IASB Update

From the International Accounting Standards Board

29 March 2011

Welcome to IASB Update

This IASB Update is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The IASB met in London on Tuesday 29 March. The US-based FASB joined the IASB for some of the sessions, via video from its offices in Norwalk. The boards discussed impairment of financial assets, focusing on impairment for purchased and originated loans. They also discussed insurance contracts, focusing on unlocking the margin. The boards were not asked to make any decisions in the insurance contracts session.

In a separate session the IASB considered whether to proceed now with a minor amendment to IFRS 5 *Discontinued Operations*, or to delay exposure until the second half of 2011.

The topics discussed at the joint IASB/FASB board meeting were:

- Financial instruments: impairment
- Insurance contracts

The topics discussed at the IASB Board meeting were:

- IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations -* Discontinued Operations

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Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings in 2011 are:

5-6 April (tentative)
11-15 April
27 April (tentative)
4 May (tentative)

To see all Board meetings for 2011, click here.

Archive of IASB Update Newsletter

Click here for archived copies of past issues of IASB Update on the IASB website.

Podcast summaries

To listen to a short Board meeting audio summary (podcast) or previous Board meetings, click here.

Sessions held jointly with the FASB

Financial instruments: impairment

The IASB and the FASB discussed impairment accounting for purchased financial assets, including whether an impairment allowance should be established upon acquisition and the subsequent interest income recognition for purchased financial assets.

At the 22 March meeting, the boards discussed whether or not originated instruments and purchased instruments subject to impairment accounting should have consistent accounting models for interest income recognition and impairment. The boards did not reach a decision on this question and asked the staff to prepare examples for further discussion.

The boards continued their discussion on these issues using examples provided by the staff. The boards tentatively decided that for purchased financial assets that do not have an explicit expectation of losses (that is, loans recognised in the 'good book' upon acquisition) when analysed at the individual asset level, even when acquired as part of a portfolio, an entity should account for impairment in the same way as for originated loans. Interest income for these assets would be recognised on the basis of contractual cash flows. This decision effectively aligns impairment accounting and interest income recognition for originated loans and 'good' purchased financial assets (those that do not have an explicit expectation of losses at the individual asset level at acquisition). The boards will determine the appropriate impairment accounting model for these loans in redeliberating the Supplementary Document, which is currently open for comment.

The boards also discussed impairment accounting, including interest income recognition, for financial assets purchased where an explicit expectation of loss exists at the individual financial asset level (that is, where the loan goes into a 'bad book' at acquisition). The boards tentatively decided that interest income recognised should be based on expected collectible cash flows estimated at the date of acquisition (that is, to accrete purchase price to expected cash flows). As a result of limiting the recognition of interest income for these credit-deteriorated assets, a separate impairment expense would not be recognised at the date of acquisition.

The boards noted that their decisions at this meeting were subject to future discussions on pending issues. These issues include (1) determining how to differentiate purchased portfolios of financial assets into 'good books' and 'bad books' and what the underlying accounting should be and (2) whether 'nonaccrual' guidance is necessary, and, if so, how to apply it.

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts by considering unlocking the margin and an oral report on the Insurance Working Group Meeting held on 24 March 2011.

Unlocking the margin

The boards discussed:

- whether the residual or composite margin should be locked-in at inception (as proposed in the exposure draft *Insurance Contracts* and the FASB's Discussion Paper *Preliminary Views on Insurance Contracts*); and
- if not, how the margin might be unlocked.

The boards were not asked to make any decisions on this topic.

Insurance Working Group Meeting

The board received an oral update on the 24 March 2011 Insurance Working Group meeting.

No decisions were made.

Next steps

The boards will continue their discussion on this project in April.

IASB-only sessions

IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* - Discontinued Operations

The Board tentatively decided that the proposed changes to discontinued operations do not meet the criteria for inclusion in the Annual Improvements Process. The Board expressed reservations about how urgent the need is to make those changes. It noted that the FASB has still to discuss this matter as well as discussing other changes to its discontinued operations requirements. The Board tentatively decided that it would not publish any exposure draft to amend IFRS 5 before the third quarter.

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