22 September 2009

IASB Update

From the International Accounting Standards Board

This IASB *Update* is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The International Accounting Standards Board met in London on 22 September 2009 for an additional Board meeting to continue work on the project to replace existing requirements for financial instruments.

Financial instruments: replacement of IAS 39

Classification and Measurement

The Board continued its discussions on responses received to its exposure draft on *Classification and Measurement*, published in July 2009.

IAS 39 *Financial Instruments: Recognition and Measurement* has an exception that requires an entity to measure at cost investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably determined (as well as derivatives that are linked to such equity instruments and which must be settled by delivery of them). The exposure draft proposed to remove that exception and require that such investments be measured at fair value.

The Board tentatively decided to provide guidance for when entities can use a simplified current measurement for equity instruments if determining fair value is impracticable. In addition, the Board tentatively decided to amend IAS 34 *Interim Financial Reporting* to allow an entity to carry forward that measure if there is no evidence of a significant change in that measure since the last reporting date.

Impairment of financial instruments

The Board also continued its discussions on impairment of financial instruments. Regarding the drafting of an exposure draft (ED) on impairment the Board tentatively decided:

- that the ED should provide principle-based guidance regarding cash flow estimates on a collective (portfolio) and an individual basis (including the interplay between those bases) that focuses on two aspects:
  a. using the approach that provides the best estimate; and
  b. ensuring that if entities switch between approaches that does not result in double counting.
- that the ED includes concise application guidance for forecasting cash flows and the treatment of trade receivables.
- to use the Expert Advisory Panel (EAP) as a forum to explore further some other issues (determination of the initial expected spread, practical aspects of applying the effective interest method and interaction with Basel II requirements).
- that the ED clarifies aspects in relation to the measurement objective (point-in-time versus through-the-cycle-estimates, expected value versus most probable value and the use of entity specific versus market data).

Regarding transition proposals the Board tentatively decided not to propose either full retrospective or full prospective application. The Board asked the staff to explore further an alternative transition approach for financial instruments that were recognised before the date of transition. This approach would involve determining on transition a new effective interest rate on the basis of the expected cash flows over the remaining life of the financial instrument that would be subject to a floor (the risk free interest rate) and a ceiling (the contractual interest rate).

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