

STAFF PAPER

Due Process Oversight Committee

To: David Sidwell, Chairman—Due Process Oversight Committee
Members of the DPOC

From: Alan Teixeira

Date: 1 October 2012

Re: Development of exposure drafts

Overview

During its meeting in September the IASB discussed matters of due process on two projects:

- Financial Instruments: Classification and Measurement (amendments to IFRS 9); and
- Insurance Contracts

The papers that support the IASB's due process discussions accompany this note. As is normal for such papers, I am distributing them to you separately from the papers for the DPOC meeting that will take place at the Trustee meeting in Brussels.

If any members of the DPOC have any concerns about the tentative decisions reached by the IASB on these two projects, or wish to have more information about the due process steps, I am happy to respond either by email or at the meeting in Brussels. In both cases we have ensured that there is sufficient time before we plan to publish any documents for the IASB to consider any concerns members of the DPOC have about these projects.

Financial Instruments: Classification and Measurement – amendments to IFRS 9

The work on FI: Classification and Measurement is focused on developing a set of narrow scope changes to IFRS 9 Financial Instruments intended to address some application matters that have been brought to our attention; consider the interaction between IFRS 9 and the insurance contracts project; and to see if we could work with the FASB to eliminate some differences between IFRS 9 and US GAAP.

In September, the IASB was asked to give clearance to the staff to start the balloting process for an exposure draft. Because the proposed amendments have not been exposed before and their scope is relatively narrow it was a relatively simple matter of assessing whether the

IASB was satisfied that it had completed adequate due process to proceed to an exposure draft—there was no question of re-exposure and the document being published was always going to be an exposure draft and not be a final IFRS.

Attached to this note are IASB papers 6D and 6E. They set out the steps undertaken by the IASB on this project. The IASB considered these papers and resolved as follows:

The IASB discussed whether the IASB has complied with all the required steps in the *Due Process Handbook* and has performed sufficient optional due process steps in developing the proposed limited amendments to IFRS 9, to be able to proceed to issuing an Exposure Draft.

All IASB members agreed that the staff should begin the balloting process for the Exposure Draft.

One IASB member stated an intention to dissent from the Exposure Draft, and two others stated that they are considering dissent.

The IASB staff are now working on preparing documents for balloting. Assuming that the drafting and balloting steps proceed as planned, we expect to be in a position to have the exposure draft ready for publication at the end of November.

Insurance Contracts

Work on the Insurance Contracts project is reaching the point where all technical decisions will have soon been made. The project attracts a significant amount of attention from the insurance sector. The IASB decided that it would be helpful to consider sooner rather than later whether the next published document should be a review draft (similar to the approach being taken for Hedge Accounting) or a full exposure draft. Providing this certainty would help the staff and IASB in their planning and provide more certainty to interested observers.

Accordingly, in September the IASB considered this question and reviewed the due process steps it has taken to date. I emphasise that this is not the formal summary of due process that accompanies a request to begin the balloting process. The staff will prepare a formal summary of the due process steps undertaken when it formally seeks permission to begin the ballot process.

Attached to this note are IASB Papers 16D and 16E. They set out the analysis provided to the IASB. The outcome of the meeting was that of the fourteen IASB members who participated in the discussion—one member was not available for the session—twelve voted to re-expose. The other two members wanted to proceed to a review draft and then to an IFRS.

As with any exposure draft, the revised Insurance Contracts ED will include the full text of the proposed Standard, related application guidance and basis for conclusions. The IASB decided that the invitation to comment should focus on a narrow set of issues, which is normal for a re-exposure. Those issues are:

- (a) the requirement that the cash flows used to measure participating contracts should be based on the cash flows used to account for the underlying items (mirroring approach);
- (b) the requirement to present premiums in the statement of comprehensive income, which has two consequential decisions:
- (c) the part of the premium that relates to investment components is excluded from the premium presented in the statement of comprehensive income;
- (d) the premiums are allocated in the statement of comprehensive income on an earned basis (to be discussed at a future meeting);
- (e) the requirement to use the residual margin to offset changes in estimates of future cash flows (unlocking);
- (f) the requirement to present in other comprehensive income changes in the discount rate used to measure the insurance contract liability; and
- (g) the proposed transition requirements, including the tentative decisions made at their meeting in September and those that will be made at future meetings.

As noted above, the staff have still to complete the formal steps necessary before we ballot the exposure draft. We expect to complete those steps early in 2013, with publication of the ED no earlier than the end of March 2013.