BOARD DECISIONS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

IASB UPDATE

February 2006

IASB Update is published as a convenience to the Board's constituents. All conclusions reported are tentative and may be changed or modified at future Board meetings.

Decisions become final only after completion of a formal ballot to issue a Statement, Interpretation, or Exposure Draft.

The International Accounting Standards Board met in London on 21 – 24 February, when it discussed:

- Short-term convergence: income taxes
- Business Combinations II
- Short-term convergence: proposed amendments to IAS 20
- Financial instruments puttable at fair value
- Accounting standards for small and medium-sized entities
- Revenue recognition
- Amendments to IAS 37
- Conceptual Framework
- Fair value measurement
- Insurance

Short-term convergence: income taxes

Analysis of costs and benefits

The Board considered an analysis of the costs and benefits of the proposed amendments to IAS 12. The Board noted that a quantitative analysis was not possible but that it was helpful to have a qualitative analysis for each amendment proposed. Such an analysis should be developed for all Exposure Drafts henceforth.

The Board considered a staff recommendation arising from the analysis of costs and benefits. This concerned the proposed exception from recognition of deferred tax balances relating to investments in foreign subsidiaries and joint ventures. The recommendation was to change to an exception for deferred tax balances relating to investments in subsidiaries and joint ventures in jurisdictions in which intragroup distributions have tax consequences. The Board decided not to make such a change.

The Board concluded that overall the benefits of the proposed amendments outweighed the costs.

Transitional arrangements

The Board considered what transitional arrangements should be required for the proposed amendments. The Board decided that:

- existing users should be required to apply the amendments to the assets and liabilities in the opening balance sheet for the first period starting after the effective date of the Standard and to all events and transactions thereafter. In applying the amendments to the assets and liabilities in that first opening balance sheet:
    - (a) a re-analysis of the cumulative amounts recognised through profit or loss or directly in equity should not be allowed and
    - (b) assets and liabilities to which the initial recognition exemption currently applies should be treated as if they had been acquired for their carrying amount at the balance sheet date. In other words, they would be grossed up to create (i) a new carrying amount and (ii) a deferred tax balance calculated in accordance with proposed IAS 12 with the sum of (i) and (ii) equalling the previous carrying amount.
- first-time adopters whose date of transition to IFRSs is before a specified date shortly after the publication of the final standard should be required to apply the existing IAS 12 requirements in financial statements presented for any periods that start before the specified date. The amendments should be applied to the assets and liabilities in the opening balance sheet for the first period starting after the specified date and to all events and transactions thereafter. In applying the amendments to the assets and liabilities in that first opening balance sheet entities should apply the same approach as existing users.

Any adjustments arising on the first application of the amendments should be treated as a change in accounting policy.

- first-time adopters whose date of transition to IFRSs is later than a specified date shortly after the publication of the final standard should apply the amendments retrospectively except that:
    - (a) the requirements for the allocation of tax among components of profit or loss and equity should be applied to the amounts recognised directly in equity on the initial recognition of assets and liabilities on the date of transition to IFRSs.
    - (b) the carrying amount of assets and liabilities to which the initial recognition exception currently applies should be determined as if they had been acquired for their carrying amount at the date of transition to IFRSs. In other words they would be grossed up to create (i) a new carrying amount and (ii) a deferred tax balance calculated in accordance with proposed IAS 12 with the sum of (i) and (ii) equalling the previous carrying amount.

Alternative views

Two Board members indicated that they were considering adding alternative views to the Exposure Draft.

[Contd.]

30 Cannon Street, London, EC4M 6XH United Kingdom
Tel: +44 (0)20 7332 2730
Fax: +44 (0)20 7332 2749
Website: www.iasb.org
Email: publications@iasb.org
ISSN 1474-2675

Update on FASB redeliberations on uncertain tax positions

The FASB staff presented an update on the FASB's redeliberations of uncertain tax positions.

- a requirement that changes in the expected outcome of uncertain tax positions would be based on new information available to the entity, not on a new interpretation of old or previously available information and
- a comment that classification of interest and penalties should be treated as an accounting policy election, and a requirement for the election to be disclosed as well. The Board decided not to require disclosure of the amount of interest and penalties.

Business Combinations II

Joint ventures

The Board affirmed its decision not to consider the accounting for joint ventures in the current phase of the Business Combinations project, and, therefore to exclude the formation of joint ventures from the application of the acquisition method in the business combinations Standard. The Board also decided that developing a common definition of a joint venture with the FASB was outside the scope of this phase of the Business Combinations project.

Definition of a business combination

Several respondents to the Exposure Draft stated that the proposed definition of a business combination is too narrow because it does not include some transactions or events that the boards intend to result in the application of the acquisition method, such as true mergers. In response to those comments, the Board asked the staff to examine ways to improve the proposed definition of a business combination to meet the following objectives:

- to make acquisition accounting the result of a transaction or event, rather than an accounting phenomenon;
- to reflect the importance of control in acquisition accounting, no matter how control arises;
- to clarify that the acquiree must be a business for acquisition accounting to apply;
- to include transactions other than typical legal parent-legal subsidiary purchase transactions; and
- to clarify that even if true mergers exist, they are included in the definition of a business combination and must use acquisition accounting.

The Board decided that if it is not possible to develop a revised definition quickly, the definition proposed in the Exposure Draft would be reaffirmed - with supplemental guidance to address the concerns of respondents.

The staff also informed the Board of updated plans for the next meeting. At the meeting in March, the staff plan to discuss the basic principles on which the proposals in the Exposure Draft are developed, step acquisitions, issues related to non-controlling interests including post-control changes in ownership levels that do not result in the loss of control, and bargain purchases and overpayments.

Short-term convergence: proposed amendments to IAS 20

The Board reviewed the status of its project to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Board last discussed the project in July 2004, when it decided to replace the recognition requirements of IAS 20 with the recognition requirements for government grants related to assets measured at fair value included in IAS 41 *Agriculture*.

The Board acknowledged that IAS 20 is inconsistent with the *Framework* and that there is a need to update the Standard. However, the Board also noted some concerns about the conceptual basis of the government grant model in IAS 41, particularly in its treatment of conditional grants.

The Board noted that its work in other projects, in particular its project to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, might yield insights into the appropriate treatment of obligations arising in conditional grants. Therefore, the Board decided to defer work on the IAS 20 project until further work on those projects is completed.

The Board noted that it had previously concluded that its IAS 20 project is precedential to its Emissions Trading project. Accordingly, the decision to defer the IAS 20 project means that work on the Emissions Trading project is also deferred.

Financial instruments puttable at fair value

The Board discussed whether additional disclosures should be proposed to accompany the forthcoming proposed amendments to IAS 32 *Financial Instruments: Presentation.* The proposed amendments would clarify financial instruments puttable at fair value and some instruments with an obligation arising on liquidation as equity, subject to specified conditions being met.

The Board decided to require a limited life entity to disclose that it has a limited life. The Board also decided to require that when an entity reclassifies between liability and equity a financial instrument puttable at fair value or an instrument with an obligation arising on liquidation, the entity disclose the amount reclassified, and the timing of the reason for the reclassification.

For financial instruments puttable at fair value that are classified as equity, the Board decided to require disclosure of:

- summary quantitative data;
- the entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments, including any changes from the previous period;
- fair value of that class of financial instruments in a way that permits it to be compared with its carrying amount; and
- information about how fair value was determined, consistently with the requirements of IFRS 7 *Financial Instruments: Disclosures*, paragraph 27(a) - 27 (c), to the extent applicable.

At its meeting in December 2005, the Board decided to permit a non-public entity to use a formula to estimate the fair value of financial instruments puttable at fair value upon issuance, redemption or repurchase of the instruments, provided that the formula is intended to approximate fair value. If a non-public entity uses such a formula, the Board decided that the entity should disclose that fact, and use the formula to comply with the fair value disclosures proposed for financial instruments puttable at fair value.

Accounting standards for small and medium-sized entities (SMEs)

The Board continued the review it began in January of a preliminary draft of an Exposure Draft (ED) of an IFRS for Small and Medium-sized Entities (SMEs).

The IASB's Working Group (WG) on Accounting Standards for SMEs met after the Board's January meeting to discuss the draft ED. A summary of the views and recommendations of Working Group members arising from that meeting was provided to the Board in advance of the Board's February meeting. In reviewing the draft ED, Board members considered the WG's recommendations.

Mandatory fallback The Board discussed the WG recommendation for a stand-alone, self-contained IFRS for SMEs - with designated fallbacks to full IFRSs on specific matters, but not a general mandatory fallback. The Board decided:

- Standards in full IFRSs that address transactions, events or conditions commonly encountered by SMEs should be included in the IFRS for SMEs, either directly or by cross-reference back to the full IFRS. Standards relating to transactions, events, or conditions not generally encountered by SMEs should not be included in the IFRS for SMEs. The goal would be to minimise the circumstances in which an SME would need to fall back to full IFRSs in the absence of guidance in the IFRS for SMEs.
- If the IFRS for SMEs does not specifically address a transaction, event or condition, an SME should be required to look to the requirements and guidance elsewhere in the IFRS for SMEs dealing with similar and related issues (that is, select an appropriate accounting policy 'by analogy'). Failing that, the SME should be required to look to the requirements and guidance in IFRSs and Interpretations of IFRSs dealing with similar and related issues. In the Board's view the absence of such a requirement would substantially increase the amount of material from full IFRSs that would have to be included in the IFRS for SMEs.

Disclosures Put all disclosures in a separate section.

Glossary Define all terms in a separate glossary in the IFRS for SMEs. Highlight defined terms the first time they are used in each section.

Preface Include a short preface explaining the nature of the IFRS for SMEs. This explanation was included in the Introduction section of the draft ED.

Scope Include the definition of SMEs in a scope section. This definition was included in the Introduction section of the draft ED.

IASB Framework The draft ED currently includes the objective of financial reporting, qualitative characteristics, definitions of financial statement elements, and recognition concepts extracted from the IASB Framework. This section should be retained.

Pervasive principles The Board asked the staff to prepare revised pervasive principles for consideration at a future meeting.

'True and fair override' A 'true and fair override' similar to that in paragraph 17 of IAS 1 should not be included in the IFRS for SMEs. However, a question about whether to do so should be included in the invitation to comment on the exposure draft.

Use of IFRS for SMEs by small listed entities The Board believes that full IFRSs are appropriate for an entity whose securities are publicly traded, because they include disclosures and guidance especially intended for public capital markets. This should be explained in the basis for conclusions. A jurisdiction that believes that the standards in the IFRS for SMEs are appropriate for small listed entities could adopt those standards, even word for word, as their national standards for small listed entities. In that case, however, the financial statements would be described as conforming to national GAAP, not to the IFRS for SMEs. This should be explained in the basis for conclusions of the IFRS for SMEs.

Financial report of an SME The IASB is currently working on a reorganisation of IAS 1 as part of its proposals for Segment A of the Performance Reporting project. Staff should consider reorganising the financial report section of the IFRS for SMEs in line with the reorganised IAS 1.

Statement of income and retained earnings The IFRS for SMEs will provide that if the only changes to an SME's equity during a period arise from profit or loss and payment of dividends, the SME may present a combined statement of income and retained earnings.

Cash flow statement The IFRS for SMEs will illustrate only the indirect method. An SME electing the direct method would be directed to IAS 7 for guidance.

Consolidation An SME group (parent and one or more subsidiaries) will be required to prepare consolidated financial statements. The IFRS for SMEs will include only the basic principles for consolidation, with a cross-reference to IAS 27 for detailed guidance.

Combined financial statements Guidance should be added regarding preparation of combined financial statements of two SMEs controlled by the same shareholder(s). Guidance would require elimination of intercompany profits, and related party disclosures.

Correction of errors Retrospective treatment should be the principle, as it is in IAS 8. Adjust retained earnings if retrospective restatement is impracticable.

Investments in associates Allow an SME to elect (a) the cost method with impairment or (b) fair value through profit and loss or (c) equity method. Cross-reference to IAS 28 would replace the details of the equity method. Do not require conformity of accounting policies of the associate and investor. If the cost or fair value method is used, intercompany profits would not be eliminated, but related party disclosures would be required.

Investments in joint ventures Allow an SME to elect (a) the cost method with impairment or (b) fair value through profit and loss or (c) equity method or (d) proportionate consolidation. Cross-reference to IAS 31 would replace the details of methods (c) and (d). If the cost or fair value method is used, intercompany profits would not be eliminated, but related party disclosures would be required.

Property, plant, and equipment SMEs should be permitted to use the revaluation model, with a cross-reference to IAS 16 for guidance on applying it.

Investment property The section on investment property should be brief. A simple definition of investment property should be included in the glossary. The IAS 40 accounting policy choice of (a) cost-depreciation-impairment model and (b) fair value through profit and loss model should be retained. An SME electing (a) should be referred to the property, plant, and equipment section of the IFRS for SMEs for guidance. An SME electing (b) should be referred to IAS 40.

Business combinations SMEs need not separate out acquired indefinite-life intangible assets from goodwill, but would separate definite-life intangible assets..

Goodwill and indefinite-life intangible assets that are separated from goodwill An SME would be required to do an impairment test only if there is an indication of impairment. The Board did not support an amortisation approach.

Leases Retain the distinction between operating and finance leases.

Assets held for sale Instead of a separate section these requirements should be included in the section on property, plant, and equipment.

Provisions Staff should consider whether this section can be simplified and which of the examples in the appendix to IAS 37 should be included in the IFRS for SMEs. Address restructurings and onerous contracts as examples.

Equity-redeemable and puttable capital The IASB is developing a general exposure draft on this topic. It is a transaction frequently encountered by SMEs. Include the general exposure draft principles in the IFRS for SMEs. Also include the guidance on co-operatives from IFRIC 2.

Revenue Include the guidance on accounting for construction contracts in this section, rather than as a separate section.

Basis for conclusions The Exposure Draft of the IFRS for SMEs will include a basis for conclusions explaining the basis for any changes from full IFRSs.

'Plain English' The Board encouraged the staff to review the entire draft ED for opportunities to rewrite in 'plain English'.

Amendment of the IFRS for SMEs The Board asked the staff to develop a proposal for amendment of the IFRS for SMEs following its initial adoption.

Next steps

The Board will continue its consideration of the remaining sections of the draft ED at its meeting in March 2006. The staff will then prepare a revised draft ED, which will include the sections on financial instruments and income taxes, for consideration by the Board in May 2006.

Revenue recognition

The Board is exploring a revenue recognition model under which revenue is recognised on the basis of changes in assets and liabilities arising from contracts, but that bases measures of revenue on an allocation of the amount of consideration received from the customer. (allocated customer consideration approach).

Wholly executory contracts

The Board considered how the allocated customer consideration approach would be applied to wholly executory (or wholly unperformed) revenue contracts. The Board affirmed its previous decision that the unit of account should be based on the legal remedies for a breach of contract that are available to the contracting parties. Remedies available for a breach of contract provide the basis to determine whether a contract would result necessarily in a separate inflow and outflow of assets for the entity. For contracts for which the legal remedy for a breach of contract is money damages, the Board decided that the unit of account is the contract as a whole. Under the allocated customer consideration approach, the net value of contract as a whole would initially be nil. (The Board did not reach a conclusion on whether the unconditional contractual rights and obligations at inception gave rise to separate assets and liabilities, which are recognised net, or a single asset or liability). For contracts for which the legal remedy for a breach of contact is specific performance, the Board decided that the unconditional rights and obligations give rise to separate assets and liabilities that are recognised on a gross basis.

Revenue recognition methods

The Board discussed two revenue recognition methods. Under the first method (an extinguishment-based model), the only act of the entity that fulfils an obligation is the delivery or transfer of goods, services or other rights to the customer. Accordingly, revenue is recognised only when the customer obtains those goods, services or other rights. Under the second method (a performance-based model), any act of the reporting entity in the production process creates an asset that can be used to satisfy performance obligations under a contract. Accordingly, revenue is recognised as performance occurs, which may be before the customer obtains the goods, services or other rights.

The Board considered some examples of contracts under the two methods but reached no conclusions. The Board directed the staff to consider more examples under the two methods, including contracts that would currently be classified as construction contracts with and without milestone payments.

Amendments to IAS 37

The Board discussed its strategy for redeliberating the proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*.

The Board affirmed the project objective, namely (a) to analyse some items currently described as contingent assets and contingent liabilities in terms of assets and liabilities and (b) to achieve convergence of the application guidance for accounting for costs associated with restructurings in IAS 37 with the requirements of SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*. The Board also affirmed its decision in December 2005 that this project is precedential to some other current and potential projects. Therefore, the Board decided that the project should be repositioned as a stand-alone project, rather than as accompanying the Business Combinations project.

In the light of the comment letters, the Board decided to hold round-table discussions later in the year. Details will be announced in due course, but the Board indicated that some of the round-tables would be held outside London.

The Board considered the staff's initial analysis of the 123 comment letters on the IAS 37 and IAS 19 proposals. The Board noted that the staff plan to bring back all of the proposals for redeliberation at future Board meetings. However, the amount of research and analysis they expect to undertake on each issue will vary.

The Board also approved the staff's plan for the redeliberations. The plan envisages that some of the more fundamental issues will be discussed before any round-table discussions. It also envisages that redeliberations will continue until May 2007. Therefore, a Standard will not be issued in 2006, as the exposure draft had suggested. However, the Board will discuss the effective date and transitional requirements of any Standard towards the end of the redeliberation process.

Conceptual Framework

The Board continued its deliberations on the joint IASB/FASB conceptual framework project. The Board discussed the working definitions of an asset and a liability. Also, the staff reported on the project plans for the coming months, including the timing for the release of the phase A Exposure Draft on objectives of financial reporting and the qualitative characteristics of decision-useful financial reporting information. The staff said that publication was now expected in the second quarter.

Definition of an asset

The Board continued its deliberation of phase B-Elements, Recognition and Measurement Attributes-by discussing a proposed working definition of an asset.

The staff said that in developing the working definition they had considered the definitions of an asset in the frameworks of the IASB and the FASB as well as those of more recently developed frameworks of national accounting standard-setters. Moreover, the working definition reflects revisions in the light of suggestions made in discussions with the IASB and FASB in December 2005. The staff added that the proposed definition was intended to clarify the meaning of an asset, rather than change what an asset was today.

The Board suggested that the staff should consider refining the definition to:

(a) clarify that there must be rights or other privileged access to a resource and explain in the amplifying text that resources can take the form of economic advantages;

(b) not specify in the definition that cash held by the entity and a present right of the entity to cash are assets, because they meet part (c) of the definition, and

(c) explain in amplifying text that an asset can generate economic benefits directly or indirectly..

The Board provided other suggestions and clarifications for further consideration, in particular for the wording of the definition and its amplifying text.

Definition of a liability

The Board considered possible revisions to the definition of liability. The Board reviewed difficulties with its existing definition-'a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'-and differences between it and the definitions of liability in the frameworks of the FASB and other national standard setters. The Board decided that:

(a) liability should continue to be defined directly, with reference to assets,

(b) it is the present obligation, not the future sacrifice, that is the liability,

(c) an obligation to forgo a cash inflow or to stand aside can be a liability,

(d) only an obligation to one or more other entities can be a liability,

(e) the notion of little or no discretion should be replaced by the notion of compulsion,

(f) an equitable or constructive obligation can be a liability only if it legally or equivalently compels potential outflows of cash or other potential sacrifices,

(g) the definition need not include probability or other notions of likelihood, which instead belong in recognition criteria or measurement, and

(h) explicit reference to past events is unnecessary.

The Board decided to base further work, including consideration of liability-equity issues on the staffs working definition, modified to incorporate the decisions above.

Next steps

The FASB will discuss the same topics on 1 March 2006, and both boards will discuss the topics in April. The modified working definitions will be further considered in subsequent discussions about the criteria to be used for determining which assets and liabilities are recognised in financial statements and when they are to be recognised.

Fair value measurement

The staff updated the Board about developments on the Fair Value Measurements project at the Financial Accounting Standards Board (FASB). No decisions were made.

Insurance

The Board continued its discussion of the following approaches it is exploring for insurance contracts:

- For non-life insurance pre-claims liabilities (ie the stand-ready obligation to pay valid claims for future insured events arising under existing contracts): either an unearned premium approach, or a prospective approach. The unearned premium approach measures pre-claims liabilities by reference to the unexpired portion of the consideration received. The prospective approach measures them by reference to future cash flows.
- For non-life insurance claims liabilities (ie liabilities to pay valid claims for insured claims that have already occurred) and for life insurance liabilities: a prospective approach (either current entry value or current exit value).

The Board discussed the following:

- Contractual cash flows that depend on policyholder behaviour
- Acquisition costs
- Liability adequacy test
- Gain on initial recognition
- Measurement attribute for non-life pre-claims liability.

Contractual cash flows that depend on policyholder behaviour

For many insurance contracts, cash flows depend on whether policyholders exercise contractual options. For example, policyholders often have a contractual right to cancel a contract. The Board decided that:

- When an insurer recognises rights and obligations arising under an insurance contract, it should also recognise as an asset the portion of the customer relationship (relationship with the policyholder) that relates to future payments that the policyholder must make to retain a right to guaranteed insurability. A right to guaranteed insurability permits continued coverage without reconfirmation of the policyholder's risk profile, at a price that is contractually constrained.

- The staff should investigate whether an insurer should present or disclose that customer relationship separately from its other rights and obligations.

Acquisition costs

The Board discussed acquisition costs (the costs that insurers incur to sell, underwrite, and initiate a new insurance contract). The Board reached the following conclusions in the context of a current entry value model or an unearned premium model:

- If an insurer has already recovered relevant acquisition costs from premiums received, the insurer should exclude that portion of the premiums from the measurement of the insurance liability.
- If an insurer expects to recover relevant acquisition costs from future cash flows under existing contracts, the insurer should consider that portion of those cash flows in measuring the portion of the customer relationship that relates to those contracts.
- Acquisition costs should not be deferred and presented as if they were an asset. The amount of such an asset would have no independent meaning, and any method of amortisation would be arbitrary.

The Board also concluded that acquisition costs play no direct role in a current exit value model, but they might play an indirect role as one piece of evidence that might help to corroborate estimates of the price that market participants might be prepared to receive (or pay) for the insurer's contractual rights and contractual obligations and for the portion of the customer relationship that relates to the existing contract.

The Board discussed how to define relevant acquisition costs, but the staff did not ask the Board to reach a conclusion on this topic. If necessary, the staff will ask the Board to discuss this again at a future meeting. A future meeting will also discuss how to present acquisition cost expense at inception.

Liability adequacy test

A liability adequacy test is intended to determine whether the carrying amount of a liability needs to be increased (the test is similar to an impairment test, which tests whether the carrying amount of an asset needs to be decreased). The Board concluded that:

- A liability adequacy test is needed in the unearned premium and current entry value approaches, but not in a current exit value approach. For the current entry value approach, the Board will assess at a future meeting whether such a test is needed only at inception or also subsequently.
- The margin for a liability adequacy test should be consistent with the margin that would be included in current exit value.
- If the liability adequacy test identifies a shortfall, an insurer should subsequently recognise income as it is released from the risk represented by the margins included in that shortfall (for both an unearned premium approach and a current entry value approach). The insurer should accrue interest on the shortfall in a current entry value approach, but not in an unearned premium approach. However, when interest is not added, an additional shortfall may arise later when the liability adequacy test is applied again. If a shortfall no longer exists, the insurer should reverse it.

At a future meeting, the Board will discuss:

- the unit of account for liability adequacy tests.
- whether a liability adequacy test should be net of reinsurance or gross.
- the income statement presentation of shortfalls and of subsequent related income and expense (release from risk, interest, reversals).

Gain on initial recognition

The Board discussed whether an accounting model for insurance contracts should prohibit the recognition of a gain at inception of an insurance contract. Although some Board members expressed a preference for not including such a prohibition, because the answer to this question provides the main distinction between the current entry value approach and the current exit value approach, the staff did not ask the Board to reach a conclusion on this topic. The staff plan to ask for a decision when they ask the Board to choose between those two approaches.

Measurement attribute for pre-claims liabilities

In May 2005, the Board directed the staff to work in parallel on two alternative approaches for non-life insurance pre-claims liabilities, until the Board determines how to select one of them. At this meeting the Board:

- decided to adopt a prospective approach for those liabilities (either current entry value or current exit value). The staff expect to ask the Board in April to express a preference between current exit value and current entry value.
- noted that insurers may be able to develop reasonable approximations to a prospective measurement. For example, unearned premium might sometimes provide such an approximation if the pattern of risk is linear, the contract is not likely to be highly profitable or highly unprofitable, and circumstances have not changed significantly since inception. The staff will investigate whether the Board should develop guidance on such approximations.
- confirmed one point that was implicit in earlier discussion: the discount rate for non-life insurance claims liabilities should be current. The Board plans to address some other matters relating to discount rates at a future meeting.

The Board plans to discuss at a future meeting:

- how an insurer should report premiums and claims information in a prospective approach.
- whether an insurer should accrue interest on pre-claims liabilities and account separately for the release from the risk embodied in measurements of pre-claims liabilities.

Next steps

The Board expects to continue its discussion of the main components of accounting models for insurance contracts in March.

Meeting dates: 2006

The Board will next meet in public session on the following dates. Meetings take place in London, UK, unless otherwise noted.

27—31 March

24—28 April (joint with FASB)

22—26 May

19—23 June

17—21 July

18—22 September

16—24 October (joint with FASB), Norwalk, Connecticut, USA

13—17 November

11—15 December

