bifurcating financial assets after IFRS 9 was issued and many FASB constituents expressed concerns about eliminating bifurcation for financial assets. The staff believe that decisions made in February 2012 about application of the P&I assessment to financial assets assist in addressing these concerns.

22. Overall, this alternative is consistent with constituents' views in favour of a no-bifurcation approach (discussed in the IASB AP 6C / FASB Memo 140A). As a final observation, this alternative results in symmetrical accounting for financial assets and liabilities, which some believe is important.

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[2] This proposal was previously exposed in the IASB's original ED that preceded IFRS 9.

23. If the boards decide to pursue this alternative the staff think that the boards would need to consider how to address the issue of own credit risk. This issue is explained in detail in paragraphs 32-37 of IASB AP 6C/FASB memo 140A. In that paper, the staff provide two alternatives:

    (a) Extend the presentation requirements in IFRS 9 for financial liabilities designated under the fair value option (FVO) to all financial liabilities measured at FVPL (other than those held-for-trading, including derivatives). As a result, the effects of changes in the financial liability's credit risk would be recognised in other comprehensive income (OCI); or

    (b) Require that the entire fair value change is presented in profit or loss (P&L) (ie there would be no special treatment for the effects of changes in own credit risk). The boards could however consider requiring separate presentation of changes in own credit risk on the face of the statement of comprehensive income (eg either as a separate line item or parenthetically).

24. The staff acknowledge that measuring the effects of changes in own credit risk is complex. Historically, the IASB and the FASB have described the own credit component in slightly different ways. However, recognising and measuring the effects of changes in own credit risk in OCI is an existing requirement in IFRS 9 if the entity elects the FVO. IFRS 9 provides a default methodology for measuring the effects of changes in own credit risk, which was carried forward from IFRS 7 *Financial Instruments: Disclosures*. The staff acknowledge that this methodology is imprecise but believe that it provides a reasonable proxy in many cases, in particular where the effects of changes in own credit are significant, and results in decision-useful information. The staff note that this methodology was supported by IASB constituents.

Alternative B – no bifurcation of financial assets and closely related bifurcation of financial liabilities

25. Under this alternative, financial assets would not be bifurcated but financial liabilities would be bifurcated using the closely related bifurcation methodology. For the IASB, this alternative is consistent with the current C&M model in IFRS 9. For the FASB,

this alternative is consistent with the requirements for financial liabilities[3] but would eliminate the bifurcation requirements for financial assets in its tentative model[4]. Thus, the P&I based contractual cash flow characteristics assessment and the business model assessment would be used to determine the classification and measurement of hybrid financial assets in their entirety.

26. This alternative is also consistent with the feedback from constituents who generally expressed stronger support for bifurcating hybrid financial liabilities, notably to assist in addressing the issue of own credit risk. In contrast, there was more support for measuring hybrid financial assets at fair value in their entirety, notably from those users who commented on this aspect of accounting for financial instruments. Most constituents who supported bifurcating financial liabilities stated that the closely related bifurcation methodology, albeit complex, is understood and works well in practice and does not need to be reconsidered.

27. This alternative does not result in symmetrical accounting for financial assets and liabilities and therefore is not reflective of the feedback from those constituents who believe symmetry is important. However, some constituents did not believe that such symmetry is important because they do not think it necessarily results in useful information.

Alternative C – P&I bifurcation of both financial assets and liabilities

28. This alternative would use the P&I bifurcation methodology for both financial assets and financial liabilities. This would represent a change to both IFRS 9 and the FASB's tentative model because neither uses a P&I bifurcation methodology and neither has a P&I cash flow characteristics assessment for financial liabilities. Furthermore, IFRS 9 does not bifurcate financial assets.

[3] The staff note that the closely related bifurcation methodology for financial liabilities in IFRS 9 is not combined with a contractual cash flow characteristics assessment. In contrast, under the FASB's tentative model, the closely related bifurcation methodology for financial liabilities is applied in conjunction with the contractual cash flow characteristics assessment.

[4] The staff note that the closely related bifurcation methodology for financial assets included in the FASB's tentative model is not aligned with the P&I-based contractual cash flow characteristics assessment for financial assets adopted by the FASB in February 2012. Therefore, the staff believe that the FASB would need to consider aligning these two assessments.

29. The staff believe that this bifurcation methodology works better than the closely related bifurcation methodology in a C&M model that includes the P&I-based assessment of contractual cash flow characteristics that was discussed by the boards in February 2012. This assessment is required for financial assets under both IFRS 9 and the FASB's tentative model (following the February 2012 discussion) but it is not required in either model for financial liabilities. Consequently, if the boards decide to pursue this alternative, the staff believe that they would need to consider adopting the P&I based assessment in the broader C&M model for financial liabilities.

30. Using the P&I bifurcation methodology would replace the current rule-based closely related bifurcation methodology with a more principle-based methodology. It would also eliminate existing differences between US GAAP and IFRSs related to the notion of 'closely related'. However, this alternative would require the boards to develop new application guidance and result in a change to current practice that is anticipated to have a largely similar outcome (ie the same components would be identified under both methodologies). As a result, some question whether the costs would be justified by the benefits of this alternative. There is also a risk of unintended consequences because the methodology has not yet been tested.

31. Overall, this alternative is consistent with the arguments in favour of bifurcating hybrid financial instruments (discussed in the IASB AP 6B / FASB Memo 140) and results in symmetrical accounting for financial assets and liabilities, which some believe is important.

32. If the boards decide to pursue this alternative, they would have to consider the following sub-issues (detail about these sub-questions is included in IASB AP 6D/FASB memo 140B):

    (a) Should the embedded feature be required to meet the definition of a derivative?

    (b) Should bifurcation be conditional on the components being separately managed?

33. The staff believe that the P&I bifurcation methodology risks introducing inappropriate flexibility in identifying the P&I and embedded components and may at best result in

components being recognised that do not provide useful information and at worst, could create structuring opportunities. The staff think additional criteria is needed to impose discipline around bifurcation (this is discussed in the IASB AP 6D/FASB Memo 140B). The staff do not foresee challenges in requiring that the embedded feature that is a non-P&I component should meet the definition of a derivative to permit bifurcation. The staff think such a requirement would result in the desired discipline. However, the staff note that this requirement would result in similar outcomes to the closely related bifurcation methodology and, therefore, question the usefulness of changing established practice. Also, the staff are concerned that the interaction with hedge accounting would be more complicated if the bifurcated embedded feature is not a derivative. Therefore, the staff would recommend that the embedded feature must meet the definition of a derivative to be bifurcated if the boards were to pursue Alternative C.

34. The staff note that some constituents believe that the separate management criterion is relevant because it identifies units of account based on how an entity manages the components in practice. However, others argue that the components of a hybrid financial instrument will ultimately be settled together either through the collection or payment of the contractual cash flows or sale and, therefore, cannot be viewed as being separately managed.

35. The staff note that the requirement for the components to be separately managed would set a higher hurdle for bifurcation and hence result in fewer instruments being eligible for bifurcation (ie currently components do not need to be separately managed to qualify for bifurcation). However, the staff believe that the desired discipline could be achieved more simply and clearly by requiring that the embedded feature (ie the non solely-P&I component) meets the definition of a derivative, as discussed in paragraph 33.

36. Furthermore, the staff are concerned about the tension between the consideration of the business model at an aggregated level and the consideration of how the components are managed, which seems to consider an entity’s intentions for a single instrument. The staff also are concerned about how to make this requirement operational and would need to perform additional analysis if the boards choose to

require this. As a result, the staff do not recommend that separate management of the embedded feature be required.

37. If the boards decide to pursue this alternative, the staff will need to bring back to the boards further analysis of the mechanics of P&I bifurcation, including measurement of the bifurcated components.

Staff recommendation

38. The staff think that each of the alternatives discussed have merit but on balance **recommend Alternative A—do not bifurcate financial assets or financial liabilities**. The staff note that Alternative A:

    (a) Is consistent with the overall long-standing objective of the boards to reduce complexity in accounting for financial instruments[5];

    (b) Builds upon the notion of solely P&I that already exists in IFRS 9 and the FASB's tentative model;

    (c) Results in greater symmetry in accounting for financial assets and liabilities that some believe is important;

    (d) Achieves the greatest degree of convergence as it allows the closely related bifurcation requirements to be removed, and aligns the cash flow characteristics assessment for financial instruments.

39. If the boards agree with the staff recommendation, they will need to decide whether, and if so how to address, the issue of own credit risk. If the FASB decides on this alternative, the FASB staff plan to present an analysis of possible alternatives at a future meeting. For the IASB, the staff recommend applying the presentation requirements currently in IFRS 9 for financial liabilities designated under the FVO, to

[5] It is noted that one of the main reasons that the IASB and the FASB originally proposed to eliminate bifurcation, and why bifurcation of financial assets is prohibited in IFRS 9 was to remove complexity. Even with the relatively well established closely related criteria, issues continue to arise. The IASB has received a copy of a submission recently made to the Interpretations Committee regarding the treatment of term-extending options in fixed rate debt instruments. The Committee asked that the IASB be made aware of this issue in reconsidering C&M.

all financial liabilities measured at FVPL (other than those held-for-trading, including derivatives). As a result, the effects of changes in the financial liability's credit risk would be recognised in other comprehensive income (OCI)[6]. The staff note that the IASB has received positive feedback on those requirements in IFRS 9. The staff do not recommend separate presentation in P&L of the effects of changes in own credit risk (either as a separate line item or in brackets). The staff is concerned that this would involve the complexity of measuring the effects of own credit risk but would not address the concern that the effects of changes in own credit risk ought not be recognised in P&L. Likewise, the staff do not recommend presenting the entire change in fair value of a financial liability, including the effects on changes in own credit risk, as a single number in P&L. That would fail to address the concerns about own credit consistently received.

40. If the boards do not agree with the staff recommendation in paragraph 38, the majority of the staff's **next preferred alternative is Alternative B– do not bifurcate financial assets and bifurcate financial liabilities using the closely related methodology**. These staff note that Alternative B:

(a) Retains the notion of solely P&I that already exists in IFRS 9 and the FASB's tentative model for financial assets;

(b) Assists in addressing the issue of own credit by bifurcating financial liabilities;

(c) Does not involve the risk of unintended consequence by not changing established practice for bifurcating financial liabilities;

(d) Minimises the change to IFRS 9 and the FASB's tentative model;

(e) Eliminates bifurcation of financial assets in the FASB's tentative model and therefore addresses concerns related to the alignment of the P&I-based

[6] IFRS 9 includes specific presentation provisions that require the effects of changes in own credit risk to be recognised in OCI except for the unusual case for which recognising the effects of the changes in the financial liabilities' credit risk in OCI would create or enlarge an accounting mismatch in P&L. If so, an entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

contractual cash flow characteristics assessment with the closely related bifurcation methodology.

41. These staff acknowledge that Alternative B does not result in symmetrical accounting for financial asset and liabilities but believe that the advantages of this alternative outlined above outweigh symmetry considerations.

42. These staff note that if the FASB were to decide on a closely related bifurcation methodology for financial liabilities and yet eliminate bifurcation for financial assets, the FASB would need to consider whether a cash flow characteristic assessment would be necessary for financial liabilities. This issue would need to be addressed because the FASB's tentative model includes a cash flow characteristics assessment for financial liabilities. The FASB staff will bring this analysis at a future date if the FASB supports Alternative B.

43. The staff **do not recommend alternative C—using the P&I bifurcation methodology for both financial assets and financial liabilities**. While this alternative is consistent with the overall principle-based approach to classifying and measuring financial instruments, the staff do not see merit in changing the established closely related bifurcation practice for a methodology that is anticipated to have similar outcomes and are concerned about unintended consequences. However, if the boards were to choose this alternative, the staff would need to perform additional analysis on the sub-issues noted under this alternative.

44. Some staff members do not have a next preferred alternative. These staff members believe that because of all the reasons outlined, Alternative A is the best converged solution. Further, these staff members recommend that if the boards support bifurcation of financial liabilities based on the closely related methodology, the IASB should retain IFRS 9 as adjusted by the decisions made in February 2012 to address application feedback received by the IASB and the FASB should retain its tentative model prior to the February 2012 decisions. These staff members believe that this approach would be the least disruptive to current practice for their respective constituents and would be consistent with feedback received on hybrid financial instruments guidance in their respective exposure drafts.

Questions to the IASB

Question 1:

Which alternative does the IASB support?

Question 2 (only relevant if the IASB supports Alternative A – no bifurcation of financial assets and liabilities):

Does the IASB agree with the staff recommendation in paragraph 39 to require recognition of the effects of changes in a financial liability's credit risk in OCI for all financial liabilities measured at FVPL (other than those held-for-trading, including derivatives)?

Question 3 (only relevant if the IASB supports Alternative C – symmetrical bifurcation based on P&I):

(a) Should the embedded feature be required to meet the definition of a derivative?

(b) Should bifurcation be conditional on the components being separately managed?

Questions to the FASB
Question 1: Which alternative does the FASB support? **Question 2** (only relevant if the FASB supports Alternative C – symmetrical bifurcation based on P&I): (a) Should the embedded feature be required to meet the definition of a derivative? (b) Should bifurcation be conditional on the components being separately managed?

Equity conversion features from the issuer's perspective (FASB only)

45. This issue is explained in detail in paragraphs 38-39 of IASB AP 6C/FASB memo 140A and is relevant if the FASB pursues a P&I assessment for financial liabilities (Alternative A or C). There are particular issued convertible debt instruments that qualify for an exception in Topic 815 and are not subject to special separation models under current US GAAP. These instruments generally are measured at amortised cost, unless the fair value option under US GAAP is elected. If the proposed P&I cash flow characteristics approach decided for financial assets at the February 2012 joint meetings was also applied to financial liabilities, these issued convertible debt instruments generally would be required to be measured at FVPL in their entirety.[7]

46. The FASB received feedback on its proposed Update that convertible debt should not be measured in its entirety at fair value through profit or loss (FVPL). The FASB's tentative model provides specific guidance for these instruments that allows an issuer to measure these instruments at amortised cost. The staff recommend that the FASB

[7] This would not necessarily be the case in the context of IFRS literature. As discussed in IASB AP 6B/FASB memo 140, under IAS 32, an equity conversion feature that meets the definition of an equity instrument (in accordance with the 'fixed-for-fixed' condition) would be bifurcated and accounted for separately. The host debt instrument would be within the scope of IFRS 9. Absent other embedded features that are not solely P&I, the debt host would qualify for a measurement category other than at FVPL on the basis of its contractual cash flow characteristics.

retain this specific guidance if the FASB decides to pursue Alternatives A or C in this paper. Alternatively, the staff could return at a later date with additional analysis and alternatives.

47. If the FASB decides to pursue Alternative B (no bifurcation for financial assets but closely related bifurcation for financial liabilities), the FASB staff would return at a later date to discuss this issue along with a discussion about the cash flow characteristics assessment for financial liabilities.

FASB Only Question
Does the FASB prefer to retain the specific guidance in the FASB tentative model that allows particular convertible debt instruments that currently do not require separation for an equity component under current U.S. GAAP to be measured at amortised cost from an issuer's perspective or would the FASB prefer that the FASB staff return with additional analysis and alternatives?