

STAFF PAPER

16-18 September 2013

REG FASB | IASB Meeting

Project	Financial Instruments: Classification and Measurement		
Paper topic	Cover paper		
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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 an overview of the joint redeliberations. As these redeliberations progress, this paper is updated to track progress and update the plan.
2. This paper is for informational purposes only and there are no questions for the boards.

Background

3. To increase international comparability in the accounting for financial instruments, 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;

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- (b) the basis for and the scope of a possible *fair value through other comprehensive income (FVOCI) measurement category* for financial assets; and
 - (c) interrelated issues from the topics above (for example, disclosures and the model for financial liabilities).
4. 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* ('the FASB's proposed ASU').
 5. In May 2013, the staff presented to the boards the summary of the feedback received on the Limited Amendments ED. In June 2013, the staff presented to the boards an update on the IASB's user outreach activities and a summary of the outreach and comment letter feedback received on the FASB's proposed ASU. In July 2013, the staff presented to the boards the plan for joint redeliberations.
 6. The plan has been developed on the basis of the feedback received on both the Limited Amendments ED and the FASB's proposed ASU and 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 in IFRS 9 for financial assets whereas the FASB proposed a *comprehensive new* classification and measurement model for financial instruments.
 7. 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 asked the IASB to consider transition requirements for the 'own credit' provisions in IFRS 9 and IFRS 9's mandatory effective date.

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Joint redeliberations

Contractual cash flow characteristics assessment

8. At this meeting, the staff will ask the boards whether they would like to clarify various aspects of the solely principal and interest ('P&I') condition in IFRS 9 *Financial Instruments* and the FASB's proposed ASU.
9. There are six papers on the solely P&I condition presented for the boards' consideration:
 - (a) Agenda Paper 6A / FASB Memo 241 *Cover Paper: Contractual Cash Flow Characteristics*
 - (b) Agenda Paper 6B / FASB Memo 242 *Contractual Cash Flow Characteristics: Amortised Cost as a Measurement Basis*
 - (c) Agenda Paper 6C / FASB Memo 243 *Contractual Cash Flow Characteristics: The Meaning of 'Principal'*
 - (d) Agenda Paper 6D / FASB Memo 244 *Contractual Cash Flow Characteristics: The Meaning of 'Interest'*
 - (e) Agenda Paper 6E / FASB Memo 245 *Contractual Cash Flow Characteristics : Contingent Features*
 - (f) Agenda Paper 6F / FASB Memo 246 *Contractual Cash Flow Characteristics: Prepayment Features*
10. To assist the boards in their redeliberations, Agenda paper 6A / FASB Memo 241 introduces the series of papers, sets out the scope and the objective of the series and provides a summary of the staff recommendations and questions for the boards. Detailed analysis and conclusions on each topic are presented in the respective papers.

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Business model assessment

11. At the October meeting, the staff will ask the boards to discuss the business model assessment. In particular, the staff will ask whether the boards would like to clarify:
 - (a) the articulation of the business model assessment and the information that should be used to make the assessment;
 - (b) the objectives for the different business models, including whether three measurement categories should be retained; and
 - (c) the application guidance relevant to each business model within which the financial assets are managed.

Other topics

12. At a subsequent meeting, the staff will ask the boards to consider 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.
13. 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.