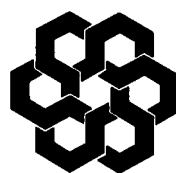


DECEMBER 2000

JOINT WORKING GROUP OF STANDARD SETTERS

Draft Standard and Basis for Conclusions Financial Instruments and Similar Items



**International
Accounting Standards
Committee®**

Joint Working Group of Standard Setters

Draft Standard and Basis for Conclusions Financial Instruments and Similar Items

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Invitation to Comment

This Draft Standard and Basis for Conclusions, Financial Instruments and Similar Items (the Draft Standard), has been prepared by the Financial Instruments Joint Working Group of Standard Setters (JWG) and is being issued for comment by the International Accounting Standards Committee (IASC). Although the Board of IASC has discussed most aspects of the Draft Standard, the views expressed in the Draft Standard do not necessarily reflect the views of the Board. While written in the form of a draft standard, it is not an IASC draft standard or exposure draft.

The Draft Standard represents an important milestone in the Board's project on Financial Instruments. It establishes principles for recognition, measurement, presentation and disclosure of financial instruments and similar items in the financial statements of all enterprises. The primary objective of the Draft Standard is to reflect, in an enterprise's balance sheet and income statement, the effects of events on the fair value of the enterprise's financial instruments, and certain similar items, in the periods in which those events occur. This would affect existing accounting practice in many areas, including those related to the use of hedge accounting.

A 1997 IASC Discussion Paper examined the major recognition and measurement issues for financial instruments. Among other things, it proposed that all financial instruments should be measured at fair value. In light of comments received on the Discussion Paper, the Board decided to go forward in two phases:

- A project to meet the urgent need for a standard on the recognition and measurement of financial instruments; and
- A comprehensive longer-term project in partnership with national standard setters.

IASC completed the first phase in December 1998 when it approved IAS 39. IAS 39 is a move toward the Discussion Paper's proposal to require fair value accounting for all financial instruments.

To further the longer-term project the Board agreed late in 1997 to participate in the JWG. The Chair of the JWG is a representative, and former representative of a board member, of the IASC. The next step in the IASC process would be expected to be an IASC exposure draft. It is important, therefore, for comments to be provided on the Draft Standard at this stage. It is hoped that future work on financial instruments will be carried out together with other standard setters in order to achieve a single method of accounting for financial instruments.

The Board has several other projects that are complementary to its Financial Instruments Project. An Issues Paper, Insurance, was issued in November 1999. It contains a Steering Committee view that insurance liabilities should be measured at amounts representing discounted current estimates of future cash flows from the current contract. The IASC also has a project on the use of discounting in financial reporting. The Board encourages those who respond to this invitation to comment to also provide comments on the issues paper on discounting.

Another important IASC project is on reporting financial performance. This project is essential to address the reporting issues arising from several IASC projects, including the one on financial instruments. The Steering Committee is addressing the reporting of financial performance, including the consequences of movement towards extensive use of fair values in accounting.

It would be helpful for comments to be submitted so as to be received by 30 June 2001, but all comments received before 30 September 2001 will be considered. All replies will be shared with other members of the JWG and placed on the public record unless confidentiality is requested by the commentator. Comments should be sent by E-mail to Commentletters@iasc.org.uk or addressed in writing to:

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