

## STAFF PAPER

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## REG FASB | IASB Meeting

Project	Financial Instruments: Classification and Measurement		
Paper topic	Project plan for joint redeliberations		
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### Purpose of the paper

1. This paper provides a brief background of the boards' respective projects on the classification and measurement of financial instruments and outlines a plan for the upcoming joint redeliberations. As those redeliberations progress, the staff will update this paper to track progress and update the plan.
2. This paper is for information purposes only and there are no questions for the boards.

### Background

3. Since 2005, the IASB and the FASB have had a long-term objective to improve and simplify the accounting for financial instruments and to achieve increased international comparability in this area. However the alignment of the IASB's and the FASB's respective accounting models for financial instruments has been complicated by the different timetables established by the boards in response to their respective stakeholder groups.

**IASB**

4. The IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets in November 2009. In October 2010 the IASB added the requirements related to the classification and measurement of financial liabilities.<sup>1</sup> In November 2011, the IASB decided to consider making limited modifications to IFRS 9 with the following objectives:
- (a) to address specific application questions raised by constituents since the issuance of IFRS 9;
  - (b) to take into account the interaction of the classification and measurement model for financial assets with the IASB's Insurance Contracts project; and
  - (c) to reduce key differences with the FASB's tentative classification and measurement model.
5. In making this decision, the IASB noted that IFRS 9 has generally been found to be conceptually sound and operational and therefore the IASB confirmed the narrow scope of the redeliberations consistent with the objectives stated above. The IASB also noted that many interested parties have either already applied IFRS 9 early or dedicated significant resources in preparation for its initial application. The IASB has been mindful of the extent of changes to IFRS 9 and has sought to minimise the cost and disruption to interested parties.

**FASB**

6. In May 2010 the FASB issued a comprehensive proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)* (2010 ASU) on accounting for financial instruments that contained proposals on classification and measurement,

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<sup>1</sup> Most of the requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39.

impairment methodology and hedge accounting. The 2010 ASU proposed a fair value model, and in the light of the feedback received, the FASB started re-deliberations on the proposed model in December 2010.

### **Joint deliberations**

7. Consistent with the boards' long-standing objective of increasing international comparability in the accounting for financial instruments and the feedback received from their respective constituents, the boards decided in January 2012 to jointly deliberate selected aspects of their classification and measurement models. With the objective of reducing key differences, the boards jointly discussed the following topics:
  - (a) the contractual cash flow characteristics of financial assets, including the need for bifurcation of financial assets and if pursued, the basis for bifurcation;
  - (b) the basis for and the scope of a possible fair value through other comprehensive income measurement (FVOCI) category for financial assets; and
  - (c) interrelated issues from the topics above (for example, disclosures and the model for financial liabilities).
8. The boards' joint deliberations resulted in the publication of the IASB's exposure draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* (Proposed amendments to IFRS 9 (2010)) ('Limited Amendments ED') and the FASB's proposed Accounting Standards Update *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ('proposed ASU'). The comment period on these proposals ended on 28 March 2013 and 15 May 2013, respectively. In May, the staff presented to the boards the summary of the feedback received on the IASB's Limited Amendments ED. In June, the staff presented to the boards an update on the IASB's user outreach activities and the summary of the outreach and comment letter feedback received on the FASB's proposed ASU.

## Joint redeliberations

9. The plan for the joint redeliberations has been developed on the basis of the feedback received on the IASB's Limited Amendments ED and the FASB's proposed ASU. The plan also reflects the fact that the boards had different starting points in the joint deliberations and therefore the scope of their respective proposals was different. That is, the IASB proposed *limited* amendments to the *existing* classification and measurement requirements for financial assets in IFRS 9 whereas the FASB proposed a *comprehensive new* classification and measurement model for financial instruments. Accordingly, some of the topics will be re-deliberated jointly whereas other topics will be re-deliberated separately. For example, at the July IASB-only meeting, the staff will ask the IASB to consider transition requirements for the 'own credit' provisions in IFRS 9 and IFRS 9's mandatory effective date.
10. The plan for the joint redeliberations is set out below.

## Contractual cash flow characteristics assessment

11. At the September meeting, the staff will ask the boards whether they would like to clarify various aspects of the contractual cash flow characteristics assessment, including:
  - (a) The objective of amortised cost measurement and the fundamental principles underpinning the solely payments of principal and interest condition ('solely P&I condition');
  - (b) The meaning of 'principal' and 'interest', including the meaning of 'time value of money'; and
  - (c) The application of the solely P&I condition to particular features, including de minimis features (ie features that can only ever have a de minimis effect on the contractual cash flows), contingencies (including those that are unlikely to occur) and prepayment/extension features.

12. In addition, after the solely P&I condition is clarified, the staff will ask the boards to consider the feedback from their respective stakeholder groups on other issues related to the contractual cash flow assessment. For these topics, some discussions will be joint and some separate and for joint discussions the questions the staff will ask the boards may differ. An example of this is the elimination of bifurcation of financial assets and the interaction with the model for financial liabilities. The FASB have exposed this for comment so will be asked to confirm whether this position should be retained whereas the IASB's Limited Amendments ED did not seek feedback on the existing approach to bifurcation in IFRS 9.

### ***Business model assessment***

13. At the September meeting, the staff will also ask the boards to discuss the business model assessment. In particular, in light of the feedback received from the respondents and notably users of financial statements, the staff will ask whether the boards would like to:
- (a) Retain three classification and measurement categories for financial assets;
  - (b) Consider the articulation of the objectives for the business models and related issues (such as which category is the residual and whether the business models should be 'mandatory' or optional in particular circumstances); and
  - (c) Consider enhancements to, and the potential for further alignment of, the application guidance on determining the business model within which the financial assets are managed.
14. At a subsequent meeting, the staff will also ask the boards whether they would like to confirm or reconsider particular aspects of their respective proposals on reclassification of financial assets upon a change in the business model.

### ***Other topics***

15. At a subsequent meeting, the staff will ask the boards whether they would like to confirm their respective proposals on the fair value option or whether they would like to more closely align their positions and/or consider changes to when the fair value option may be available.
16. Finally, the staff will ask the boards to discuss any additional interrelated issues that may arise from the joint re-deliberations. Some of these discussions may need to be joint while others may need to be separate.
17. The staff will also ask boards to separately consider other aspects of their respective proposals, such as transition and disclosure requirements.
18. The staff anticipate that re-deliberations on the joint topics as well as the IASB only re-deliberations will be substantially complete by the end of 2013. The FASB will continue to expeditiously consider the feedback received on its proposed ASU during the second half of this year.