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# **Challenges of the subprime crisis for financial regulators and financial reporting**

**– remarks from a standard setter's viewpoint –**

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## A chronology of key events over the past 12 months

- October 2007  
Center for Audit Quality – Accounting issues arising from illiquid market conditions
- December 2007:  
'Big-6' GPPC – Determining fair values of financial instruments under IFRSs; Accounting Interpretations Committee of ASCG and Institute of German CPAs issue guidance and Q&A documents
- **April 2008:**  
**FSF urges IASB to improve accounting for off-balance sheet entities**; followed by several reports by various institutions (e.g. IBF, Basel Committee)
- June 2008:  
G-8 Ministers urge swift IASB action on SPEs and valuation



## **A chronology of key events over the past 12 months (cont'd)**

- September 2008:  
New FASB disclosures about credit derivatives and guarantees
- September 2008:  
SEC letter on fair value measurements
- September 2008:  
G7 statement on global financial market turmoil
- October 2008:  
Joint SEC-FASB guidance on fair value measurements
- October 2008:  
Final U.S. 'bailout bill' includes two fair value measurement sections
- October 2008:  
FASB guidance on FV of financial instruments in inactive markets  
(FSP 157-3)



## A chronology of key events over the past 12 months (cont'd)

- **October 2008:**  
IASB amends IAS 39 to permit some reclassifications
- **October 2008:**  
IASB proposes improvements to financial instruments disclosures
- **October 2008:**  
IASB and FASB create advisory group to review reporting issues related to credit crisis
- **October 2008:**  
IASB and FASB commit to a global approach to enhance market confidence
- **October 2008:**  
IASB publishes educational fair value guidance (Expert Advisory Panel Report)



## Key recommendations of the FSF

- **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.** The report notes: Off-balance sheet treatment in financial reports can arise as a result of the standards for **derecognition** (e.g., removing assets from balance sheets through securitisations) and **consolidation** (e.g., special purpose entities). The **standards of the IASB and the US Financial Accounting Standards Board (FASB) differ** for both topics and with respect to the required disclosures about off-balance sheet vehicles. The IASB and FASB have **projects underway to converge** their standards in these areas and this work should be accelerated so that high-quality, consistent approaches can be achieved. In doing so, and consistent with their required due process, the IASB and the FASB should consider **moving directly to exposure drafts on off-balance sheet issues**, rather than discussion papers, to meet the urgent need for improved standards. Standards should require the risk exposures and potential losses associated with off-balance sheet entities to be clearly identified and presented in financial disclosures. The IASB and FASB should consult investors, regulators, supervisors and other stakeholders for their views during this process, and should take note of issues that have come to light during the current market turmoil and the progress reflected in 2007 annual reports and other disclosures.



## Key recommendations of the FSF

- **International standard setters should enhance accounting, disclosure, and audit guidance for valuations.** The report states that:
  - The IASB will **strengthen its standards to achieve better disclosures** about valuations, methodologies and the uncertainty associated with valuations.
  - The IASB will **examine its principles and requirements for disclosures about the valuation of financial instruments** to identify areas for enhancement in light of lessons learned from the market turmoil. This effort will assess disclosures in year-end 2007 annual reports and draw on the views of investors, firms, auditors, supervisors and regulators about the quality of valuation disclosure practices.
  - The IASB will enhance its **guidance on valuing financial instruments when markets are no longer active**. To this end, it will set up an **expert advisory panel in 2008**.



## IASB achievements in 2008

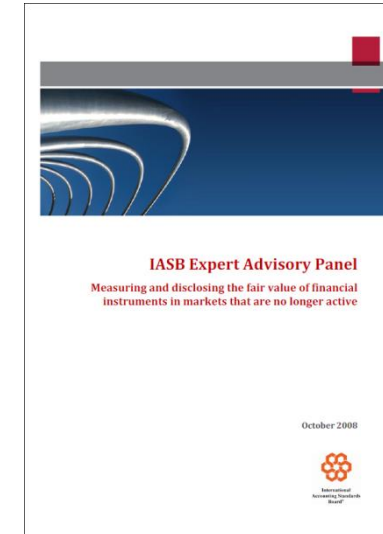
- 13 October 2008:  
Issuance of fast-track **amendments to IAS 39/IFRS 7** to permit reclassifications of certain financial assets out of FV categories  
Aim: “to create a level playing field with the U.S.”
- 15 October 2008:  
IASB proposes **improvements to financial instruments disclosures**  
Purpose: to align guidance with U.S. GAAP on measuring FV (introduction of three-level-hierarchy) and to expand disclosures on liquidity risk





## IASB achievements in 2008 (cont'd) / next steps

- 31 October 2008:  
**Issuance of guidance** by the expert advisory panel **on measuring and disclosing fair values** for financial instruments in markets that are no longer active  
Key message: Must use current market data in establishing fair value for instruments that are no longer actively traded
- Expected Q4/2008:  
**Issuance of exposure draft** on proposed new standard **on consolidations** (final standard expected H2/2009)
- Expected Q1/2009:  
**Issuance of exposure draft** on proposed new standard **on derecognition**



**NOTE: Ongoing pressure from various stakeholders to suspend fair value accounting large scale, both under IFRSs and U.S. GAAP**



## Where do we go from here? – Joint press release 20/10/2008

- ***The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have announced further details on their joint approach to dealing with reporting issues arising from the global financial crisis:***
  - **Rapid appointment of a high-level advisory group; tasks:**
    - considering how improvements in financial reporting could help enhance investor confidence in financial markets
    - identifying the accounting issues requiring urgent and immediate attention
  - **Public roundtables in Asia, Europe, and North America** to gather input on reporting issues emanating from the current global financial crisis (first RT to be held in London November 14)
  - **Common long-term solutions to reporting of fin. instruments**



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