

June 2009

International Financial Reporting Standards

Financial Instruments Recognition and Measurement

Replacement of IAS 39 – Project update

Webcast by IASB staff

IASC Foundation

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

2008 IASC Foundation | 30 Cannon Street | London EC4M 6XH | UK | www.iasb.org



Timetable

One project – three stages



| Project stage | Exposure Draft | Finalisation |
|--|----------------|--|
| 1. Classification and Measurement (Board deliberations ongoing) | July 2009 | In time for year end financial statements 2009 |
| 2. Impairment (Board deliberations ongoing) | October 2009 | Full replacement of IAS 39 during 2010 |
| 3. Hedge Accounting (Board deliberations not started yet) | December 2009 | Full replacement of IAS 39 during 2010 |



Classification and measurement approach

Objective of project stage



The objective of the classification and measurement project stage being considered is to produce decision-useful information about amounts, timing and uncertainty of cash flows.



Classification and measurement

Two measurement methods being considered

Amortised cost

- Those instruments for which amortised cost provides useful information

Fair Value

- Some equity instruments FV though OCI
- Fair value option for mismatches
- Some embedded derivatives?



Classification and measurement

What would this approach change?



| IAS 39 | Approach being considered |
|--|---|
| <p>Many classification categories eg held to maturity investments, available for sale financial assets, loans and receivables, fair value through profit and loss...all with different measurement methods</p> | <p>Two measurement methods: Fair value or Amortised cost</p> <p>Presentation of fair value changes of particular equity instruments in OCI with no recycling or impairment requirements</p> |
| <p>Tainting rules for held to maturity category</p> | <p>No tainting rules</p> |
| <p>Cost exemption for unquoted equity instruments and related derivatives</p> | <p>No cost exemption</p> |
| <p>Reclassification under certain circumstances</p> | <p>No reclassification</p> |
| <p>Hybrid instruments are assessed for embedded derivatives which may result in bifurcation of the hybrid instrument into a derivative financial instrument and a non-financial host</p> | <p>No bifurcation of embedded derivatives for hybrids with financial hosts, or</p> <p>Retain existing requirements</p> <p>Retain existing requirements for non-financial hosts</p> |



Classification and measurement

Transition and effective date



- Two possible alternatives to transition being considered:
 - Retrospective, possibly with some transition relief
 - Prospective
- Effective date for classification and measurement being considered
 - Available for use in 2009 year-end financial statements
 - Mandatory application later
- Early adoption
 - Additional disclosures likely to be proposed if retrospective



Classification and measurement

What is next?



- Discussions continue at June IASB meeting
 - Classification, including fair value option and embedded derivatives
 - OCI presentation
 - Transition



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Impairment

Where have the IASB got to?



- IASB has already had extensive discussions about a possible expected loss impairment approach
 - included discussions with some interested stakeholders
- Wider consultation needed given the significant impact any proposed change could have
 - Request for initial input via website posting
- IASB will issue ED in October 2009



Impairment

What is next?



- Discussions continue at June IASB meeting
 - Education session by bank on operational issues arising from expected loss impairment approach
 - Education session from Bank of Spain on Dynamic Provisioning approach
- Website posting June 2009 requesting input



Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

