Comparison of the FASB's and the IASB's Proposed Models for Financial Instruments (as of May 2010)

The following table provides a side-by-side comparison of the FASB's and the IASB's proposed models for financial instruments. For a complete description of the FASB's proposed model, see the proposed Accounting Standards Update. For a complete description of the IASB's model, see (1) IFRS 9 for the finalized requirements for classifying and measuring financial assets and (2) the IASB's financial instruments project website for a summary of its decisions made to date on all other aspects of accounting for financial instruments (such as financial liabilities, impairment, and hedge accounting). In the following table, the IASB's published proposals and tentative decisions are differentiated from finalized requirements.

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Scope	• All financial assets and financial liabilities, as defined (except those for which a specific scope exception has been provided) • Nonpublic entities with less than $1 billion in assets would apply certain requirements in this model relating to loans, loan commitments, and core deposit liabilities 4 years after the original effective date.	• Items within the scope of IAS 39.
Measurement Approaches	• Fair value • Amortized cost	• Fair value • Amortized cost

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	• Remeasurement amount (only for core deposit liabilities).	• Separate accounting of embedded derivatives from a liability host if particular conditions are met.[1]
Classification and Measurement Categories	• Fair value with all changes in fair value recognized in net income (FV-NI) • Fair value with qualifying changes in fair value recognized in other comprehensive income (FV-OCI) • Amortized cost.	• Fair value through net income (FV-NI) • Amortized cost • Fair value through other comprehensive income (FV-OCI) (limited option for some investments in equity instruments).
FV-OCI Classification Criteria	• Three qualifying criteria must be satisfied to measure a financial instrument at FV-OCI:[2] 1. It is a debt instrument held or issued with all of the following characteristics: a. There is an amount transferred to the debtor (issuer) at inception that would be returned to the creditor (investor) at maturity or other settlement, which is the principal amount of the contract adjusted by any original issue discount or premium.	• Irrevocable election at initial recognition for investments in equity instruments that are not held for trading.

[1]Unless the fair value option is applied.
[2]Classification at FV-OCI is an option, not a requirement.

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	b. The contractual terms of the debt instrument identify any additional contractual cash flows to be paid to the creditor (investor) either periodically or at the end of the instrument's term. c. The debt instrument cannot contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its initial investment, other than through its own choice. 2. The entity's business strategy for the instrument is to collect or pay the related contractual cash flows rather than to sell the financial asset or to settle the financial liability with a third party. 3. It is not a hybrid instrument for which applying Subtopic 815-15 on embedded derivatives would otherwise have required the embedded derivative to be accounted for separately from the host contract.	

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Amortized Cost Classification Criteria	• A financial liability may be carried at amortized cost if: 1. The liability meets the criteria for FV-OCI. 2. Measurement at fair value would create or exacerbate a measurement attribute mismatch between recognized assets and liabilities. • Irrevocable election made at the issuance of the financial liability.	• A financial asset (including hybrid financial assets) must be subsequently measured at amortized cost[3] if: 1. The objective of the entity's business model is to hold the asset to collect the contractual cash flows. 2. The asset's contractual cash flows are solely payments of principal and interest. • Most financial liabilities must be subsequently measured at amortized cost[3] if they are not held for trading. Embedded derivatives are separated from a liability host and accounted for as derivatives if particular criteria are met.
Fair Value Option	• Not applicable to financial instruments in the scope of the proposed guidance. • The fair value option under Topic 825 applies to a broader set of instruments than the scope of the proposed guidance and would continue to apply to those instruments that are not within the scope of the proposed guidance except for unconsolidated equity investments.	• **Financial assets:** Irrevocable election available at initial recognition if measuring at fair value eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch). • **Financial liabilities:** Irrevocable election would be available at initial recognition if: 1. Measuring at fair value eliminates or significantly reduces an accounting mismatch.

[3]Unless the fair value option is applied.

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		2. A group of financial instruments is managed and its performance is evaluated on a fair value basis. 3. The liability contains one or more separable embedded derivatives and the entity elects to account for the hybrid (combined) contract in its entirety. • The IASB's Exposure Draft on fair value option proposes changes to the fair value option for financial liabilities and is open for comment until July 16, 2010.
Hybrid Financial Assets	• Hybrid financial assets containing embedded derivatives that would otherwise require separate accounting under Topic 815 would be measured in their entirety at FV-NI. • Hybrid financial assets containing embedded derivatives that would not require separate accounting under Topic 815 would be eligible for measurement in their entirety at FV-OCI.	• Hybrids with financial hosts would be classified in their entirety based on the overall classification approach for financial assets. • Specific guidance for applying the classification approach to investments in contractually linked instruments that create concentrations of credit risk.

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Hybrid Financial Liabilities	• Hybrid financial liabilities should be measured using the classification criteria described for hybrid financial assets.	• An embedded derivative is separated from the host liability contract if particular conditions are met.[4]
Core Deposit Liabilities	• Subsequent measurement at present value of average core deposit liability discounted at the differential between the alternative funds rate and the all-in-cost-to-service rate over implied maturity. • Qualifying changes in the remeasurement amount may be recognized in other comprehensive income if classification criteria are met.	• No special guidance; generally measured at amortized cost.
Short-Term Receivables and Payables	• Measured at amortized cost (plus or minus any fair value hedging adjustments) if they arise in the normal course of business, if they are due in customary terms, and if the business strategy is to hold for collection or payment of contractual cash flows • Subject to impairment.	• No special guidance; generally measured at amortized cost.

[4] Unless the fair value option is applied.

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Unconsolidated Equity Investments	• Accounted for under Topic 323 if the entity has significant influence over the investee and the investment is considered related to the entity's consolidated business • Measured at fair value with all changes in fair value recognized in net income if the requirements under Topic 323 are not met • No fair value option for these investments.	• Not within the scope of IFRS 9; accounted for under IAS 28, *Investments in Associates*.
Loan Commitments	• Potential lenders classify loan commitments in the same manner as the loan once funded was classified. • If a loan measured at FV-OCI is funded, accounting for the commitment fee would be a yield adjustment of the related loan, which is consistent with the accounting in Subtopic 310-20. • Potential borrowers and issuers of lines of credit issued as part of credit card arrangements would be excluded from the scope.	• Only some loan commitments are within the scope of IFRS 9 and IAS 39. • For those within the scope, subsequent measurement would depend on the terms of the instrument and the entity's circumstances.
Impairment	• For financial instruments measured at FV-OCI, an entity would be required to determine if recognition of a credit	• The comment period for the IASB's Exposure Draft on impairment is open until June 30, 2010.

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	impairment is required at the end of each reporting period. • In determining whether a credit impairment exists, an entity would consider all available information relating to past events and existing economic conditions and their implications for the collectibility of the financial asset(s). • An entity would recognize in net income the loss related to the amount of credit impairment for all contractual amounts due for originated financial asset(s) and amounts originally expected to be collected for purchased financial asset(s) that an entity does not expect to collect. • An entity would present the allowance for credit losses on the statement of financial position as a separate line item.	• That Exposure Draft proposes an expected loss model that would require an entity to determine the expected credit losses on a financial asset when that asset is first recognized. Initial expectations of credit losses would be included in determining the effective interest rate. • Contractual interest revenue, less the initial expected credit losses, would be recognized over the life of the instrument. • Expected credit losses would be reassessed each period and the effects of any changes in expectations would be recognized in net income immediately.
Realized Gains and Losses from Sales or Settlements	• Recognized in net income for all financial instruments.	• **Financial assets:** Recognized in net income for all financial assets, excluding those classified as FV-OCI for which all gains and losses are recognized in other comprehensive income and are not recycled • **Financial liabilities:** Recognized in net income for all financial liabilities except the IASB tentatively decided that for liabilities designated under the fair value

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		option that gains and losses attributable to changes in own credit risk will be recognized in other comprehensive income and not recycled.
Interest and Dividend Accruals	• Recognized in net income for all financial instruments. However, not required to be presented separately for financial instruments measured at FV-NI. Interest would be presented separately for financial instruments measured at FV-OCI.	• Recognized in net income for all financial instruments except for some dividends on financial assets classified as FV-OCI. For those assets, dividends are recognized in other comprehensive income if they clearly represent a recovery of part of the cost of the investment.
Transaction Fees and Costs	• For financial instruments measured at FV-NI, transaction fees and costs would be recognized in net income as expenses upon initial recognition. • For financial instruments measured at FV-OCI, transaction fees and costs would be recognized in other comprehensive income and recognized in net income as a yield adjustment of the related financial instrument over the life of the instrument.	• Recognized in net income immediately for assets and liabilities that are measured at FV-NI • Included in the initial measurement of all assets and liabilities that are not measured at FV-NI.
Tainting	• No tainting.	• No tainting.

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Reclassifications	• Not permitted.	• Required for financial assets if the entity's business model for managing its financial assets changes • Prohibited for financial liabilities.
Statement of Financial Position	• Financial instruments would be displayed separately on the face depending on whether they are classified as FV-NI or FV-OCI. • The following amounts would be presented on the face of the statement of financial position for financial instruments measured at FV-NI: 1. Fair value 2. Amortized cost of the entity's own outstanding debt. • The following amounts would be presented on the face of the statement of financial position for financial instruments measured at FV-OCI: 1. Amortized cost 2. Allowance for credit losses 3. Amount needed to adjust amortized cost less allowance for credit losses to fair value 4. Fair value. • Present separately on the face amounts included in accumulated other comprehensive income related to the	• No significant changes proposed.

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	changes in fair value or changes in the remeasurement amount for financial instruments for which those changes are recognized in other comprehensive income.	
Statement of Comprehensive Income	• At the same time that it issues this proposed Update, the FASB expects to issue a proposed Update that would require a continuous statement of comprehensive income with total comprehensive income and a subtotal for net income. Under the comprehensive income proposal, earnings per share would continue to be based on net income only.	• IAS 1, *Presentation of Financial Statements,* permits comprehensive income to be presented in either a single statement or two statements. • The IASB expects to publish an Exposure Draft in the second quarter of 2010 that would require comprehensive income to be presented, partitioned into net income and other comprehensive income. No changes to earnings per share are proposed so it will continue to be based on net income only.
Presentation of Changes in Own Credit	• Present separately significant current period change in fair value attributed to changes in the entity's credit standing, excluding changes in the price of credit.	• The IASB's Exposure Draft on fair value option proposes that for financial liabilities designated under the fair value option, an entity: 1. Present the total fair value change in net income 2. Present the portion attributable to changes in own credit risk in other comprehensive income (with an offsetting entry to net income).

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Hedge Accounting (only main features summarized)	• The types of items and transactions eligible for hedge accounting in Topic 815 would continue to apply. • The shortcut method and critical terms match method would be eliminated. An entity would no longer have the ability to assume a hedging relationship is effective and recognize no ineffectiveness in net income during the term of the hedge. • An entity would not be permitted to discontinue hedge accounting by simply removing the designation of a hedging relationship. Hedge accounting can be discontinued only if the criteria for hedge accounting are no longer met or the hedging instrument expires, is sold, terminated, or exercised. • An entity would be able to designate particular risks as the risk being hedged in a hedging relationship. Only the effects of the risks hedged would be reflected in net income. The types of risks eligible as hedged risks in Topic 815 would continue to apply.	• The IASB expects to publish proposals resulting from its comprehensive review of hedge accounting requirements that will allow finalization in the near term.
Hedge Effectiveness (only main features summarized)	• After inception of the hedging relationship, an entity would need to qualitatively (or quantitatively, if	• The IASB expects to publish proposals resulting from its comprehensive review of hedge accounting requirements that

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	necessary) reassess effectiveness only if circumstances suggest that the hedging relationship may no longer be reasonably effective. • An entity would be required to perform a qualitative (rather than quantitative) test at inception to demonstrate that an economic relationship exists between the hedging instrument and the hedged item or forecasted transaction. However, in certain situations, a quantitative test may be necessary at inception. • As part of the hedge effectiveness assessment, an entity would be required to demonstrate that changes in fair value of the hedging instrument would be reasonably effective in offsetting the changes in the hedged item's fair value or the variability in the hedged cash flows for the risk or risks hedged by the entity in that hedging relationship.	will allow finalization in the near term.
Accounting Guidance for Entities Subject to the Delayed Transition	• An entity that qualifies for the delayed effective date may measure loans and loan commitments that meet the criteria for FV-OCI and core deposit liabilities that qualify for remeasurement changes to be recognized in other comprehensive income, in accordance with existing U.S. GAAP during the deferral period. All other	• Not applicable.

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	provisions of the proposed guidance would apply on the original effective date. • An entity would disclose in the notes to the financial statements the fair value of loans that meet the criteria for delayed transition, determined in accordance with the guidance in Topic 820, in a reporting period for which application of the proposed guidance is deferred for those loans.	