October 2009

International Financial Reporting Standards

Financial Instruments Recognition and Measurement: Replacement of IAS 39

2 October 2009 Project Update

IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB

Timetable
One project – three stages

Project stage	Exposure Draft	Finalisation
1. Classification and Measurement (Board redeliberations commenced)*	Comment period closed	In time for year end financial statements 2009
2. Impairment methodology (Board deliberations ongoing)	Request for info comment period closed ED October 2009	Full replacement of IAS 39 during 2010
3. Hedge Accounting (Board deliberations started)	December 2009	Full replacement of IAS 39 during 2010

*Closely tied to 'own credit'. Comment period for discussion paper closed

Classification and Measurement ED
Objectives of project

- Objectives:
  - primary objective >improve clarity of accounting for financial instruments
  - secondary objective > simplification

Classification and Measurement
Overview of proposed approach

Basic loan features

+

Managed on a contractual yield basis

❯ **Amortised cost**
(one impairment method)

❯ **FVO for accounting mismatch**

No reclassification

All other instruments:
- Equities
- Derivatives
- Some hybrid contracts
- …

❯ **Fair Value**
(no impairment)

❯ **Equities: OCI presentation available**

Classification and Measurement ED

- Feedback obtained
  - Over 250 comment letters
  - Comment letters consistent with outreach
    - Joint roundtables held in Europe, Asia and North America
    - Over 70 outreach meetings
    - Meeting of Financial Instruments Working Group (FIWG), SAC and ARG
    - Participation in Financial Stability Board meetings
  - Chairman address to ECON Committee

Classification and Measurement
High level feedback

√	X
Mixed measurement model	Alternative approaches (closer to FASB model)
Amortised cost criteria (subject to clarifying)	Lack of reclassification
OCI presentation alternative	Restraints around OCI alternative

Classification and Measurement ED

Will the impairment of AFS debt be addressed for 2009 year end accounts?
•Debt securities either: •At amortised cost – impairment based on cash flows of instrument *not* market prices •At fair value – not subject to impairment
Objective of timetable > changes available for 2009 year end

Classification and Measurement ED

Would there be more fair value accounting?

- Movements in and out of fair value
  * effect depends on portfolio and business model
- Fair value option - only for accounting mismatches
- Traditional lending business > amortised cost
- Redeliberating:
  * treatment of financial liabilities
  * elimination of bifurcation
  * what structured debt is at fair value
  * whether distressed debt should be at fair value
  * treatment of OCI equity investments

Classification and Measurement ED

What happens to items reclassified in October 2008?
•No special rules or policy for these items
•Eligible for amortised cost if terms of the instrument and business model qualify
•Redeliberations on structured debt and bifurcation important

Classification and Measurement
Other issues raised in letter

Issue raised	Status
Classification criteria Prominence of business model Specific instrument concerns	Redeliberating issues raised
Reclassification prohibition	Redeliberating
Restrictions on OCI equity investments	Redeliberating including - dividend treatment and gains/losses on sale
Insurance concerns	OCI redeliberations Considering interaction with insurance project
Embedded derivatives	Redeliberating

Classification and Measurement
Other issues raised in letter (continued)

Issue raised	Status
Financial liabilities	Confirmed in scope but to consider -treatment of own credit -bifurcation
Transition -should not be too burdensome -must consider impact of Phases	Redeliberating to consider alternative (less onerous) approaches Transition of Phases will consider overall project

Impairment feedback – expected loss model

- Information gathered to address FEASIBILITY

  - 79 responses to Request for Information

  - over 50 outreach meetings with 30+ constituents

- Main message on feasibility
  - operationally challenging
    - difficulty of estimating losses over life
    - difficulty estimating timing
  - lead time for system changes commonly estimated at 2-3 years

Impairment – direction

Tentatively agreed to pursue:

- Principles based ED proposing expected loss impairment
- Establish an expert advisory group
- Proposed mandatory effective date 3 years after publication of final standard with early adoption permitted