STAFF PAPER

Week beginning 15 October 2012

REG IASB Meeting

Project	**Financial instruments: Classification and Measurement**
Paper topic	Cover paper

CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Katherine Cancro	kcancro@ifrs.org	+44 (0)20 7246 6928
	Riana Wiesner	rwiesner@ifrs.org	+44 (0)20 7246 6926

Purpose of this paper

1. The purpose of this agenda paper is to provide an overview of the agenda papers to be discussed at this meeting.

Background

2. In November 2011, the IASB decided to consider making limited amendments to IFRS 9 to:
   (a) address specific application questions raised by constituents;
   (b) consider the interaction of the classification and measurement model for financial assets with the insurance project; and
   (c) consider the differences with the FASB's tentative classification and measurement model.
3. In making this decision, the IASB noted that IFRS 9 has generally been found to be conceptually sound and operational. The IASB also noted that many constituents have either already applied IFRS 9 early or dedicated significant resources in preparation for its application. The IASB therefore agreed to be mindful of the extent of change to IFRS 9 and to complete the project expeditiously, seeking to minimise the cost and disruption to constituents.

4. In January 2012, the IASB and the FASB decided to jointly redeliberate selected aspects of their classification and measurement models for financial instruments to seek to reduce key differences. The boards tentatively decided to discuss the following key differences:

    (a) the contractual cash flow characteristics of financial assets;

    (b) the need for bifurcation of financial assets and if pursued, the basis for bifurcation;

    (c) the basis for and the scope of a possible third classification category (debt instruments measured at fair value through other comprehensive income (FVOCI)); and

    (d) any interrelated issues from the topics above (for example, disclosures or the model for financial liabilities).

5. The boards concluded their joint deliberations in July 2012 and during those joint deliberations the boards were able to more closely align their models. Since then, each board has separately considered what additional changes, if any, they would like to propose to other aspects of their respective models for inclusion in their respective Exposure Drafts.

6. In September 2012 the IASB concluded its deliberations on the limited amendments to IFRS 9 and granted the IASB staff permission to commence with the drafting of the Exposure Draft.

Overview of agenda papers for this meeting

7. The staff have brought the following papers to the meeting:

    (a) **Agenda Paper 6A: Update on boards' individual decisions** – In this paper, the staff provide an update on the IASB and FASB's individual tentative decisions reached since the conclusion of the joint deliberations and highlight potential differences between IFRS 9 post the proposed limited amendments and the proposed FASB model. The staff do not propose discussing this paper at the Board meeting. This paper is for information purposes only and the board will not be asked to make any decisions in respect of this paper.

(b) **Agenda Paper 6B: Sweep issue – regulated interest rates –** In this paper, the staff bring the IASB's attention to feedback it has received that in a particular jurisdiction, pricing of financial assets is extensively regulated by the government or central bank and that interest rates set by the government or central bank represent the legal basis for pricing retail and commercial loans denominated in local currency in that jurisdiction[1]. Absent an amendment, such instruments denominated in that currency appear to be ineligible for a measurement other than fair value through profit or loss (FVPL). The staff ask the IASB whether such a case would warrant an exception to IFRS 9 that would allow instruments that do not have typical solely principal and interest (P&I) features, but on which there are no alternative legal pricing bases available, to be eligible to be classified as other than FVPL.

[1] The focus in this paper is not so much on who sets the rates. Governments are involved in determining interest rates in various ways in numerous (if not all) jurisdictions. It is rather on how the term structure of interest rate works in this case.