International Accounting Standards Board®

Press Release

FOR IMMEDIATE RELEASE 17 December 2004

IASB issues limited amendments to IAS 39 on transition and initial recognition

The International Accounting Standards Board (IASB) today issued limited amendments to IAS 39 *Financial Instruments: Recognition and Measurement* on the initial recognition of financial assets and financial liabilities. The amendments provide transitional relief from retrospective application of the 'day 1' gain and loss recognition requirements. They allow, but do not require, entities to adopt an approach to transition that is easier to implement than that in the previous version of IAS 39, and will enable entities to eliminate differences between the IASB's Standards and US requirements.

The primary means of publishing Standards and amendments to Standards is by electronic format through the IASB's subscriber Website. Subscribers to the IASB's Comprehensive Subscription Service are able to access the amendment published today through the secure online services area of the IASB's Website (www.iasb.org). Those wishing to subscribe should contact:

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Printed copies of Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*Transition and Initial Recognition of Financial Assets and Financial Liabilities* (ISBN 1-904230-78-4) will be available shortly at £10 each, including postage, from IASCF Publications Department (order copies online through the IASCF shop: www.iasb.org).

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NOTES TO EDITORS

Amendments to IAS 39 Financial Instruments: Recognition and Measurement—-
Transition and Initial Recognition of Financial Assets and Financial Liabilities

When improving IAS 39 the IASB decided to include guidance on when an entity can recognise gains or losses on initial recognition of financial instruments. The revised version of IAS 39 issued in 2003 states that the best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value can be evidenced by comparison with other observable current market transactions, or is based on a valuation technique whose variables include only data from observable markets. It follows that a 'day 1' gain or loss can be recognised only if evidenced in this way. When developing this requirement, the IASB noted that it converged with US generally accepted accounting principles (GAAP).

The transition provisions in the revised IAS 39 and in IFRS 1 *First-time Adoption of International Financial Reporting Standards* required retrospective application of this guidance.

After the revised IAS 39 was issued in December 2003, constituents raised the following concerns:

- retrospective application of the 'day 1' gain or loss recognition requirements will be difficult and expensive, and may require subjective assumptions about what was observable and what was not; and
- retrospective application diverges from the requirements of US GAAP. Similar requirements in US GAAP are applicable only to transactions entered into after 25 October 2002.

Given these concerns the IASB decided, as a special case, to amend the transition requirements in the revised IAS 39. The amendments allow, but do not require, entities to adopt an approach to transition that is easier to implement than that in the revised IAS 39 and also enable entities to eliminate any reconciling differences with US GAAP. The amendments give entities a choice of applying the 'day 1' gain or loss recognition requirements in IAS 39:

- retrospectively (as previously required by IAS 39);
- prospectively to transactions entered into after 25 October 2002 (the effective date of similar requirements in US GAAP); or
- prospectively to transactions entered into after 1 January 2004 (the date of transition to IFRSs for many entities).

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries 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.

A Deloitte & Touche study indicates that 92 countries will either require or permit the use of IFRSs for publicly traded companies beginning in 2005. The 92 countries include Australia, the member states of the European Union, and Russia. At present, some 35 countries require the use of international standards for all domestic listed companies, six other countries require the use of international standards for some companies, and many countries base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. Recently, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions to eliminate differences between IFRSs and Japanese standards.