



International Accounting Standards Board®

Press Release

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IASB announces next steps in response to credit crisis

The International Accounting Standards Board (IASB) today announced the current status of its response to the credit crisis and its next steps. The IASB has already taken a number of actions to address issues related to the credit crisis. In publishing additional steps, the IASB reaffirms its commitment as a standard-setter to bring transparency to investors and other users of financial statements.

In responding to the credit crisis, the IASB recognises the need to clarify International Financial Reporting Standards (IFRSs) to address new market developments. The IASB's response has primarily focussed on the recommendations of the Financial Stability Forum (FSF), which had the support of the Group of Seven (G-7) Finance Ministers. (A summary of the IASB's response to the FSF is included in the Notes to Editors.)

The IASB is closely monitoring developments in the United States and other jurisdictions to avoid unnecessary inconsistencies in accounting treatments under IFRSs and US generally accepted accounting principles (GAAP). In doing so, the IASB commits to undertake the following:

1. Consistency of fair value measurement guidance between IFRSs and US GAAP:

On 16 September, the IASB staff issued draft guidance on fair value measurement of financial instruments in markets that are no longer active. The IASB notes the recent clarification made by the Office of the Chief Accountant of the US Securities and Exchange Commission (SEC) and the staff of the Financial Accounting Standards Board (FASB). The clarification is not an amendment of SFAS 157 *Fair Value Measurements*, but rather provides additional guidance for determining fair value in inactive markets.

The IASB staff has reviewed the clarification by the SEC and FASB staff and considers it consistent with IAS 39 *Financial Instruments: Recognition and Measurement*. (See <http://www.sec.gov/news/press/2008/2008-234.htm> for the clarification made by the Office of the Chief Accountant of the US SEC and the FASB staff.)

The IASB will continue to ensure that any IFRS guidance is consistent with the clarification that has been provided by the US SEC staff and the FASB staff for those companies using US GAAP. This will help ensure comparability across borders.

2. **Consideration of the possible impact of the US Emergency Economic Stabilization Act of 2008 and other similar programmes internationally on the valuation of assets and liabilities:** The IASB will work closely with the FASB to develop a common approach to issues related to the valuation of financial assets and liabilities resulting from purchases made through the US Emergency Economic Stabilization Act of 2008 and any other similar programmes internationally, if and when these programmes are initiated.
3. **Immediate consideration of the ability to reclassify financial instruments:** The IASB notes that US GAAP permits entities, in rare circumstances, to reclassify financial instruments that are in the form of securities from their trading portfolio (measured at fair value with changes through the income statement) to 'held to maturity' (measured at amortised cost and subject to testing for impairment). The IASB also notes that US GAAP permits some loans that are not securities to be transferred from Held for Sale (measured at lower of cost or market with changes through the income statement) to Held for Investment (measured at amortised cost and subject to testing for impairment). Provisions aimed at counteracting abuse apply to these reclassifications.

The IASB will assess immediately any inconsistencies in how IAS 39 and US GAAP practice address the issue of reclassifications and whether to eliminate any differences. The IASB will discuss these matters and will decide its position as part of its public meeting during the week of 13-17 October. At that meeting the IASB will assess the suitability of adopting the US GAAP approach and whether adapting

IFRSs will provide relevant information to users of financial statements. The IASB will also consider the potential need to counteract abuse resulting from the ability to reclassify financial instruments and related areas of accounting to ensure consistency between practice in the United States and in those jurisdictions using IFRSs.

4. **Willingness to participate in any study on the impact of accounting in the credit crisis:** The IASB recognises the need to continue to examine IFRS accounting principles for financial instruments. Earlier this year, the IASB published a discussion paper, *Reducing Complexity in Reporting Financial Instruments*. This discussion paper is the starting point for considering a possible replacement for IAS 39.

Working with regulators, investors, and industry, the IASB will draw lessons from the credit crisis as it moves forward with its project to reconsider IAS 39. Consistent with discussions in the United States, the IASB will be willing to assist in any study that examines the quality of existing fair value information provided to investors and any impact of financial reporting on the credit crisis.

END

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Notes to Editors

Response to the Financial Stability Forum Recommendations

The FSF identified three areas for action in the area of accounting standards:

1. **Off balance sheet items:** The IASB should improve the accounting and disclosure standards for off balance sheet vehicles on an accelerated basis and work with other standard-setters toward international convergence.
2. **Fair value in illiquid markets:** The IASB should enhance its guidance on valuing financial instruments when markets are no longer active. To this end, the IASB established an expert advisory panel in 2008.
3. **Disclosure:** The IASB will strengthen its standards to achieve better disclosures about valuations, methodologies and the uncertainty associated with valuations.

The IASB is acting to complete all three items in an accelerated matter. At its 2 October meeting, the Board addressed the topic of off balance sheet items as part of its project on consolidation. Based upon the continued progress of that project, the IASB intends to have a proposal on consolidations ready to publish for comment by next month. The IASB is also developing a proposal on the derecognition of financial assets and expects to publish an exposure draft on this subject in the first quarter of 2009.

On 16 September as a first step in developing guidance on the application of fair value in illiquid markets, the IASB staff released draft guidance emanating from discussions of its Expert Advisory Panel. The Expert Advisory Panel will have its next meeting on 10 October to discuss comments received on the document.

The IASB expects to issue an exposure draft during the next two weeks that proposes enhancements to disclosure about fair value measurement and about liquidity risks.

About the IASB

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation, an independent private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. Its 14 members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.