



To:	AASB members	Date:	18 August 2010
From:	Christina Ng & Angus Thomson	Agenda Item:	8.1
Subject:	Financial Instruments Update	File:	--

Action

Consider Agenda paper 8.2, and identify the main issues and the key comments you wish to make to both the IASB and the FASB on the IASB's Request for Comment on the FASB's Exposure Draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (FASB ED).

Receive an update on the progress of the IASB's financial instruments projects.

Note proposed AASB staff plan in Agenda paper 8.5.

Background

1. The FASB ED was issued in May 2010 and seeks comment by 30 September 2010. Following the FASB ED, the IASB issued a Request for Comment on the FASB ED. Unlike the IASB, which is developing its replacement for IAS 39 in stages, the FASB ED addresses most of the issues currently dealt with in IAS 39 including the classification and measurement of financial assets and financial liabilities, impairment of financial assets held at amortised cost and hedging.
2. The IASB's Request for Comment on the FASB ED asks that comments be sent direct to the FASB, but the IASB has indicated that it will jointly deliberate with the FASB comments received on the FASB ED to consider how to reconcile any differences between IFRS and US GAAP requirements. In any case, staff will ensure that the AASB's submission will be circulated to both the FASB and the IASB. At the June 2010 AASB meeting, AASB staff tabled a high-level summary of differences between the IASB proposals/requirements and the FASB ED proposals.

3. In formulating comments on the earlier AASB submissions for ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* (Agenda paper 8.3) and ED/2010/4 *Fair Value Option for Financial Liabilities* (Agenda paper 8.4), AASB staff have considered and made reference to the FASB proposals where relevant. Consequently, AASB staff propose that the AASB's responses to the IASB's Request for Comment are provided at a high-level on the key differences between the IASB proposals/requirements and the FASB ED in the context of classification and measurement of financial instruments and impairment only. The IASB ED/2009/12, ED/2010/4 and the FASB ED were provided at previous Board meetings and the links to the softcopies of these EDs are provided in this memo.¹
4. With respect to the proposals on hedging activities, AASB staff propose that an analysis of the key differences be performed when the IASB has finalised its proposals on the topic. Also, because the IASB plans to finalise its proposals on hedging activities by the end of September 2010 and comments on the FASB ED are due by 30 September, AASB staff propose that the AASB begin formulating an appendix to the submission on the IASB's Request for Comment, which specifically responds to the proposals on hedging activities. This would need to be done out of session.

Basis of comments on FASB's ED

5. Staff consider that it is relevant to address the issues from a number of perspectives, including a convergence perspective, given that:
 - (a) the IASB and the AASB have just issued IFRS 9/AASB 9, which deal with issues that are the subject of FASB proposals; and
 - (b) there are issues on which both the IASB and the FASB have current proposals that would lead to different outcomes.
6. Accordingly, staff have prepared draft comments on the FASB ED proposals in light of IFRS 9 and the available IASB proposals using the following criteria:
 - (a) technically whether the proposals have merit;
 - (b) whether the proposals would reduce the complexity of accounting standards for financial instruments and result in simpler outcomes (G20 and FCAG recommendations);
 - (c) whether the proposals would strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information (G20 and FCAG recommendations); and

¹ Board members who would like to receive hardcopies of these EDs should contact AASB staff at cng@aab.gov.au

- (d) the prospect that the proposals would achieve a single set of high quality global accounting standards (G20 and FCAG recommendations).

Next steps

7. Staff will provide a verbal update on the developments emerging from the joint IASB/FASB August meetings, which will take place in the week before the AASB September meeting.
8. Staff also plan to finalise an AASB submission on the FASB ED out-of-session with the assistance of a subcommittee of AASB members.

Attachments

Issues and key comments on the IASB Request for Comment on the FASB Exposure Draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* [Agenda paper 8.2]

AASB submission on ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* [Agenda paper 8.3]

AASB submission on ED/2010/4 *Fair Value Option for Financial Liabilities* [Agenda paper 8.4]

Proposed AASB staff plan for September to October 2010 [Agenda paper 8.5]

IASB ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*
[http://www.aasb.gov.au/admin/file/content105/c9/ACCED189_11-09.pdf]

IASB ED/2010/4 *Fair Value Option for Financial Liabilities*
[http://www.aasb.gov.au/admin/file/content105/c9/ACCED196_05-10.pdf]

FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*
[<http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820761372&blobheader=application%2Fpdf>]