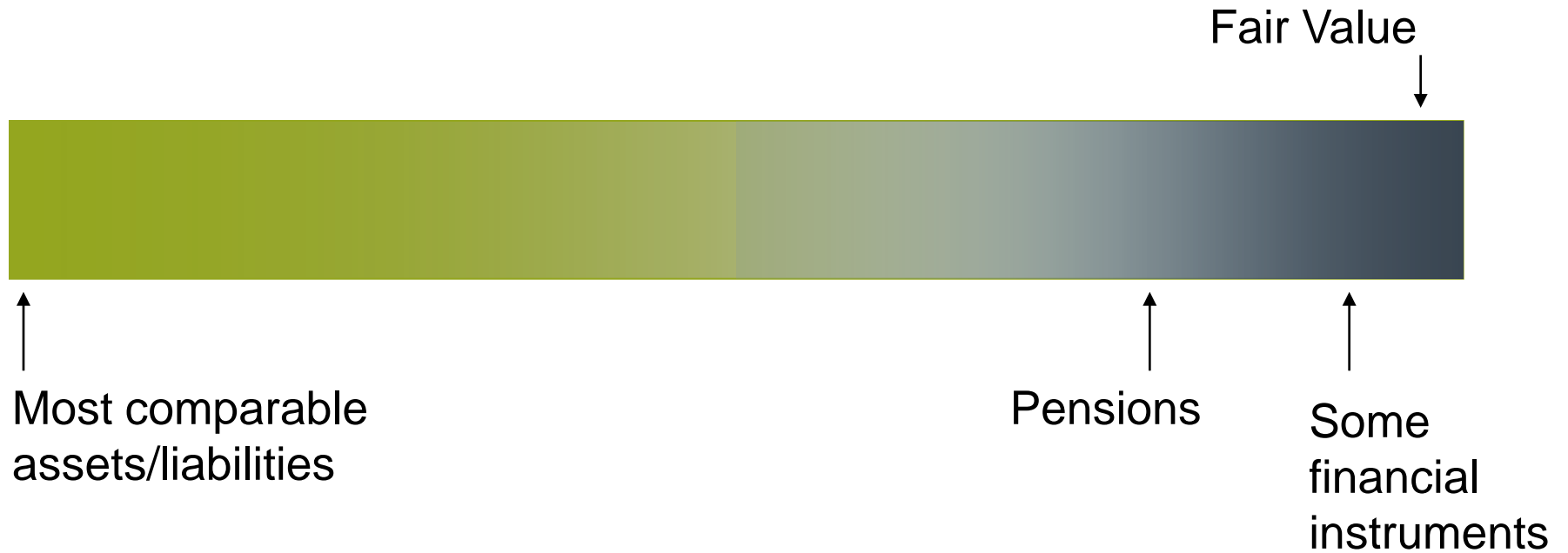


Comparison to Other Areas of Accounting

Martin Lowes

30 March 2010

Treatment of comparable liabilities



Mark to Market

Current IAS 19	Yes (with option to amortise)
ASB proposal	Yes
Debt issued by entity	No (disclosure only)
Lease arrangements (assets and lease payments)	No (not all on balance sheet; amortised cost even if on)
Bank fixed rate loans/deposits	No
Framework	No preference for one measurement model over others
Conceptual framework (draft)	Not addressed yet

With Impact Reflected in P&L

Current IAS 19	An option (which few adopt)
ASB proposal	Yes
Debt issued by entity	No
Lease arrangements (assets and lease payments)	No
Bank fixed rate loans/deposits	No
Framework	No stated preference for P&L vs SoRIE
Conceptual framework (draft)	Not addressed yet

Allowance for Credit Risk

Current IAS 19	Yes – independent of entity risk
ASB proposal	No – risk free
Debt issued by entity	Yes – as at issue
Lease arrangements (assets and lease payments)	Yes – implicitly – as at issue
Bank fixed rate loans/deposits	Yes – implicitly (interest rate reflects risk)
Framework	Not addressed
Conceptual framework (draft)	Not addressed yet

IFRS 9 – Financial Instruments

- ED – Financial Instruments: Classification and Measurement, July 2009
- IFRS 9 Issued November 2009:
 - Covered only Financial Assets
 - IF business model implies holding to maturity
AND cash flows only principal plus interest
THEN amortised cost (option for fair value)
 - ELSE fair value
- Financial Liabilities:
 - Expected to be as for Financial Assets
 - Subject to treatment of own credit risk under fair value approach
 - Emerging IASB view: recognise change in own credit risk but through OCI (other gains/losses through P&L)

Leases

- IASB discussion paper March 2009
- IASB view (in paper and subsequent board meetings)
 - Asset representing “right to use”
 - Liability for obligation to pay rentals
 - So on balance sheet
 - But at amortised cost
 - So asset/liability net off
 - Both values reflect credit risk at outset

Fair Value Measurement

- Discussion Paper – November 2006
- Exposure Draft – May 2009
- Standard – Expected 3rd Quarter 2010
- Does NOT address what assets/liabilities should be measured at fair value
- Looks to align approach to fair value across different areas
- And concentrate guidance in single standard
- = Price received to sell asset/paid to transfer liability
- Allowing for non-performance risk (including credit risk)
- Ignoring restriction on ability to transfer
- Level 1 Market price
- Level 2 Observable input
- Level 3 Unobservable input
- Will apply to value of assets under IAS 19

Credit Risk in Liability Management

- IASB Discussion Paper – June 2009
- Set out pros and cons
- “Reviewing comments”
- October 2009 meeting:
 - Closed work stream
 - To be addressed in conceptual framework “measurement” project

Disclosure of Impact if Interest Rates etc Change

Current IAS 19	If IAS 1 requires because material
ASB proposal	Yes – even if not material
Debt issued by entity	No (because impact is nil if not marked to market)
Lease arrangements (assets and lease payments)	No (because impact is nil if not marked to market)
Bank fixed rate loans/deposits	No (because impact is nil if not marked to market)
Framework	Not addressed
Conceptual framework (draft)	Not addressed yet

Question

- **Should aim be:**

- Purist theoretically correct (fair value?) approach for pension cost accounting in isolation;

OR

- Approach which gives investors a balanced view relative to other liabilities?