



To:	AASB members	Date:	14 April 2010
From:	Christina Ng	Agenda Item:	13.1
Subject:	Update on Financial Instruments	File:	

Action

1. Receive an update on the progress of the IAS 39 replacement project.
2. Consider the key points, identified by AASB staff in Agenda Paper 13.4, for comment on the IASB Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (Impairment ED), to assist staff in preparing a paper for the June meeting that would form the basis of the AASB's submission to the IASB.

Background

3. The following paragraphs summarise key tentative decisions made by the IASB at its meetings held in March 2010.

Classification and measurement of financial liabilities

4. As informed previously at the AASB March meeting, the IASB tentatively decided to:
 - (a) keep the classification and measurement requirements under IAS 39 for financial liabilities, which are the FVTPL, amortised cost and hybrid categories, including the fair value option (FVO) eligibility conditions; and
 - (b) implement specific recognition requirements for financial liabilities designated under the FVO—that is, recognise total fair value change in profit or loss and recognise the portion attributable to changes in own credit risk in OCI (with an offsetting entry to profit or loss).

A summary of tentative decisions made at the IASB February 2010 meeting can be found in Agenda paper B3B.1 of the joint AASB/FRSB March 2010 meeting.

5. In March 2010, the IASB also tentatively decided to:
- (a) illustrate other alternative views on particular aspects of the decision made on the FVO in its impending exposure draft, which is due to be issued in Quarter 2 of 2010;
 - (b) prohibit the cost exception for any derivative liabilities on investments in unquoted equity instruments. Transition on such liabilities should be consistent with transition requirements under IFRS 9 *Financial Instruments* for derivative assets on unquoted equity instruments previously measured at cost; and
 - (c) keep the subsequent measurement requirements under IAS 39 for loan commitment liabilities and financial guarantee contracts.

Derecognition

6. Agenda Paper 13.2 contains the joint IASB/FASB's summary of proposed derecognition model for financial assets and liabilities for the Board's information.
7. The IASB redeliberated its proposed revised derecognition model for financial assets. The proposed revised model is such that, an entity should derecognise the entire financial asset when it has given up control over any of the cash flows of the asset, and re-recognise a new asset/liability for any continuing involvement in the asset retained. In publishing its next due process document in Quarter 2 of 2010, the IASB has tentatively decided to:
- (a) provide guidance on how the revised derecognition model might apply to pass-through requirements, non-recourse loans and special-purpose entities; and
 - (b) exclude sale and repurchase agreements from the scope of the model. Such transactions will be accounted for as a secured borrowing and hence, will not qualify for derecognition; and
 - (c) clarify some terms and concepts included in its previous exposure draft (issued in March 2009), which were also concerns raised in comment letters.

Other IASB phases

8. The IASB received an update on staff outreach activities on the Impairment ED (phase 2 of the project), and hedge accounting (phase 3 of the project). No decisions were made.
9. IASB staff will continue its outreach activities on the Impairment ED, and submissions are due by 30 June 2010.

10. The IASB will continue its deliberations on hedge accounting in view to issuing an exposure draft in Quarter 2 of 2010. Staff will provide a verbal update on any further progress and relevant decisions emerging from the IASB in the lead-up to the April AASB meeting.

National Standard Setters and Asian-Oceanian Standard-Setters Group

11. A meeting of the National Standard-Setters (NSS) will be held on 14 and 15 April 2010. AASB staff will participate in the discussion of accounting developments and implications from the global financial crisis, which includes consideration of ongoing financial instruments projects.
12. Subsequent to the NSS meeting, AASB staff will present an education session on the IASB proposed measurement model outlined in the Impairment ED to members of the Financial Instruments Working Group of the Asian-Oceanian Standard-Setters Group (AOSSG). The education session is meant to generate discussion and elicit further thoughts on the proposed model. Feedback from the session will be used as input for an AOSSG submission on the Impairment ED.

AASB Amortised Cost and Impairment Roundtables

13. In March 2010, AASB staff held Roundtables in Melbourne and Sydney to discuss the Amortised Cost and Impairment ED. Summary findings of the Roundtable discussions are included in Agenda paper 13.3 for the Board's information.
14. AASB staff have identified some key points for comment on the Impairment ED and included these for the Board's consideration in Agenda paper 13.4, at the April Board meeting.

Attachments

- Agenda Paper 13.2 – IASB/FASB summary of proposed derecognition model
- Agenda Paper 13.3 – Summary findings of the AASB Amortised Cost and Impairment Roundtables
- Agenda Paper 13.4 – Key points for comment on the Amortised Cost and Impairment ED