



International Accounting Standards Board®

# Press Release

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## **IASB provides update on response to the credit crisis, issues draft report from expert advisory panel on measurement and disclosure of fair value when markets are no longer active**

The International Accounting Standards Board (IASB) has today released an update on a range of projects that collectively address issues highlighted by the current dislocation in credit markets, commonly referred to as the credit crisis. It has also published a draft report of the discussions of the expert advisory panel set up by the IASB to consider the application of fair value when markets are no longer active.

Commenting on the update and the draft report, Sir David Tweedie, Chairman of the IASB, said:

Accounting is not the cause of the credit crisis, but it is important that market participants should have confidence in the information presented within financial statements. It is for this reason that the IASB has been monitoring the performance of IFRSs and has moved swiftly to deal with issues highlighted by the credit crisis.

We have made good progress in meeting the goals set out in the Financial Stability Forum report of April 2008 and will continue to synchronise our response with that of the global regulatory community.

Accelerating the completion of projects described by the Memorandum of Understanding agreed with the FASB will further benefit capital markets by reducing the possibility of accounting arbitrage through the development of a single set of high quality standards used throughout the world's capital markets.

I would also like to thank members of the expert panel for taking considerable time out during the summer recess to help the IASB in considering these important issues.

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**Notes for editors****About the IASB**

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation, an independent private sector, not-for profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. Its 14 members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.

## **Update on IASB response to the credit crisis**

In April 2008 the Financial Stability Forum published *Enhancing Market and Institutional Resilience*, a report to the Group of Seven (G7) finance ministers and central bank governors. The report was a result of collaboration by the main international bodies and national authorities in key financial institutions, including the IASB. It set out 67 recommendations, which were endorsed by the G7 on 11 April.

Of the recommendations, three relate specifically to financial reporting:

1. **Off balance sheet items:** The IASB should improve the accounting and disclosure standards for off balance sheet vehicles on an accelerated basis and work with other standard-setters toward international convergence.
2. **Fair value in illiquid markets:** The IASB should enhance its guidance on valuing financial instruments when markets are no longer active. To this end, it will set up an expert advisory panel in 2008.
3. **Disclosure:** The IASB will strengthen its standards to achieve better disclosures about valuations, methodologies and the uncertainty associated with valuations.

Each recommendation refers to projects that were already on the IASB's active agenda, but in response to the credit crisis the IASB is giving those projects priority. A report on their progress is set out below:

### **Update on projects affected by the credit crisis**

#### Fair value measurement

As part of the project on fair value measurement and at the request of the Financial Stability Forum, the IASB immediately set up an expert advisory panel to examine the application of the fair value measurement guidance in International Financial Reporting Standards (IFRSs) when markets are no longer active. The panel includes preparers and users of financial statements, as well as regulators and auditors. The members were selected on the basis of their recent practical experience with the valuation of financial instruments in the current market environment.

The panel's remit was to help the IASB in reviewing the valuation processes used by practitioners. The IASB asked the panel to consider possible enhancements to the guidance on valuation and disclosures of financial instruments and on disclosures when markets are no longer active, but not to address the appropriateness of fair value as a measurement approach for particular types of financial instruments. Those broader questions related to fair value are being dealt with by the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (see below).

Since its formation in May 2008 the panel has met on six occasions. A draft report setting out a staff summary of the panel's discussions has been posted on the IASB Website. It contains two sections, which separately consider the practices related to measurement and disclosures. Interested parties are invited to provide feedback on the draft report by 3 October 2008. Responses on the draft report will be discussed at the panel's next meeting, which is planned for early October 2008, and a final version will be posted on the Website shortly afterwards. The panel's discussions will help with the development of an exposure draft on fair value measurement, which the IASB aims to publish in mid-2009.

### Consolidation

The project on consolidation aims to re-examine and clarify the criteria for consolidation of all entities, with a particular focus on the consolidation of special purpose and structured investment entities. The project will also address the disclosure requirements for consolidated and non-consolidated entities.

Since accelerating the project in April 2008 the IASB has consulted widely, including preparers and standard-setters across the world. A first draft of a revised standard on consolidation has been prepared by staff, and will be discussed during a series of round-table discussions, the first of which will be held in London on 17 September 2008. Further meetings are planned in October.

The IASB expects to publish an exposure draft of the revised standard later this year, and to issue the standard in the second half of 2009.

### Derecognition

The project on derecognition, which is being conducted jointly with the US Financial Accounting Standards Board (FASB), seeks to improve accounting guidance on when financial instruments may be removed from an entity's balance sheet by securitisation or similar techniques. Added to the IASB's active work programme in July 2008, the project will be discussed further at the IASB's meeting in October. The IASB expects to publish an exposure draft after it has published the exposure draft on consolidation.

### Disclosures

At its meeting in September the IASB will consider a comprehensive package of proposed amendments to IFRS 7 *Financial Instruments: Disclosures* as part of a post-implementation review of the standard. The IASB will consider papers on disclosures related to off balance sheet risk, fair value measurement and financial instrument risk, including disclosures related to liquidity risk.

The IASB expects to publish the proposed amendments later this year as an exposure draft of a comprehensive IFRS 7 disclosure package.

### IAS 39 replacement

The IASB has begun work on replacing IAS 39 *Financial Instruments: Recognition and Measurement*. As a first step, in March 2008 it published for public comment a discussion paper *Reducing Complexity in Reporting Financial Instruments*. IAS 39 is generally considered complex and difficult to understand. In addition it contains a number of alternative ways of measuring financial instruments, which can lead to reduced levels of comparability between similar entities. The discussion paper seeks views on the feasibility of reducing the number of ways of measuring these instruments both to reduce complexity and to improve comparability. The consultation period ends on 19 September, and after considering the responses the IASB will decide later this year whether to add the project to its active agenda.

### Global convergence of accounting standards

The Financial Stability Forum Report recommended that the convergence of accounting standards around the world should be accelerated. The IASB has therefore expedited

discussions with standard-setters representing major capital markets across the world and has set 2011 as a target date to complete the projects described in its Memorandum of Understanding with the FASB (announced in 2006), along with the completion of projects described by the 'Tokyo Agreement' of 2007 between the IASB and the Accounting Standards Board of Japan (ASBJ).

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