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Project	**Financial instruments: classification and measurement**		
Paper topic	FVOCI & FVPL business model assessment for financial assets		
CONTACT(S)	Shahid Shah	sshah@fasb.org	+1 (203) 956-3478
	Trent Handy	tlhandy@fasb.org	+1 (203) 956-3466
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743

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Purpose of the paper

1. At the April 17, 2012 joint board meeting, the boards discussed the business model assessment for classifying financial assets at *amortised cost*. At that meeting, the boards tentatively concluded that financial assets with contractual cash flows that are solely payments of principal and interest (P&I)[1] would qualify for amortised cost if the assets are held within a business model whose objective is to hold the assets in order to collect contractual cash flows[2] (refer to the figure in paragraph 4 in IASB Agenda Paper 6/FASB Memo 151). The Boards also tentatively decided to clarify the primary objective of *hold to collect* by providing additional implementation guidance on the types of business activities and the frequency and nature of sales that would prohibit financial assets from qualifying for amortised cost measurement.

[1] Refer to IASB Agenda Paper 5A / FASB Memo 133 of February 2012.

[2]Under the FASB's tentative model, the business model assessment is applied after the contractual cash flow characteristics assessment. Under IFRS 9 *Financial Instruments*, the business model assessment is performed first and hence is applied to the entire population of financial assets. However, the outcome of the business model assessment only matters for financial assets with contractual cash flows that are solely P&I. This is because financial assets with contractual cash flows that are not solely P&I do not qualify for a measurement category other than at FVPL.

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2. This paper is the next in the series on the business model assessment for the classification of financial assets and discusses when financial assets would be measured at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL) as a result of that assessment. Only financial assets with contractual cash flows that are solely P&I are in the scope of this paper[3] (refer to the figure in paragraph 4 in IASB Agenda Paper 6/FASB Memo 151). For ease of reference, financial assets that satisfy these criteria are referred to as eligible debt instruments in this paper. The objectives of this paper are to consider:
   (a) How to determine the business model for the classification of eligible debt instruments at FVOCI within IFRS 9 and the FASB's tentative model (assuming FVOCI is included as a category within IFRS 9 business model assessment);
   (b) Whether FVOCI or FVPL should be a 'residual' category.
3. The paper provides staff analysis and recommendation and asks the boards for decisions.
4. This paper does not address *whether* a FVOCI category should be incorporated in IFRS 9 for eligible debt instruments. Likewise, this paper does not address the *accounting mechanics* of FVOCI, including recycling of gains and losses from OCI to profit or loss (P&L). Those topics are addressed in IASB Agenda Paper 6A. The FASB tentative model already includes a FVOCI category for eligible debt instruments and requires recycling of realised gains and losses (including current period credit impairments). These topics will not be redeliberated by the FASB.

[3] Under IFRS 9, an entity may make an irrevocable election at initial recognition to present fair value gains and losses on an investment in an equity instrument in other comprehensive income (OCI). This option is outside of the scope of this paper.

Background

IFRS 9 approach

5. IFRS 9 does not contain a FVOCI classification category for eligible debt instruments.[4] All eligible debt instruments will be classified at amortised cost or FVPL under IFRS 9.
6. IFRS 9 requires a financial asset to be measured at amortised cost if the asset is held within a business model whose objective is to hold the assets to collect contractual cash flows (and the asset has cash flows that are solely P&I)[5]. Otherwise, the financial asset is classified at FVPL, ie FVPL is a residual category.
7. Under IFRS 9, if an entity manages the performance of a portfolio of financial assets with the objective of realising cash flows through the sale of the assets (eg an entity actively manages a portfolio to realise fair value changes arising from changes in credit spreads and yield curves), the business model is not to hold those assets to collect contractual cash flows. Similarly, a portfolio of financial assets whose performance is evaluated on a fair value basis is not held to collect contractual cash flows. Also, a portfolio that meets the definition of held for trading is not held to collect contractual cash flows. Such portfolios would be classified at FVPL.

Feedback received on IFRS 9

8. Subsequent to the publication of IFRS 9, the IASB has received feedback from some constituents regarding the need for a FVOCI category. Some have requested that a FVOCI category be introduced for debt instruments. Many constituents however support the current approach in IFRS 9 of having only two business models.

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[4] Under IFRS 9, an entity may make an irrevocable election at initial recognition to present fair value gains and losses on an investment in an equity instrument in other comprehensive income (OCI).

[5] Under IFRS 9, an entity may, at initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch.

9. Some constituents highlighted concerns about the business model criteria in IFRS 9 resulting in outcomes that are too limited to allow them to properly reflect their business model (ie an entity holds assets either to collect contractual cash flows or to sell and realise fair value changes). Some of these constituents have noted that the available-for-sale category in IAS 39 was useful for those strategies in which an entity holds financial assets for as long as it wants but would sell when there is a good opportunity. These constituents have questioned whether FVPL appropriately reflects this business strategy.

10. Insurers have also raised concerns about the potential accounting mismatch that may arise due to the interaction between accounting for financial assets under IFRS 9 and accounting for insurance liabilities under the insurance contracts project (currently being jointly deliberated by the boards). For example, if a financial asset portfolio held by an insurer qualifies for amortised cost, an accounting mismatch arises because insurance liabilities under the proposed insurance contracts model would be measured at current value through profit or loss. Many of these constituents note that this mismatch could be eliminated through the use of the fair value option for financial assets. However, respondents to the Insurance Contracts ED stated that a better solution would be to introduce a FVOCI classification category for particular financial assets, while also recognising the effect of changes in the interest rate associated with the insurance contract liability in OCI. IASB Agenda Ref 2I/FASB Agenda Ref 83I discusses the staff recommendation regarding the use of OCI to record changes in the insurance contract liability arising from changes in specified assumptions[6].

FASB's tentative approach

11. In contrast to IFRS 9, the FASB's tentative classification and measurement model prior to the start of joint deliberations included *defined* amortised cost, FVOCI and FVPL categories (ie FVPL is not a residual category under the FASB

[6] IASB Agenda Paper 14B explores the interaction between C&M of financial assets assuming that FVOCI category is introduced for eligible debt instruments and accounting for insurance liabilities.

tentative model). Under that previous model, the classification of financial assets at amortised cost, FVOCI or FVPL would have been on the basis of the ***business activity*** the entity uses in acquiring and managing those financial assets. This business activity approach does not include a notion of the assets being held for a particular period or length of time but rather focuses on the strategy that resulted in an entity's initial recognition of the financial assets. Paragraphs 12-15 describe the business activity conditions applicable to the FVOCI and FVPL classification categories.

FVOCI

12. For financial assets to be classified at FVOCI, an entity's business model must be to manage the financial assets as part of the entity's ***investing activities***. The primary purpose of an investing activity is to invest the excess capital of the entity to (1) maximise the total return on the investment or (2) manage the interest rate or liquidity needs of the entity. An entity's business activity that would qualify for FVOCI classification and measurement would include a combination of holding and selling the financial assets to achieve its investing objective. However, the financial assets may not be actively held for sale at acquisition or origination (ie initial recognition).

13. Activities that typically would be associated with a business model that would be classified into the FVOCI category include:

    (a) The financial assets are acquired in a business activity that invests the excess cash of the entity for income generation and manages the interest rate or liquidity risk of the entity.

    (b) The financial assets may be sold for strategic purposes, thus realising gains or losses through earnings. Any sales or purchases are primarily made to support the entity's risk management and investment objectives through adjusting the interest rate or liquidity risk profile.

    (c) The financial assets are held for liquidity or capital adequacy purposes or to execute a particular interest rate risk positioning strategy by selecting a risk profile that may change over time.

(d) The ultimate cash flows come from either the original counterparty of the instrument or from a third party through sale of the asset.

FVPL

14. For financial assets to be classified at FVPL, an entity's business model must be to hold the instrument for sale or to actively manage and monitor the assets at fair value.

15. Activities that typically would be associated with a business model that would be classified into the FVPL category include:

    (a) All financial assets held by the entity for trading purposes or held for sale.

    (b) Financial assets issued, purchased, or sold for short-term profit taking.

    (c) Inventories or portfolios of financial instruments managed to satisfy the needs of clients who wish to buy or sell those financial instruments.

    (d) Financial assets that are actively managed and monitored internally on a fair value basis because the price at which they can be sold or hedged is an important factor in the profitability and risk of the portfolio.

Feedback received

16. As part of the FASB's continuing effort to seek constituent feedback, the FASB staff conducted targeted outreach with constituents to obtain feedback regarding the auditability and operationality of the tentative decisions reached by the FASB during redeliberations on the classification and measurement model. During the staff's outreach, constituents favoured the three-category classification and measurement model on the basis of the business activity an entity uses in acquiring and managing financial assets. However, many constituents cited that tension between the descriptions of the FVOCI and FVPL categories may cause operational and audit difficulties, and requested that the board clarify these concerns prior to the issuance of an exposure draft. Constituents generally cited three potentially broad and ambiguous terms that, in their interpretation, make it

difficult to delineate between FVOCI and FVPL business activities (as defined in the tentative model):

(a) Maximising total return;[7]

(b) Actively managing and monitoring the asset internally on a fair value basis;[8] and

(c) Held for sale.[8]

17. Constituents noted that although ‘maximising total return’ was descriptive of an ‘investing’ activity, it was too broad. These constituents believe that these words described the general principle of holding any financial asset, as ultimately all business activities in managing financial assets have an objective of generating a return. In other words, it would be difficult for an entity to assert that any financial asset was not managed for those purposes.

18. Constituents also noted that ‘actively managed and monitored on a fair value basis’ was an *ambiguous* term. These constituents noted that FVOCI and FVPL financial assets would, typically, both be actively managed and monitored on a fair value basis. Constituents were unsure what documentation requirements would be necessary to validate the assertion of managing and monitoring on a fair value basis. Absent clarification, these constituents noted that actively managing and monitoring a financial asset on a fair value basis provides an inherent option to classify financial assets at FVPL, which would be contrary to the FASB’s tentative decision that an unconditional fair value option should not be permitted.

19. Furthermore, constituents also expressed varying interpretations of the term ‘held for sale’. Some constituents interpreted the term more broadly, while others interpreted it more narrowly. Regardless of the interpretation, constituents noted that the term is too vague, which could lead to diversity in practice. Constituents who interpreted the meaning more broadly noted concern that without clarification, the term could result in an inherent option to classify and measure financial assets at FVPL because an entity could simply qualify for FVPL

[7] Part of the FVOCI business strategy criterion as currently defined by the FASB.

[8] Part of the FVPL business strategy criterion as currently defined by the FASB.

classification by asserting that the financial assets are held for sale or are managed on a fair value basis. Ultimately, these constituents noted that the definition of held for sale, depending upon the FASB's intent for that criterion, could have a dramatic effect on the amount of financial assets that would qualify for FVOCI versus FVPL.

20. Constituents suggested mitigating the tension between the FVOCI and FVPL categories through the creation of a residual category, whereby a financial asset that was not managed in a business activity as described by two of the categories would automatically be classified and measured in the third category. In other words, the entity would have to demonstrate that the instrument fails the criteria for the two defined categories in order to measure and classify the financial asset in the residual category.

21. To illustrate this residual category concept, some constituents suggested that the FASB could consider establishing more narrowly defined criteria for the FVOCI category and then constructing the model to require an entity to classify and measure financial assets that do not qualify for either amortised cost or FVOCI in the FVPL category. Constituents that supported this approach think greater complexities would arise by restricting FVPL to trading activities or to financial assets designated as held for sale. These constituents note that limiting trading activities to those that typically involve active and frequent buying and selling to generate profits on short-term differences in prices or spreads may prove problematic because guidance about how long financial assets in this category could be held would be required. These constituents note that the length of time could vary between investors and the nature of the financial assets. If the boards decided to define the business model objective for FVPL as that in which the financial assets are held for sale, many constituents noted that this approach may provide an implicit, unconditional option to classify financial assets at either FVPL or FVOCI because an entity could simply assert that the assets are or are not held for sale in order to achieve the desired classification.

22. Other constituents suggested that a model with a FVOCI residual category could be constructed in a similar way by establishing more narrowly defined criteria for

the FVPL category. These constituents think FVPL should be limited to trading activities, which is generally well understood in practice (ie an entity intends to sell the financial assets in the near term with the objective of generating profits on short-term differences in prices or spreads).

Proposed Alternatives – Fair Value Classification Categories

23. Consistent with the objectives of this paper (assuming the IASB decides to incorporate a FVOCI category in IFRS 9), this section provides an analysis of the alternatives for the boards to jointly consider on *how* to define the business model assessment for classification of financial assets at FVOCI and FVPL, including consideration of a residual category.
24. The staff have outlined two approaches for the boards consideration:
    (a) Approach 1: Define FVOCI, with FVPL being the residual category
    (b) Approach 2: Define FVPL, with FVOCI being the residual category

Approach 1: Define FVOCI, with FVPL being the residual category

25. This approach proposes to define the objective of the business model that results in classifying financial assets at FVOCI. Under this proposed approach, eligible debt instruments that do not meet the business model assessment for FVOCI or amortised cost would be classified at FVPL, ie FVPL is the residual business model.
26. As noted by the boards' decision at the April 2012 joint board meeting, amortised cost classification would be applied to financial assets held within a business model whose objective is to hold the financial assets for the collection of contractual cash flows. Absent the objective to hold financial assets to collect contractual cash flows, the business model would not qualify for amortised cost. For example, if an entity has not determined whether a portfolio of financial assets will be held for the collection of contractual cash flows, it would not be appropriate to classify and measure those assets at amortised cost. That is,

amortised cost is relevant only if a portfolio is actually held for the collection of the contractual cash flows. A pattern of more than infrequent sales of those financial assets (other than sales due to deterioration in issuer's creditworthiness) would be inconsistent with the objective of holding the financial assets for the collection of contractual cash flows.

27. In contrast to the business model objective that results in amortised cost classification, the primary objective of a business model that results in classifying financial assets at FVOCI can be articulated as a business model **for a portfolio of financial assets that is managed with the objective of both collecting contractual cash flows and selling financial assets.** For such a business model, both amortised cost and fair value information are relevant and therefore FVOCI is the appropriate measurement attribute. That is, FVOCI provides both the amortised cost measurement of the financial assets in P&L and fair value measurement in the statement of financial position.

28. In contrast to a 'hold-to-collect' business model in which sales are infrequent (other than due to credit deterioration), this business model generally will result in selling and rebalancing of the portfolio. However, a portfolio held for trading or a portfolio managed with the objective of realising cash flows through active and frequent sales rather than both sales and the collection of contractual cash flows is not consistent with the business model objective for FVOCI classification. Such portfolios would be classified at FVPL.

29. Inherent in the primary objective for FVOCI classification is that at initial recognition, management has not made a decision that it will hold financial assets for collection of contractual cash flows or sell the assets (ie management may hold the asset(s) for an unspecified period of time or sell the asset to meet certain objectives).

30. An example of a strategy consistent with FVOCI classification (as described above) would be when an entity holds financial assets to manage its exposure to interest rate risk associated with financial liabilities with different maturities (and other characteristics). In other words, an entity purchases and holds and/or sells financial assets, ie rebalances the portfolio, to manage its interest rate exposure in

accordance with its the stated risk management or investment policies (eg risk appetite, target yield, etc). A business model that entails managing exposure to interest rate risk that results in buying and selling financial assets would be consistent with the primary objective of the business model that results in FVOCI classification.

31. Similarly, if an entity is 'chasing' a yield or has the objective of yield or total return maximisation that includes buying and selling financial assets, this business model would be inconsistent with the objective of amortised cost classification. Those strategies may entail less frequent buying and selling or rebalancing activities in stable interest rate, liquidity and economic environments, whereas rapid or unexpected changes in market conditions may necessitate more frequent buying or selling or more significant rebalancing activities. However, in these cases the objective of such a business model is to manage portfolios of financial assets by holding and/or selling financial assets as needed to achieve the target yield or total return. Accordingly, the financial assets held within such a business model will be classified at FVOCI.

32. An entity may also manage financial assets from a liquidity perspective and thus may hold financial assets for a longer period (or rebalance the asset mix in the portfolio to achieve a better duration match) until a liquidity need arises. If the entity's objective for the portfolio includes managing exposures related to liquidity needs and involves rebalancing the portfolio (eg to achieve a better duration match between financial assets and liabilities), this business model would be consistent with the objective of FVOCI classification. If, for example, an entity holds a 'liquidity portfolio' that is designated for liquidity needs in rare scenarios and comprises short-term financial assets that indeed historically have always been held for the collection of contractual cash flows, that is consistent with the objective of the business model that results in amortised cost classification.

33. The examples below help illustrate the application of this approach:

    (a) Example 1: A life insurer holds a portfolio of eligible debt instruments to fund a portfolio of specified life insurance contract obligations. The

portfolio comprises corporate debt instruments and loans and the objective of the business model is to match the duration of financial assets with its insurance contract obligations. The insurer also monitors the yield on the portfolio to earn a targeted yield. The insurer assesses the portfolio to determine the optimal mix to achieve the targeted duration match and yield. Hence the objective of the business model of the insurer is to hold some financial assets within the portfolio for the collection of contractual cash flows and to sell others to achieve a targeted yield and duration match. At initial recognition, the insurer is certain that some financial assets will be held for the collection of contractual cash flows and some will be sold. However, the insurer is unsure *which* financial assets will be held for the collection of contractual cash flows and which may ultimately be sold to meet its targeted parameters for the portfolio. This business model assessed at the portfolio level is inconsistent with the objective of the business model that results in amortised cost classification, because the objective is not to hold the assets to collect contractual cash flows but rather to hold and sell as required to match duration and achieve the desired yield. As such, the objective of this strategy is to hold some financial assets and to sell others and would result in financial assets being classified at FVOCI.

(b) Example 2: A non-financial entity expects a cash outflow in a few years to settle an obligation and invests its excess cash in both short and long duration eligible debt instruments. The entity's business model is to maximise the yield by selling and acquiring higher yielding instruments on the basis of market factors until the need for the invested funds arises. This business model is consistent with the objective of the business model that results in FVOCI classification, ie hold and sell financial assets within the portfolio. Accordingly, the financial assets in the portfolio will be classified at FVOCI.

(c) Example 3: In contrast to Example 2, consider a non-financial entity that expects a cash outflow in five years and on the basis of the current economic environment, invests funds in short term/1-year eligible debt instruments, with the objective of holding them for collection of contractual cash flows and reinvesting the funds into new short-term instruments as instruments mature. The entity follows this strategy until a need for funds arises at which time it uses the proceeds from the maturing instruments to settle the obligation. Such business model is consistent with the objective of the business model that results in amortised cost classification as the eligible debt instruments are held for the collection of contractual cash flows.

(d) Example 4: A non-financial entity invests in corporate debt instruments to fund decommissioning costs on nuclear power plants. The entity utilises an investment manager and provides the invest manager with basic guidelines for making investing decisions. The investment manager has full discretion as to which securities to buy and sell to achieve a targeted return (as long as the stated guidelines are met, including credit ratings). This business model is consistent with the objective of FVOCI classification.

Approach 2: Define FVPL, with FVOCI being the residual category

34. This approach proposes to define the objective of the business model that results in classifying financial assets at FVPL. Therefore, under this proposed approach, eligible debt instruments that do not meet the business model assessment for FVPL or amortised cost would be classified at FVOCI, ie FVOCI is the residual category.

35. There are two potential alternatives as to how the objective of the business model that results in classifying financial instruments at FVPL could be articulated:

    (a) *Alternative A*: Financial assets are held for sale at initial recognition. This alternative would entail defining the term ‘held for sale’.

(b) *Alternative B*: Financial assets are managed on a fair value basis, including financial assets held for trading (as the term is currently applied in IFRSs and U.S. GAAP).

36. **Alternative A** – A business model that results in classifying financial assets at FVPL could be described as one in which the **primary objective is to hold the financial assets for sale and thus realise changes in the fair value of the financial assets by selling the financial assets**. In defining the term held for sale under Alternative A, indicators could be provided. These indicators could be similar to the guidance currently included for the same term used in US GAAP Subtopic ASC 360-10, Property, Plant, and Equipment and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.* However, it should be noted that the term held for sale as used in Subtopic 360-10 and IFRS 5 relates to long-lived assets and not financial assets, and could be construed as very narrow (or very broad) depending on how it is applied to financial assets. Besides, the notion of held for sale under US GAAP and IFRS today is applied to individual items (or group of items) identified as held for sale after initial recognition. In contrast, the assessment of the business model for financial assets is performed at an aggregated level (rather than the instrument level) on initial recognition. The paragraph below describes the indicators that could potentially be applied to defining the term held for sale in context of financial assets.

37. These indicators, which would be assessed at initial recognition, may include:

(a) The entity has specifically identified a disposal strategy;

(b) Actions required to affect the disposal strategy indicate that it is unlikely that significant changes to the disposal strategy will be made or that the plan to dispose of the financial assets will be withdrawn; and

(c) The entity has defined the time at which it expects to dispose of the financial assets, which may be either an expected date or range of dates; a time defined by specific facts and circumstances.

38. An entity would consider the above indicators in totality, and any single indicator would not be determinative. In addition, an entity would need to consider the

particular facts and circumstances in assessing whether a particular business model manages financial assets on a held for sale basis; significant judgement would be required. As such, potential activities that would qualify for FVPL classification may include:

(a) Financial assets held by the entity for trading purposes

(b) Financial assets purchased or sold for short-term profit taking

(c) Inventories or portfolios of financial assets managed to satisfy the needs of clients who wish to buy or sell these assets

(d) Financial assets are actively managed and monitored internally on a fair value basis

(e) The objective is to realise cash flows related to the financial assets from a third party through sale, rather than through the collection of contractual cash flows

39. **Alternative B** – Instead of defining the term held for sale, the boards could consider defining the objective of the business model that results in classifying financial assets at FVPL as **actively managing financial assets on a fair value basis (ie the performance of the portfolio is assessed on the fair value basis) with the objective to realise cash flows through sales, including financial assets held for trading**. Trading activities generally involve active and frequent buying and selling to generate profits on short-term differences in prices or spreads. This would be consistent with the guidance in IFRS 9 that requires that such portfolios must be measured at FVPL.

40. Under US GAAP, Financial Accounting Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (Statement 115), initially explained that financial assets classified as trading instruments are 'bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time)'. Statement 115 did not specify by how long trading financial assets are held because the length of time may vary between investors and the nature of the financial assets. Subsequent to the issuance of Statement 115, the FASB staff clarified in *A Guide to Implementation of Statement 115 on*

Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers that the "phrases *selling them in the near term* and *held for only a short period of time* in the description of trading securities contemplate a holding period generally measured in hours and days rather than months or years. Thus, if a security is acquired with the intent of selling it within hours or days, the security must be classified as trading. However, at acquisition an enterprise is not precluded from classifying as trading a security it plans to hold for a longer period". Consistent with feedback from financial statement users that fair value is the most preferential method of accounting for investments in debt and marketable equity securities, the FASB staff indicated in its Statement 115 Q&As that classifying a financial asset as trading (ie FVPL) is not precluded simply because the enterprise does not intend to sell it in the near term.

41. Under this Alternative, trading activities would be assessed as those in which the entity bases its decision to sell the financial assets and realise changes in their fair value based on constantly monitoring the fair value of the instruments. Similar to the guidance in US GAAP today (ie Subtopic 320-10, formerly Statement 115), no time length would be associated with holding financial assets within a trading business model because the length of time may vary between holders and the nature of the financial assets.

Staff Analysis and Recommendation

42. The staff recommend Approach 1 (ie define FVOCI with FVPL as the residual category).
43. The advantage of defining the objective of the business model that results in classifying financial assets at FVOCI (ie Approach 1) is that it would strengthen and further clarify the objective of the business model that results in classifying financial assets at amortised cost. Defining FVOCI also would explicitly capture business models in which both amortised cost and fair value information is relevant and thus results in providing decision useful information to users of financial statements.

44. Besides, some staff members do not believe FVPL could be well defined, which would allow entities flexibility in determining whether a financial asset would be classified at FVPL or FVOCI. These staff members believe that an ambiguous FVPL criterion could make it easier for an entity to assert that the financial assets fail the criterion and, therefore, could classify and measure the financial assets at FVOCI at will. Conversely, due to auditability concerns, the same ambiguity could make it difficult for an entity to assert that financial assets fail the FVPL criterion and, therefore, require the entity to classify the financial assets at FVPL. Furthermore, these staff members believe that the feedback received by the FASB staff during their targeted outreach indicated that 'managing on a fair value basis' is an ambiguous term and could mean different things to different people. The outreach also indicated that under existing US GAAP financial assets that are classified as available-for-sale (AFS) are also managed on a fair value basis, and thus defining the FVPL category on this basis would put undue tension between the FVOCI and FVPL classification categories. In addition, the outreach also indicated that the term 'held for sale' can be construed as very broad or very limited, and it is hard to define such a term in the context of financial assets. As such, these staff members are concerned that due to the difficulty of clearly defining the FVPL category that this approach could inherently provide an implicit option for entities to classify financial assets either as FVOCI or FVPL.

45. Some staff members acknowledge that a business model that involves both holding and selling financial assets may naturally lend itself to the residual category (as opposed to business models that involves 'pure' holding or 'pure' selling). These staff members acknowledge that some may view FVOCI as more difficult to define than FVPL, ie it could be easier to define two ends of the classification spectrum (ie amortised cost and FVPL), with the middle area (ie FVOCI) being the residual category. These staff members note that managing on a fair value basis could be clearly articulated by stating that the entity makes decisions (ie whether to hold or sell the asset) based on changes in and with the objective of realising the assets' fair value changes. These staff members also note that these notions are already applied in practice today. However, these staff

members believe the advantage of defining the objective of the business model that results in classifying financial assets at FVOCI would be preferable to defining the FVPL category; that is, doing so would strengthen and further clarify the objective of the business model that results in classifying financial assets at amortised cost.

Question for the IASB
Which approach/alternative does the IASB prefer?

Question for the FASB
Which approach/alternative does the FASB prefer?