

Welcome to IASB Update

This IASB Update is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The International Accounting Standards Board met in London on 5 October 2010. The topics discussed were:

- Fair value option for financial liabilities
- Hedge accounting
- Impairment
- Amendments to IFRS 7 *Financial Instruments: Disclosures*: Transition requirements - Amendment to IFRS 1

Fair value option for financial liabilities

The Board continued its redeliberations of the exposure draft *Fair Value Option for Financial Liabilities* (ED). The Board discussed whether amounts presented in other comprehensive income (OCI) should be recycled to profit or loss (P&L), as well as the effective date and transition for the finalised requirements and the treatment of the implementation guidance in IAS 39 *Financial Instruments: Recognition and Measurement*.

The comment period for the ED ended in July 2010. At subsequent meetings the Board tentatively decided that for all liabilities designated under the fair value option (FVO), the effects of changes in a liability's credit risk will be required to be presented directly in OCI unless such treatment would create an accounting mismatch in P&L. If such a mismatch would be created, the entire fair value change would be required to be presented in P&L.

At this meeting, the Board continued its discussion from the 24 September Board meeting as to whether amounts should be recycled from OCI to P&L when a liability is derecognised and the effects of changes in a liability's credit risk are realised. The Board tentatively decided to prohibit recycling.

The Board made the following tentative decisions related to the effective date and transition for the finalised guidance:

- Early adoption will be permitted, but if an entity elects to apply these amendments early, the entity must at the same time apply all finalised requirements in IFRS 9 *Financial Instruments* that it does not already apply.
- Retrospective application will be required. An entity will not be permitted to re-assess its FVO designations upon transition.
- The date of initial application for these requirements will be

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Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings in 2010 are:

18 - 22 October
15 - 19 November
(Norwalk, US)

To see all Board meetings for 2010, [click here](#).

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1. Any date between the date of issuance and 31 December 2010, if an entity applies the amendments before 1 January 2011, or
 2. the beginning of the first reporting period in which the entity adopts the amendments, if an entity applies the amendments on or after 1 January 2011.
- An entity will determine whether presenting the effects of changes in own credit risk in OCI would create an accounting mismatch in P&L on the basis of the facts and circumstances that exist at the date of initial application.
 - The requirements shall not be applied to financial liabilities that were derecognised as of the date of initial application.
 - An entity is not required to restate prior periods if it applies the amendments before 1 January 2012. However, if the entity restates prior periods to reflect these requirements, those restatements must also reflect all of the requirements in IFRS 9 that were finalised previously.
 - An entity does not need to apply these amendments to interim periods prior to the date of initial application if it is impracticable.

The Board tentatively decided that the implementation guidance in IAS 39 (related to the requirements that are being carried forward to IFRS 9) will be carried forward to IFRS 9.

The Board instructed the staff to prepare the documents for balloting (the Board's formal voting process). The additions to IFRS 9 are expected to be issued by the end of October.

Hedge accounting

At this meeting the Board discussed the eligibility of the following type of items as hedging instruments:

- derivatives embedded in hybrid financial assets;
- non-derivative financial instruments (cash instruments); and
- internal derivatives.

Eligibility of derivatives embedded in hybrid financial assets as hedging instruments

The Board discussed the eligibility of derivatives embedded in hybrid financial assets as hedging instruments.

The Board noted that allowing the separation of embedded derivatives would not be a targeted solution for hedge accounting because the 'closely related' accounting criterion applied in IAS 39 *Financial Instruments: Recognition and Measurement* is not aligned with risk management and was developed originally as an anti-abuse measure to ensure that derivative features were measured at fair value. The Board tentatively decided not to allow derivative features embedded in hybrid financial assets to be eligible hedging instruments.

The Board also considered developing an approach based on risk components but noted that doing so would be a significant expansion of the scope of the project.

Eligibility of 'cash instruments' as hedging instruments

The Board discussed the eligibility of cash instruments as hedging instruments.

The Board discussed the restriction in IAS 39 *Financial Instruments: Recognition and Measurement* regarding the eligibility of cash instruments as hedging instruments for hedges of foreign currency risk. The Board considered whether to extend the eligibility to non-derivative financial instruments classified as at fair value through profit or loss or alternatively to other categories of IFRS 9 *Financial Instruments* (for hedges of all types of risk). The Board noted that extending the eligibility to non-derivative financial instruments in other categories than at fair value through profit or loss would give rise to operational problems. It would also be inconsistent with an earlier tentative decision not to allow the application of hedge accounting to investments in equity instruments designated as at fair value through other comprehensive income. The Board also noted that developing an approach based on risk components would be a significant expansion of the scope of the project. However, extending the eligibility to non-derivatives classified as at fair value through profit or loss if designated in their entirety (rather than risk

components) would in the Board's view not involve the disadvantages of the other alternatives and may be conceptually justifiable. The Board asked the staff to explore whether this possible extension would have any relevance in practice before taking a decision.

Eligibility of internal derivatives as hedging instruments

The Board discussed the eligibility of internal derivatives as hedging instruments. Internal derivatives are contracts between different parts of the same reporting entity (eg entities that are part of a group from the perspective of the group as the reporting entity).

The Board noted that internal derivatives do not transfer risk outside the reporting entity. Hence, the Board tentatively decided that internal derivatives within a reporting entity are not eligible hedging instruments for that reporting entity. The Board considered that the underlying issue is about centralised risk management in entities and that its tentative decisions on the eligibility of groups of items and net positions would help mitigate the operational difficulties of applying hedge accounting in such circumstances.

Impairment

At this meeting, the Board continued its redeliberations on phase II of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

There were no decisions requested at the meeting. The Board discussed the mechanics of some decoupled approaches and the interaction with the allocation of expected losses in an open portfolio of financial assets. The discussion included how 'partial catch-up' or 'no catch-up' approaches might be applied either linearly or non-linearly. The Board also discussed the implications of approaches without 'full catch-up' and a possible need for maximum and minimum credit loss allowances. In that context the Board discussed differentiating between a 'good book' and a 'bad book' as one possible way to set a minimum credit loss allowance.

Amendments to IFRS 7 *Financial Instruments: Disclosures*: Transition requirements - Amendment to IFRS 1

The Board discussed the transition provisions for Disclosures - Transfer of financial assets (Amendments to IFRS 7). The Board tentatively decided to amend IFRS 1 *First-time Adoption of International Financial Reporting Standards*, to grant relief from having to provide comparative disclosures to all entities - including first-time adopters.

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