International Accounting Standards Board®

Press Release

7 April 2009

IASB responds to G20 recommendations, US GAAP guidance

The International Accounting Standards Board (IASB) today responded to recent recommendations of the leaders of Group of Twenty (G20) countries regarding accounting standards and to recent decisions taken by the US Financial Accounting Standards Board (FASB). (For the G20 recommendations, see http://www.londonsummit.gov.uk/resources/en/PDF/annex-strengthening-fin-sysm.)

Responding to the G20

The IASB is committed to taking action on each of the items recommended by the G20 by the end of 2009, the target date suggested by the G20, in order to ensure globally consistent and appropriate responses to the crisis. Later this week, the IASB will publish a summary of the work already underway and proposed further actions.

In its recommendations, the G20 called for 'significant progress towards a single set of high quality global accounting standards.' To achieve this objective, the IASB is working intensively with the FASB, the Accounting Standards Board of Japan (ASBJ), and other national standard-setters. At their meeting on 24 March, the IASB and the FASB reaffirmed their commitment to a joint approach to the financial crisis and to the overall goal of seeking convergence between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP). The Boards described this goal in a Memorandum of Understanding (MoU) first published in 2006 and updated in 2008.

Addressing Recent US GAAP Changes

On 2 April the FASB agreed to publish guidance in the form of FASB Staff Positions (FSPs) on fair value measurement and on impairments of debt securities. The IASB, which has worked closely with the FASB on convergence issues since 2001, understands the strong desire, voiced by many, for consistency between IFRSs and US GAAP on areas related to the financial crisis. EU Finance Ministers emphasised this point in a statement on 4 April. (See http://www.eu2009.cz/en/news-and-documents/news/statement-by-the-informal-ecofin-15621/.)

Immediately following FASB's publication of its proposals on fair value measurement and impairment, the IASB initiated its shortened 30-day consultation process on them, in light of the urgency of the issue. This consultation ends on 20 April.

Initial reports regarding new or additional divergences between IFRSs and US GAAP being created by these FSPs appear to be overstated. A preliminary review of the FASB's decisions (see http://www.fasb.org/action/sbd040209.shtml) by IASB staff indicates that FASB's objectives and approach on the application of fair value when a market is not active appear to be broadly similar to those in IFRSs. The 14 October 2008 press release from the IASB points in this direction. It states:

> … [The Expert Advisory] Panel [the body that has issued educational guidance related to fair value measurement under IFRSs] agreed to emphasise that the objective of a fair value measurement is the price at which an orderly transaction would take place between market participants on the measurement date, not the price that would be achieved in a forced liquidation or distress sale. The Panel reaffirmed that such transactions should not be considered in a fair value measurement, whilst also noting that even in times of market dislocation not all market activity arises from forced liquidations or distress sales.
>
> The Panel also agreed to emphasise existing guidance within International Financial Reporting Standards (IFRSs) that using the entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available.

Once the FASB has finalised the FSP on fair value measurement, which they expect to do later this week, the IASB staff will assess whether the FSP could lead to different results in practice.

The FASB also intends to publish an FSP modifying the recognition and presentation of other-than-temporary impairments of debt securities classified as 'available for sale' or 'held to maturity'. In requesting views on the FASB's proposals, the IASB noted that the concept of other-than-temporary impairments in US GAAP does not exist in IFRSs. Unlike US GAAP, IFRSs require an entity to recognise an impairment only if the entity has objective evidence to support an expectation of a default on contractual cash flows. In contrast, after the FSP, US GAAP will require an entity to recognise an impairment if it is possible that it will not collect all contracted cash flows or if it is more likely than not that the entity will dispose of the debt security before the entity can recover its cost basis.

More generally, IFRSs and US GAAP have multiple and different impairment models that relate to different financial asset types in different ways. The 'triggers' that initiate an impairment and the circumstances in which reversals of an impairment are allowed also differ. These factors mean that efforts to align IFRS and US GAAP impairment models could entail significant and complex change.

The IASB recognises the need for rapid consideration of these issues, which was anticipated by the shortened consultation period. Staff analysis, the comments solicited by the IASB's consultation, and input received from the Financial Crisis Advisory Group and the Standards Advisory Council will inform the IASB's decision at its 20-24 April meeting as to whether, in the light of FASB's actions, further guidance on the application of fair value in inactive markets and impairment of debt securities is needed.

At the same time, the IASB notes that last week the IASC Foundation Monitoring Board and the Trustees supported the IASB and the FASB's desire to prioritise the comprehensive project to produce a new standard rather than making further piecemeal adjustments. The comprehensive project is to undertake, on an accelerated basis, the replacement of existing financial instruments standards (IAS 39 *Financial Instruments: Recognition and Measurement*, in the case of the IASB) with a common and globally accepted standard that would address issues arising from the financial crisis in a comprehensive manner. The IASB plans to publish proposals within six months. This course of action is consistent with the call by the G20 'to reduce the complexity of accounting standards for financial instruments'.

END

For press enquiries:

Mark Byatt, Director of Corporate Communications,
Telephone: +44 (0)20 7246 6472; email: mbyatt@iasb.org

Sonja Horn, Communications Adviser,
Telephone: +44 (0)20 7246 6463; email: shorn@iasb.org

Notes to the Editors

About the IASB

The IASB, based in London, began operations in 2001. The IASB has 14 members, who are drawn from nine countries at present and have a variety of professional backgrounds.

The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

About the Expert Advisory Panel

The panel was formed in May 2008 to assist the IASB in reviewing best practices in the area of valuation techniques and formulating any necessary additional guidance on valuation methods for financial instruments and related disclosures when markets are no longer active.

The expert advisory panel comprises experts from users, preparers and auditors of financial statements, as well as regulators and others. Participants were selected on the basis of their practical experience with the valuation of financial instruments in the current market environment. The panel met on seven occasions and the IASB published educational guidance reflecting the outcome of the panel meetings in October 2008.