

Accounting Standards Board

ASB Issues Guidance on the 'Carved Out' IAS 39

ASB PN 262

15 December 2004

Following the "carve outs" in the version of IAS 39 'Financial Instruments: Recognition and Measurement' adopted by the European Commission (EC) in November, the ASB has today issued guidance for entities in the UK and the Republic of Ireland preparing their financial statements in accordance with EU-adopted IFRSs.

Related Documents



[ASB Guidance on Application of IAS 39](#)

The guidance addresses the parts of IAS 39 that have been carved out and the fact that certain items in the Companies Act 1985 or equivalent national legislation continue to apply to the relevant entities. It covers:-



[Help](#)

A. Hedge Accounting

The amended IAS 39 is less restrictive than the unamended standard in this regard. Consequently, if an entity wishes to comply with both the amended standard and the unamended standard, it can do so – by applying the hedge accounting requirements of the unamended standard. The ASB continues to recommend that companies do this.

B. Fair Valuing of Financial Assets

The EC's carve outs have no effect on an entity's ability to measure financial assets at fair value through profit or loss.

C. Fair Valuing of Financial Liabilities

- i. The EC's carve outs do not change which financial liabilities are required to be measured at fair value through profit or loss.
- ii. The EC's carve outs do, however, affect which financial liabilities are permitted to be fair valued through profit or loss. The full standard's permission to measure any financial liability through profit and loss is deleted in the carve out. As a result only those financial liabilities required (see (i) above) to be measured at fair value through profit and loss are permitted to be so valued under the standard.

This stark situation, however, is complicated by the EC stating that one effect of the carve out is that certain accounting requirements in national legislation come into play. One major practical effect of this is that an entity that prepared its 2004 accounts in accordance with such national legislation and stated some financial liabilities at fair value through profit or loss can continue, if it wishes, to apply that accounting treatment in following years.

D. Transitional Arrangements

The EC has stated that entities applying the carved out version of IAS 39 can regard themselves as first time adopters of IFRSs and thus take advantage of the relief provisions of IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The ASB is unsure of the status of this EC statement and whether it is in fact correct. It urges entities to avoid this uncertainty by complying from the outset with both the amended and unamended versions of the standard.

Chairman's comments

Commenting on the guidance Ian Mackintosh, Chairman of the ASB said:

"We set out to give simple and straightforward advice on the carved out IAS 39. Unfortunately, we have found the situation to be complicated and sometimes unclear. Consequently our guidance is much more lengthy and inconclusive than we hoped and will need to be studied carefully by preparers."

END

Press enquiries:

Ian Mackintosh (ASB Chairman) on 020 7492 2434 or Simon Peerless (Project Director) on 020 7492 2424.

Notes to Editors

1. The ASB is an operating board of the Financial Reporting Council (FRC). The FRC is a unified, independent regulator. Its mission is to promote confidence in corporate reporting and governance. The FRC incorporates five operating boards: the ASB, the Auditing Practices Board, the Financial Reporting Review Panel, the Accountancy Discipline and Investigation Board and the Professional Oversight Board for Accountancy.

2. The role of the ASB is to issue accounting standards. The ASB collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both in order to influence the development of international standards and in order to ensure that its standards are developed with due regard to international developments.
3. The ASB has up to ten Board members, of whom two (the Chairman and the Technical Director) are full-time, and the remainder, who represent a variety of interests, are part-time.
4. The ASB announced in Press Notice 256 of 11 October that it would be issuing the guidance in the light of the concerns of UK companies following the adoption by the European Commission of an amended version of IAS 39 ('amended' IAS 39) rather than IAS 39 as published by the International Accounting Standards Board. The 'amended' IAS 39 has 'carve outs' that affect two parts of IAS 39: the hedge accounting requirements and the so-called 'fair-value option'.