

## Welcome to the January *IASB Update*

The International Accounting Standards Board (the Board) met in public from 19-20 January 2016 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- **Insurance Contracts**
- **Discount Rates Research**
- **Fair Value Measurement**
- **Revenue from Contracts with Customers**

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### Future IASB meetings

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

The next IASB meetings are:

12 to 19 February 2016  
14 to 18 March 2016  
18 to 22 April 2016

To see upcoming and past IASB meetings, [click here](#).

### Archive of *IASB Update* Newsletter

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### Podcast summaries

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## Insurance Contracts (Agenda Paper 2)

### *(Decision-making sessions)*

The Board met on the 19 and 20 January 2016 to deliberate the remainder of the planned technical decisions on the accounting for insurance contracts.

### **Level of aggregation (Agenda Paper 2A)**

The Board tentatively decided to require a loss for onerous contracts to be recognised only when the contractual service margin is negative for a group of contracts, and that the group should comprise contracts that at inception:

- a. have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing; and
- b. had similar expected profitability (ie similar contractual service margin as a percentage of the premium).

### **All 14 Board members agreed with this decision.**

The Board tentatively decided:

- a. The objective for the allocation of the contractual service margin is to recognise the contractual service margin for an individual contract, or groups of homogeneous contracts, in profit and loss over the coverage period of the contract in a way that best reflects the service to be provided by the contract. Hence, if there is no more service to be provided by a contract after the end of the reporting period, the contractual service margin for that contract should have been fully recognised in profit or loss.
- b. An entity can group contracts for allocating the contractual service margin provided that the allocation of the contractual service margin for the group meets the objective in (a).
- c. An entity that groups contracts is deemed to meet the objective in (a) provided that:
  - i. the contracts in the group:
    - have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing; and
    - on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium); and
  - ii. the entity adjusts the allocation of the contractual service margin for the group in the period to reflect the expected duration and size of the contracts remaining after the end of the period.

The Board instructed the staff to develop the wording during the drafting process to improve the clarity of these requirements.

### **12 Board members agreed with this decision and 2 Board members disagreed.**

The Board tentatively decided that there should be no exception to the level of aggregation for determining onerous contracts or the allocation of the contractual service margin when regulation affects the pricing of contracts. Accordingly, contracts with dissimilar profitability, even if as a consequence of regulation, may not be grouped for determining onerous contracts and for the allocation of the contractual service margin.

**10 Board members agreed with this decision and 4 Board members disagreed.**

***Specifying the effect of discretion in the general model (Agenda Paper 2B)***

The Board tentatively decided to require an entity to specify at the inception of the contract how it viewed its discretion under the contract, and to use that specification to distinguish between the effect of changes in market variables and changes in discretion. If the entity is unable to specify in advance how it will determine the amounts due to policyholders, then the default benchmark would be a current market return.

**All 14 Board members agreed with this decision.**

***Next steps***

The Board have now completed the planned technical decisions on the accounting for insurance contracts. At the Board's February 2016 meeting, the staff plan to ask the Board to review the due process steps taken in developing the new Insurance Contracts Standard and to ask permission to begin the balloting process for the new Insurance Contracts Standard.

## **Discount Rates Research (Agenda Paper 17)**

The Board continued to consider the staff's findings on the research project on present value measurements—discount rates.

Specifically, the Board discussed present value measurement methodology and treatment of taxes, present value measurement presentation and disclosures, present value measurement objectives and the use of present value measurements in IFRS Standards.

The Board was not asked to make any decisions.

***Next steps***

The staff will develop recommendations for the next steps, and will ask the Board to discuss them at a future meeting. The Board will also have further discussions on some specific topics, such as the interaction between discount rates and taxes.

## ***Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13) (Agenda Paper 6)***

The Board discussed the findings of the research undertaken so far on the measurement proposals included in the Exposure Draft (ED) *'Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value'* (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13). In particular, the Board discussed the feedback received from users, preparers and the Global Preparers Forum, and discussed the outcome of the academic literature review undertaken.

In addition, the Board noted that it will use the work carried out during this research by feeding it into the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*.

All 14 Board members agreed with this decision.

### **Next steps**

The Board will consider further work on this topic if the PIR identifies this as a critical area in which entities have encountered significant problems when implementing the Standard.

## **Revenue from Contracts with Customers (Agenda Paper 7)**

The Board met on 20 January 2016 to consider the following in relation to the final amendments *Clarifications to IFRS 15*:

- a. transition requirements;
- b. effective date; and
- c. re-exposure, due process and permission to ballot.

### *Transition requirements*

The Board confirmed its previous decisions:

- a. to require an entity to apply the clarifying amendments to IFRS 15 retrospectively; and
- b. that no special transition provisions are needed for a first-time adopter.

12 Board members agreed and 2 disagreed.

### *Effective date*

The Board tentatively decided:

- a. to require an entity to apply *Clarifications to IFRS 15* for annual reporting periods beginning on or after 1 January 2018; and
- b. to permit an entity to apply the clarifying amendments early.

All Board members agreed.

### *Re-exposure, due process and permission to ballot*

The Board reviewed the mandatory and non-mandatory due process steps that the Board has taken so far in the development of *Clarifications to IFRS 15* and also considered the re-exposure criteria in the *Due Process Handbook*. All Board members confirmed that they are satisfied that the Board has completed all of the necessary due process steps on the project to date and instructed the staff to commence the drafting process for the final amendments to IFRS 15.

One Board member indicated an intention to dissent from issuing the final amendments to IFRS 15.

### **Next steps**

The Board expects to issue in March 2016 the final amendments *Clarifications to IFRS 15*.

## **Work plan—projected targets as at 22 January 2016**

The work plan reflecting decisions made at this meeting was updated on the IASB website on 22 January 2016. [View it here](#).

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