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International Accounting Standards Committee Foundation®

9 April 2009

The Honourable Hans Hoogervorst
Vice Chairman, Technical Committee
IOSCO
C/ Oquendo 12
28006 Madrid
SPAIN

Dear Hans

The Trustees greatly appreciated the opportunity to meet with you and the other members of the Monitoring Board last week. We look forward to meeting again with the Monitoring Board on 8 July in Amsterdam. I am writing to you, as Chairman of the Monitoring Board, to describe the IASC Foundation/IASB's response to the G20 recommendations that were issued the day following our meeting in London and to the recent decisions taken by the US Financial Accounting Standards Board (FASB).

The Trustees and the IASB are committed to taking action on each of the items recommended by the G20 by the end of 2009, the target date suggested by the G20, in order to ensure globally consistent and appropriate responses to the crisis. I am attaching a matrix that describes how the IASC Foundation Trustees or the IASB is responding to each of the G20 points.

The G20 called on the IASB and the FASB 'to reduce the complexity of accounting standards for financial instruments'. This is consistent with our discussions of last week, where both the Monitoring Board and Trustees supported the IASB's desire to prioritise the comprehensive project rather than making further piecemeal adjustments. This project should result in a proposal being published within six months. This comprehensive review will include the issue of loan-loss provisioning, an issue highlighted by the G20.

You are also aware that at the time of our meeting the FASB was still deliberating on proposed amendments on fair value measurement and impairment of debt securities. On 2 April the FASB reached tentative conclusions and plans to publish a final document. Clearly the FASB's decisions raise questions in the minds of some regarding 'level playing fields'. The IASB understands the strong desire, voiced by many, for consistency between IFRSs and US GAAP on areas related to the financial crisis. EU Finance Ministers emphasised this point in a statement on 4 April.

Initial reports regarding new or additional divergences between IFRSs and US GAAP being created by these FASB Staff Positions (FSPs) appear to be overstated. FASB's objectives and approach on the application of fair value when a market is not active are broadly similar to those in IFRSs. Meanwhile, the concept of other-than-temporary impairments in US GAAP does not exist in IFRSs. Because IFRSs and US GAAP have multiple and different impairment models that relate to different financial asset types in different ways, efforts to align IFRS and US GAAP impairment models could entail significant and complex change.

Recognising the urgency of the current situation, the IASB has agreed to decide at its 20-24 April meeting as to whether, in the light of FASB's actions, further guidance on the application of fair value in inactive markets and impairment of debt securities is needed in IFRSs. In doing so, the IASB will take into account comments received from a shortened 30-day consultation process and input received from the Financial Crisis Advisory Group and the Standards Advisory Council. We have issued a press release covering the IASB's response to the FSPs and attach a copy for your information.

The IASB, my fellow Trustees and I understand the unprecedented circumstances facing economic markets and policymakers. We are committed to acting in an urgent and responsible manner. Broad international adoption of IFRSs, combined with the actions described above, means that the IASB is working urgently to ensure a globally consistent response on financial reporting issues. The Trustees believe that the steps being undertaken by the IASB are appropriate. We look forward to the Monitoring Board's continued support for the IASB's efforts and the organisation's independence.

Yours sincerely

Gerrit Zalm
Chairman of the Trustees

Attachments
cc: The Honourable Guillermo Larrain, Chairman, IOSCO Emerging Markets Committee
The Honourable Charles McCreevy, Commissioner, European Commission
The Honourable Takafumi Sato, Commissioner, Japan Financial Services Agency
The Honourable Mary Schapiro, Chairman, US Securities and Exchange Commission
The Honourable A H E M Wellink, Chairman, Basel Committee on Banking Supervision

IASB/IASC FOUNDATION RESPONSE TO APRIL 2009 G20 RECOMMENDATIONS

RECOMMENDATION	ACTIONS COMPLETED/UNDERWAY	NEXT STEPS
Accounting standard setters should improve standards for the valuation of financial instruments based on their liquidity and investors' holding horizons, while reaffirming the framework of fair value accounting.	1. October 2008: the IASB issues the report of its expert advisory panel on fair value measurement when markets are no longer active and a staff summary of that report. 2. October 2008: the IASB permits the reclassification of specific financial instruments in some instances. 3. March 2009: the IASB publishes a request for views on proposals from the US Financial Accounting Standards Board (FASB) that deal with guidance on fair value measurement. Comment deadline is 20 April. 4. Ongoing (to early May 2009): The IASB is developing an exposure draft of an IFRS on fair value measurement, to establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs. This will make the application of those requirements more consistent, reduce complexity and bring about further convergence with US GAAP and IFRSs.	1. April 2009: following the FASB decision on the amendments on 2 April, the IASB recognises the need for rapid consideration of these issues, which was anticipated by the shortened consultation period. Staff analysis, the comments solicited by the IASB's consultation, and input received from the Financial Crisis Advisory Group and the Standards Advisory Council will inform the IASB's decision at its 20-24 April meeting as to whether, in the light of FASB's actions, further guidance on the application of fair value in inactive markets and impairment of debt securities is needed. 2. Early May 2009: the IASB will issue its exposure draft on fair value measurement with a comment period of 120 days. The IASB plans to hold a round table thereafter. Publication of a final standard is planned for the first half of 2010. 3. The IASB will respond to the recommendations received from the Financial Crisis Advisory Group (FCAG), which is due to report in the first half of the year.
The standard-setters should reduce the complexity of	1. March 2008: The IASB and the FASB published a discussion paper for a replacement of IAS 39	1. October 2009: The IASB and FASB will work urgently to propose a new common standard

accounting standards for financial instruments.	Reducing Complexity in Reporting Financial Instruments. March 2009: The IASB and the FASB agree to undertake on an accelerated basis, the replacement of existing financial instruments standards (IAS 39 *Financial Instruments: Recognition and Measurement*, in the case of the IASB) with a common and globally accepted standard that would address issues arising from the financial crisis in a comprehensive manner.	that would replace existing financial instruments requirement. This is consistent with the timetable of the G20 recommendations. 2. The preparation of the new standard will include appropriate consultation with investors, regulators, preparers, standard-setters and other interested parties. The project will use the input of the FCAG, the comments received to that discussion paper, and consider the lessons learned from the crisis.
Standard-setters should strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information	1. The IASB and the Basel Committee on Banking Supervision are meeting on a regular basis to discuss the issue of loan-loss provisions. The FASB has been invited to join these discussions. 2. Ongoing: The FCAG is examining the issue of provisioning and will make a recommendation to the IASB and the FASB. 3. March 2009: The IASB and the FASB initiate the urgent review of loan loss accounting, including the incurred and expected loss models.	1. Discussions with the Basel Committee, the FCAG, and other interested parties will provide direction to the IASB's conclusions to be included in the proposed revised standard with an estimated October publication.
Standard-setters should improve accounting standards for provisioning, off-balance sheet	1. As noted above, the IASB is taking a number of steps on provisioning. 2. March 2009: Comment period for a proposed	1. Early May 2009: IASB plans publication of an exposure draft on fair value measurement. 2. June 2009: IASB and FASB will be holding joint

exposures and valuation uncertainty.	standard on Consolidation ends. The exposure draft was published in December 2008. 3. March 2009: IASB publishes an exposure draft on derecognition. Comments are open for public comment until 31 July 2009. 4. As noted above, the IASB is actively working on an exposure draft on fair value measurement.	round-tables in Europe, the United States, and in Asia on the consolidation and derecognition proposals. 3. Year end 2009: IASB anticipates the publication of a final standard on Consolidation. 4. IASB will continue consultations with interested parties on an urgent basis.
Standard-setters should make significant progress towards a single set of high quality global accounting standards.	1. Achieving global accounting standards are the organisation's primary objective, as stated in its Constitution. 2. 2008: IASB and FASB update their Memorandum of Understanding. The objective: achieving broad convergence of IFRSs and US GAAP by 2011. 3. IASB works with national standard-setters internationally to promote adoption of IFRSs.	1. The organisation will continue to promote full adoption of IFRSs. IASB and FASB will work as a matter of priority on projects related to the Memorandum of Understanding and will seek to avoid any unnecessary divergences in the interim period. 2. The IASB plans to finish many of its major projects by 2011 to provide an orderly transition for several countries intending to adopt IFRS around that time.
The IASC Foundation, within the framework of the independent accounting standard setting process, should improve involvement of stakeholders, including prudential regulators and emerging markets, through the IASB's constitutional review.	1. January 2009: Completion of the first part of the Constitution review. The result: ▪ the Trustees implemented a change that will increase the size of the IASB to 16 members and sets out geographical guidelines regarding the IASB's composition. Under the new guidelines, there shall be one member each	1. 3rd and 4th quarter 2009: the Trustees will hold public round-tables in order to enhance the consultation process on the second part of the Constitution Review 2. January 2010: planned ratification date of relevant constitutional amendments as a result of the second part of the Constitution Review.

	from Africa and South America. The IASB already has members from China and India. ▪ the Trustees establish a formal link with capital market authorities, who have created the IASC Foundation Monitoring Board. The IOSCO Emerging Markets Committee is a member of the Monitoring Board. The Basel Committee is an observer. 2. July 2008: the Trustees restructure the Standards Advisory Council, the IASB's main advisory body. The objective: ▪ enhancing its effectiveness, and wider outreach to analyst and investor groups. The council is reconstituted to comprise representatives of stakeholder organizations around the world. They are expected to canvas their respective constituent groups in preparation of meetings, present these views to the IASB, and bring back meeting conclusions and discussions to their colleagues. The membership includes the stakeholders recommended by the G20. 3. December 2008: the Trustees initiate the second part of the Constitution Review by publishing a consultation document.	

International Accounting Standards Board®

Press Release

7 April 2009

IASB responds to G20 recommendations, US GAAP guidance

The International Accounting Standards Board (IASB) today responded to recent recommendations of the leaders of Group of Twenty (G20) countries regarding accounting standards and to recent decisions taken by the US Financial Accounting Standards Board (FASB). (For the G20 recommendations, see http://www.londonsummit.gov.uk/resources/en/PDF/annex-strengthening-fin-sysm.)

Responding to the G20

The IASB is committed to taking action on each of the items recommended by the G20 by the end of 2009, the target date suggested by the G20, in order to ensure globally consistent and appropriate responses to the crisis. Later this week, the IASB will publish a summary of the work already underway and proposed further actions.

In its recommendations, the G20 called for 'significant progress towards a single set of high quality global accounting standards.' To achieve this objective, the IASB is working intensively with the FASB, the Accounting Standards Board of Japan (ASBJ), and other national standard-setters. At their meeting on 24 March, the IASB and the FASB reaffirmed their commitment to a joint approach to the financial crisis and to the overall goal of seeking convergence between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP). The Boards described this goal in a Memorandum of Understanding (MoU) first published in 2006 and updated in 2008.

Addressing Recent US GAAP Changes

On 2 April the FASB agreed to publish guidance in the form of FASB Staff Positions (FSPs) on fair value measurement and on impairments of debt securities. The IASB, which has worked closely with the FASB on convergence issues since 2001, understands the strong desire, voiced by many, for consistency between IFRSs and US GAAP on areas related to the financial crisis. EU Finance Ministers emphasised this point in a statement on 4 April. (See http://www.eu2009.cz/en/news-and-documents/news/statement-by-the-informal-ecofin-15621/.)

Immediately following FASB's publication of its proposals on fair value measurement and impairment, the IASB initiated its shortened 30-day consultation process on them, in light of the urgency of the issue. This consultation ends on 20 April.

Initial reports regarding new or additional divergences between IFRSs and US GAAP being created by these FSPs appear to be overstated. A preliminary review of the FASB's decisions (see http://www.fasb.org/action/sbd040209.shtml) by IASB staff indicates that FASB's objectives and approach on the application of fair value when a market is not active

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appear to be broadly similar to those in IFRSs. The 14 October 2008 press release from the IASB points in this direction. It states:

> ... [The Expert Advisory] Panel [the body that has issued educational guidance related to fair value measurement under IFRSs] agreed to emphasise that the objective of a fair value measurement is the price at which an orderly transaction would take place between market participants on the measurement date, not the price that would be achieved in a forced liquidation or distress sale. The Panel reaffirmed that such transactions should not be considered in a fair value measurement, whilst also noting that even in times of market dislocation not all market activity arises from forced liquidations or distress sales.
>
> The Panel also agreed to emphasise existing guidance within International Financial Reporting Standards (IFRSs) that using the entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available.

Once the FASB has finalised the FSP on fair value measurement, which they expect to do later this week, the IASB staff will assess whether the FSP could lead to different results in practice.

The FASB also intends to publish an FSP modifying the recognition and presentation of other-than-temporary impairments of debt securities classified as 'available for sale' or 'held to maturity'. In requesting views on the FASB's proposals, the IASB noted that the concept of other-than-temporary impairments in US GAAP does not exist in IFRSs. Unlike US GAAP, IFRSs require an entity to recognise an impairment only if the entity has objective evidence to support an expectation of a default on contractual cash flows. In contrast, after the FSP, US GAAP will require an entity to recognise an impairment if it is possible that it will not collect all contracted cash flows or if it is more likely than not that the entity will dispose of the debt security before the entity can recover its cost basis.

More generally, IFRSs and US GAAP have multiple and different impairment models that relate to different financial asset types in different ways. The 'triggers' that initiate an impairment and the circumstances in which reversals of an impairment are allowed also differ. These factors mean that efforts to align IFRS and US GAAP impairment models could entail significant and complex change.

The IASB recognises the need for rapid consideration of these issues, which was anticipated by the shortened consultation period. Staff analysis, the comments solicited by the IASB's consultation, and input received from the Financial Crisis Advisory Group and the Standards Advisory Council will inform the IASB's decision at its 20-24 April meeting as to whether, in the light of FASB's actions, further guidance on the application of fair value in inactive markets and impairment of debt securities is needed.

At the same time, the IASB notes that last week the IASC Foundation Monitoring Board and the Trustees supported the IASB and the FASB's desire to prioritise the comprehensive project to produce a new standard rather than making further piecemeal adjustments. The comprehensive project is to undertake, on an accelerated basis, the replacement of existing financial instruments standards (IAS 39 *Financial Instruments: Recognition and Measurement*, in the case of the IASB) with a common and globally accepted standard that would address issues arising from the financial crisis in a comprehensive manner. The IASB plans to publish proposals within six months. This course of action is consistent with the call by the G20 'to reduce the complexity of accounting standards for financial instruments'.

END

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Notes to the Editors

About the IASB

The IASB, based in London, began operations in 2001. The IASB has 14 members, who are drawn from nine countries at present and have a variety of professional backgrounds.

The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

About the Expert Advisory Panel

The panel was formed in May 2008 to assist the IASB in reviewing best practices in the area of valuation techniques and formulating any necessary additional guidance on valuation methods for financial instruments and related disclosures when markets are no longer active.

The expert advisory panel comprises experts from users, preparers and auditors of financial statements, as well as regulators and others. Participants were selected on the basis of their practical experience with the valuation of financial instruments in the current market environment. The panel met on seven occasions and the IASB published educational guidance reflecting the outcome of the panel meetings in October 2008.