International Accounting Standards Board®

Press Release

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IASB sets out timetable for IAS 39 replacement and its conclusions on FASB FSPs

The International Accounting Standards Board (IASB) today set out a detailed six-month timetable for publishing a proposal to replace its existing financial instruments standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB also announced the results of its 30-day accelerated consultation on the Staff Positions (FSPs) on fair value measurement and impairment published recently by the US Financial Accounting Standards Board (FASB).

The IASB's comprehensive project on financial instruments responds directly to and is consistent with the recommendations and timetable set out by the Group of 20 (G20) nations at their meeting earlier this month. They called for standard-setters 'to reduce the complexity of accounting standards for financial instruments' and to address issues arising from the financial crisis, such as loan-loss provisioning. The IASB will work jointly with the FASB to pursue the objective of a globally accepted replacement of the requirements on accounting for financial instruments.

At its meeting this week, the IASB reviewed the FASB FSPs on fair value measurement and impairment. The IASB considered comments received from its consultation on the FSPs and advice received from the Financial Crisis Advisory Group (FCAG), the Standards Advisory Council (SAC), participants at the three joint IASB-FASB public round tables held in November and December 2008, and other interested parties. The IASB concluded the following:

1. **Fair value measurement:** The guidance on fair value measurement issued by the FASB is consistent with existing guidance on IFRSs, contained in the IASB's Expert Advisory Panel report, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. Therefore, a level playing field exists in this area. To ensure ongoing consistency in the application of IFRSs and US GAAP, the IASB will include relevant guidance from the FSP in the IASB's exposure draft on fair value measurement, which will be published in May.

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2. **Impairment of financial assets:** On the important question of impairment, the IASB agreed with the widespread view amongst commentators that the IASB should improve its impairment requirements. The IASB will take up the broad issue of impairment as part of its comprehensive and urgent review of IAS 39. The IASB believes that an immediate response to the recent FSP on impairment is unnecessary. The IASB will work with the FASB as part of its comprehensive project to ensure global consistency in impairment approaches.

Commenting on the IASB's decisions, Sir David Tweedie, IASB Chairman, said:

> We have heard a clear and consistent message on financial instruments accounting—fix this once, fix it comprehensively, and fix it in an urgent and responsible manner. The IASB is committed to do just that by developing proposals within six months for public comment.

Further information on the IASB's timetable to revise IAS 39 and its conclusion on the consultation on the FASB's FSPs follows in Notes to the Editors.

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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.

Timetable for the proposal to replace IAS 39

The IASB is committed to working with the FASB to pursue the objective of replacing existing requirements.

In developing its proposals, the IASB will take into account the recommendations of the Financial Crisis Advisory Group (FCAG), which is expected to report in July.

The IASB will also undertake extensive outreach to interested parties, including continued meetings with the Basel Committee on Banking Supervision, securities regulators, the FCAG, the Standards Advisory Council, the Financial Instruments Working Group, and interested parties. This will include webcasts, public meetings, and other workshops. The IASB intends to publish a consultation programme shortly.

Staff presented the following detailed time line for progress on key issues for IASB decision at this week's IASB meeting:

April–June	Development of measurement methods including consideration of the expected loss methodology, impairment, and effective interest rate for a cost-based method
May–June	Development of categorisation approach Development of presentation requirements
July	Decision regarding measurement methods and impairment for cost-based method Decision regarding categorisation approach
August	Decision regarding initial measurement Decision regarding fair value option and reclassification Development of other aspects, including scope, derivatives and embedded derivatives, disclosures, transition and effective date Development of application guidance
September–October	Finalisation of proposals for public comment Consideration of the implications of the conclusions for other aspects of IAS 39, including hedge accounting

Fair value measurement

The IASB reviewed the recently published FASB Staff Position, FSP FAS 157-4 (FSP) *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*. The IASB confirmed that the guidance issued by the FASB is consistent with the guidance on IFRSs contained in the IASB's Expert Advisory Panel report, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. The FSP should not result in differing practices. This was confirmed in the responses to the IASB *Request for Views*.

To ensure ongoing consistency in the application of IFRSs and US GAAP in this area, the IASB will include the guidance from the FASB's FSP in the IASB's exposure draft on fair value measurements and will largely use the same words. The IASB will publish this exposure draft in May.

As part of the May exposure draft on fair value measurement, the IASB will also propose additional disclosure requirements about fair value for interim financial reports to ensure consistency with US GAAP. On 9 April 2009, the FASB amended its requirements for disclosures about fair value measurements in interim financial reports. Those amendments are in:

- FSP FAS 107-1 and APB 28-1 *Interim Disclosures about Fair Value of Financial Instruments*, and
- FSP FAS 157-4 *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*.

At its meeting this week, the IASB noted that those disclosures might be relevant when an entity decides how to comply with the disclosure principles in IAS 34 *Interim Financial Reporting*. The IASB expects to discuss at its meeting in May staff proposals to develop an amendment that would emphasise the disclosure principles in IAS 34.

The IASB also decided tentatively that its forthcoming exposure draft (ED) on fair value measurement would propose additional disclosure requirements about fair value for interim financial reports, as follows:

- for financial instruments measured at fair value, the same disclosures as the ED would propose in annual financial statements
- for financial instruments not measured at fair value:
  (a) the fair value of financial instruments, as already required in annual financial statements by IFRS 7 *Financial Instruments: Disclosures*
  (b) the same disclosures as the ED would propose in annual financial statements
- for non-financial assets and non-financial liabilities, no additional specific requirements beyond the existing disclosure requirements in IAS 34.

Impairment

The IASB reviewed the 67 comments to its *Request for Views* on the FASB FSP and sought advice from the Financial Crisis Advisory Group and the Standards Advisory Council. The Financial Crisis Advisory Group, the majority of the Standards Advisory Council's members, national accounting standard-setters, and many of those who responded to its requests for views urged the IASB not to make piecemeal changes to the financial instrument requirements. Although some commentators supported making some of the changes included in the FASB FSP, no respondent supported making all of the changes necessary to align IFRSs with the FASB FSP.

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 ability to reverse an impairment also differs. Unless the IASB addresses those differences, introduces the concept of ‘other-than-temporary impairments’ (a concept that does not exist in IFRSs) and removes the ability to reverse impairments, there will continue to be differences between IFRSs and US GAAP.

The IASB agrees with the many commentators who urged it to improve impairment requirements and to provide consistency between IFRSs and US GAAP in this area. The IASB will include this in the comprehensive revision of IAS 39.