

IASB aims to reduce complexity



The International Accounting Standards Board (IASB) has released a discussion paper that analyses the main causes of complexity surrounding the reporting of financial instruments, along with suggestions for tackling the problems.

The IASB's paper, *Reducing Complexity in Reporting Financial Instruments*, represents the first step in the board's project to replace IAS 39 with a simpler 'principles-based' standard that reflects economic reality.

In the paper, the IASB acknowledges that the current reporting requirements surrounding financial instruments are difficult to understand and apply, and analyses the main reasons behind the complexity. The long-term solution, it argues, is to measure all types of

financial instruments within the scope of the standard in the same way, and in the paper the board says that 'fair value seems to be the only measure that is appropriate for all types of financial instruments'.

The board acknowledges, however, that there are pros and cons to this approach. Many concerns will have to be addressed before fair value measurement could be a requirement for all financial instruments, such as the volatility of earnings arising from changes in fair value and the presentation of unrealised gains and losses in earnings. There are also concerns that using fair value may result in greater complexity in financial instrument reporting, rather than less.

Short-term fix

Because resolving all the issues could take a great deal of time, the IASB proposes some intermediate approaches that could reduce complexity in the short term. These are:

- Amending the measurement requirements, for example by reducing the number of categories of financial instruments
- Replacing the existing requirements with a fair value measurement principle and some optional exceptions to fair value measurement
- Simplifying the current hedge accounting requirements

Contentious topic

The IASB is well aware that financial instruments remains one of the most contentious topics on its agenda, and has effectively challenged its detractors to support the project, or come up with a better idea. Rather than saying definitively that it is aiming for a single measurement approach, it leaves the question open-ended and asks for as many views as possible.

'We are determined to simplify and improve IAS 39 by creating a principles-based standard,' said IASB chairman Sir David Tweedie. 'Those who believe in reducing complexity in accounting standards now have the opportunity to shape the way ahead.'

[Comments on the discussion paper are requested by 19 September.](#)

IFRS PUBLICATIONS

What's on the agenda for extractive industries

Need to Know: The future of IFRS for the extractive industries is a short publication from PwC that raises IFRS questions for oil, gas, mining and utility companies, such as: Is IFRS 'broken'? What might replace IFRS 6? What accounting models are being considered? When will this financial reporting start?

The IASB is currently considering all models of accounting for reserves and resources, including the fair valuation of reserves on balance sheet. A new standard could be published as early as 2011 (effective from 2013), which indicates that the industry will need to participate in discussion now if it wants to influence the outcome.

The leaflet is available at pwc.com/energy (see publications) and acts as a preface for two comprehensive new IFRS publications for the industry – *Financial reporting in the oil & gas industry* and *Financial reporting in the utilities industry*. For more information, please email olesya.hatop@de.pwc.com or michael.j.stewart@uk.pwc.com