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International Accounting Standards Board

INFORMATION FOR OBSERVERS

IASB Meeting:	**Insurance Working Group, April 2008**
Paper:	**Update on other relevant projects (Agenda paper 2B)**

Purpose of the discussion

1. This paper gives an update on the following IASB projects to the end of February 2008.

   (a) Conceptual framework (paragraphs 3-8)

   (b) Financial instruments (paragraphs 9-13)

   (c) Financial statement presentation (paragraphs 14-16)

   (d) Liabilities - proposed amendments to IAS 37 (paragraphs 17-20)

   (e) Revenue recognition (paragraphs 21-24)

   (f) Fair value measurement (paragraphs 25-27)

2. Attached to this paper is the IASB Work Plan, including a projected timetable at 31 March. The Board will review that timetable during its meeting in June.

Conceptual framework

3. The IASB and FASB plan to conduct this joint project in eight phases. Each of the first seven phases (A through G) are expected to involve planning, research, and initial Board

deliberations on major aspects of the Boards' frameworks and to result in an initial document that will seek comments on the Boards' tentative decisions for that phase. This will be followed by a period of redeliberations—the Boards' consideration of constituents' comments and redeliberations of the tentative decisions. The final phase is expected to lead to an Exposure Draft of the final proposed improvements for the entire converged framework.

4. For phase A, the Boards published for public comment in 2006 *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. The comment period ended November 3 2006. The Boards discussed the comments received and plan to issue an exposure draft on Objectives and Qualitative Characteristics (phase A) in the first half of 2008.

5. For phase B (Elements and recognition), the Boards have been discussing the definitions of assets and liabilities, and plan to begin discussing issues related to determining the unit of account, and concepts for recognition and derecognition.

6. For phase C (Measurement), the Boards plan to consider the staff's initial evaluation of measurement basis candidates in March 2008. In subsequent meetings, the Boards will consider issues related to selecting measurement bases for use in financial statements. The Boards' goal is to issue a discussion paper describing their views on those issues by the end of 2008.

7. The objective of Phase D is to determine what constitutes a reporting entity for the purposes of financial reporting. The Boards agreed to proceed with the drafting of a Discussion Paper/Preliminary Views document for publication in the first half of 2008.

8. Phases E (Presentation and disclosure, including financial reporting boundaries), F (Framework purpose and status in GAAP hierarchy), G (Applicability to the not-for-profit sector) and H (remaining issues) are inactive.

Financial instruments

9. At their joint meeting in October 2005, the IASB and the FASB established three explicit long-term objectives to improve and simplify the reporting for financial instruments:

(a) to require that all financial instruments be measured at fair value with realised and unrealised gains and losses recognised in the period in which they occur;

(b) to simplify or eliminate the need for special hedge accounting requirements; and

(c) to develop a new standard for the derecognition of financial instruments.

10. The Board is working on three long term projects relating to financial instruments:

    (a) Replacement of IAS 39

    (b) Distinction between Liabilities and Equity

    (c) Derecognition of Financial Instruments

11. The goal of the project to replace IAS 39 is to publish an IFRS that would significantly improve and simplify financial instrument reporting. The staff expects to issue a discussion paper shortly that will provide a basis for future discussions about the measurement of financial instruments and hedge accounting.

12. The objective of the Liabilities and Equity project is to improve financial reporting for financial instruments with characteristics of equity, non-equity or both by providing a more understandable, relevant and comparable depiction of those instruments. On 28 February 2008 the IASB published a discussion paper *Financial Instruments with Characteristics of Equity*. The discussion paper is open for comment until 5 September 2008. Although this project deals with financial instruments, it might be relevant to the classification of policyholder participation as equity or liabilities.

13. The aim of the Derecognition project is to identify an approach that improves existing standards on derecognition and is more consistent with the concepts of financial reporting The next step for this project is to publish a paper in the first half of 2008.

Financial Statement presentation

14. The objectives of this joint IASB/FASB project are to present information in financial statements in ways that improve the ability of investors, creditors, and other financial statement users to:

    (a) understand an entity's present and past financial position.

    (b) understand the past operating, financing, and other activities that caused an entity's financial position to change and the components of those changes.

    (c) use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.

15. The IASB completed Phase A of the project by publishing a revised version of IAS 1 *Presentation of Financial Statements* in September 2007.

16. Phase B, the current phase of the project, addresses fundamental issues for presentation of information in the financial statements, including the profit or loss subtotal and other totals and subtotals. The next due process step for Phase B is to issue a Discussion Paper, which is expected to be published in mid 2008.

Liabilities - proposed amendments to IAS 37

17. This project will amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The main objectives of the amendments are:

    (a) *convergence* with US GAAP. The Board proposes to align application guidance for costs associated with restructuring in IAS 37 (and termination benefits in IAS 19 *Employee Benefits*) with the more recent and conceptually superior requirements in SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*.

    (b) *improvements* in the requirements relating to identification and recognition of liabilities.

18. The current project plan envisages that a final standard will be issued in the second half of 2009.

19. In February 2008, the Board tentatively adopted an approach that clarifies the proposed measurement requirement for non-financial liabilities. This approach uses a measurement based on the amount the insurer would rationally pay at the reporting date to settle the liability with the policyholder or to transfer it to another insurer (see paragraph 22 of Agenda paper 3 Settlement Value).

20. The exposure draft also proposed to refine the definition of a constructive obligation; the definition of a constructive obligation in IAS 37 sets an important precedent that may be relevant in deciding as to whether an insurer has a present obligation to pay policyholder dividends.

Revenue recognition

21. The Board and the FASB are conducting a joint project to develop concepts for revenue recognition and a general standard based on those concepts. The general standard would replace the existing standards on revenue recognition, IAS 11 *Construction Contracts* and IAS 18 *Revenue*.

22. Over the past four years, the Board has been developing an asset and liability model for revenue recognition. It has also narrowed the possible implementation of the asset and liability model to two broad models. In one (the measurement model) the performance obligations are measured at fair value, and in the other (the customer consideration model) they are measured by allocating the customer consideration amount.

23. Because the two models have more similarities than differences, and those differences primarily relate to measurement, the Boards currently envisage that the initial due process document will explain and illustrate a contract-based revenue recognition model with two different measurement approaches. Those approaches will be compared without either of them necessarily being described as the Boards' "preliminary view." An extract from the Joint IASB/FASB Project Update providing an overview of the two measurement approaches is attached to this paper as Appendix A.

24. The Board plans to issue a Discussion Paper (jointly with the FASB) in the second quarter of 2008. The timing of the publication of an IFRS has not yet been determined.

Fair value measurement

25. The objective of the project on Fair Value Measurements is to define fair value more clearly and to provide guidance on measuring fair value when its use is required by another standard. This project is not intended to expand the use of fair value in financial reporting. More specifically, the objectives in the project are:

    (a) establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs in order to reduce complexity and improve consistency in its application;

    (b) clarify the definition of fair value and related guidance in order to more clearly communicate the measurement objective; and

    (c) enhance disclosures about fair value, thereby enabling users of financial statements to assess the extent to which fair value is used to measure assets and liabilities and to provide them with information about the inputs used to derive those fair values.

26. The Board published a discussion paper in November 2006 and comments were due by 4 May 2007.

27. The current project plan envisages that the Board will publish an exposure draft in mid 2009 and a final IFRS in 2010.

Appendix A
Overview of the two measurement approaches for the Revenue Recognition model
Extract from the Joint IASB/FASB Project Update on Revenue Recognition

Overview of the Two Measurement Approaches

Both measurement approaches focus on the asset or liability that arises from the combination of the rights and obligations (performance obligations) in a contract (arrangement) with a customer. A contract can be either an asset or a liability of the entity, depending on the remaining rights and obligations in the contract. A contract would be an asset (a contract asset) to the entity if the remaining rights exceed the remaining obligations. A contract would be a liability (a contract liability) to the entity if the remaining obligations exceed the remaining rights.

At contract inception, the initial accounting of the contract will depend on the measurement approach. Subsequently, as each performance obligation in the contract is satisfied, either the entity's contract asset will increase or its contract liability will decrease. This increase in the contract asset or decrease in the contract liability from satisfying the performance obligations (from transferring goods and services to customers) is reported as revenue.

In the measurement (formerly called fair value) approach, the contract asset or liability is measured at its current exit price. This is the amount that the entity would expect to receive or pay to transfer its remaining contractual rights and obligations to a market participant. The contract asset or liability is measured this way at inception and subsequently. Because of this measurement approach, an entity may recognize a contract asset at inception of the contract. This increase in the contract asset upon obtaining a contract is also reported as revenue.

In contrast, in the customer consideration approach, the contract rights are measured at the amount of consideration stated in the contract (customer consideration). This customer consideration amount is then allocated to the individual performance obligations pro rata based on the separate selling prices of each underlying good or service. As a result, at contract inception, the total performance obligations are measured at an amount equal to the customer consideration so that neither a contract asset nor contract liability is recognized. Subsequently, the performance obligations are measured at the amount of the customer consideration allocated to them at contract inception. They are not remeasured except when the contract is judged to be onerous.

Appendix A (continued)
Overview of the two measurement approaches for the Revenue Recognition model
Extract from the Joint IASB/FASB Project Update on Revenue Recognition

The two approaches can be summarized as follows:

	Measurement Approach	**Customer Consideration Approach**
Contract Inception		
Measurement of contract at inception	Measure the remaining rights and performance obligations in the contract at their current exit price.	Measure the rights in the contract at the amount of consideration received or receivable. The amount of consideration received or receivable is then allocated to the identified performance obligations based on the separate selling price of the underlying good or service.
Can some revenue arise at contract inception?	Yes (if current exit price of rights obtained > current exit price of obligations incurred).	No
Can some profit arise at contract inception?	Yes (if current exit price of rights obtained less current exit price of obligations incurred > contract acquisition expenses).	No
Can some loss arise at contract inception?	Yes (if the contract acquisition expenses > current exit price of rights obtained less current exit price of obligations incurred; or if current exit price of obligations incurred > current exit price of rights obtained).	Yes (for any contract acquisition expenses. An additional loss will also arise if the contract is judged to be onerous.)

Appendix A (continued)
Overview of the two measurement approaches for the Revenue Recognition model
Extract from the Joint IASB/FASB Project Update on Revenue Recognition

After Contract Inception		
Measurement of contract after inception	Measure remaining rights and obligations in the contract at their current exit price.	Measure remaining rights at the amount of remaining consideration receivable. Measure remaining obligations at the amount of consideration that was allocated to those obligations at contract inception unless those obligations are judged to be onerous. If onerous, recognize an additional liability.
If there is a change in price for goods and services still to be provided, does the carrying amount of the performance obligations change?	Yes, if there is a change in the current exit price of the goods and services to be provided.	No, unless the contract is determined to be onerous.
When is revenue recognized?	As performance obligations are satisfied (that is, as goods and services transfer to customer).	As performance obligations are satisfied (i.e. as goods and services transfer to customer).
How is the amount of revenue determined?	By reference to the current exit price of the obligations that have been satisfied—i.e. current price of goods and services provided in the period.	By reference to the contract consideration that was initially allocated to the obligations that have been satisfied—i.e. amount of contract consideration attributed to goods and services provided in the period.

IASB Work Plan – Projected timetable as at 31 December 2007

The timetable shows the current best estimate of document publication dates. The effective date of amendments and new standards is usually 6-18 months after publication date. However, except for the items listed in the section 'Amendments to standards', the effective date of IFRSs resulting from the current work plan will be no earlier than financial periods beginning 1 January 2009. In appropriate circumstances, early adoption of new standards will be allowed.

		MoU milestone by 2008	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009	Timing yet to be determined
ACTIVE AGENDA								
Projects in Memorandum of Understanding (MoU) with the FASB [Note 1]								
Short-term convergence projects								
Government grants [Note 2]	(IASB)	Determine whether major differences should be eliminated and substantially complete work						Pending work on Liabilities
Joint ventures	(IASB)					IFRS		
Impairment	(Joint)							Staff work in progress
Income tax	(Joint)			ED			IFRS	
Investment properties	(FASB)							
Research and development	(FASB)							
Subsequent events	(FASB)							
Other convergence projects								
Consolidation		Work towards converged standards			DP			ED, IFRS
Fair value measurement guidance		Converged guidance		RT			ED	IFRS
Financial statement presentation		One or more due process documents		DP				ED, IFRS
Revenue recognition		One or more due process documents		DP				ED, IFRS
Post-employment benefits (including pensions)			DP				ED	IFRS
Leases		Agenda decision					DP	ED, IFRS

Conceptual Framework						
Phase A: Objectives and qualitative characteristics	ED					
Phase B: Elements and recognition					DP	
Phase C: Measurement				DP		
Phase D: Reporting entity	DP					
Phase E: Presentation and disclosure						DP
Phase F: Purpose and status						DP
Phase G: Application to not-for-profit entities						DP
Phase H: Remaining Issues [Note 3]						TBD
Other projects						
Small and medium-sized entities				IFRS		
Insurance contracts					ED	IFRS
Liabilities [Note 4]					IFRS	
Emission trading schemes						TBD
Common control transactions						TBD
Management Commentary						TBD
Amendments to standards						
Annual improvements		IFRS		ED	IFRS	
Cost of an investment (Amendments to IFRS 1 and IAS 27)		IFRS				
Earnings per share: treasury stock method (IAS 33)	ED					IFRS
Financial instruments: portions (IAS 39)				IFRS		
Financial instruments: puttable instruments (IAS 32)	IFRS					
Related party disclosures (IAS 24)	IFRS					
Share-based payment: group cash-settled share-based payment transactions (IFRS 2 and IFRIC 11)						IFRS
Share-based payment: vesting conditions and cancellations (IFRS 2)		IFRS				

RESEARCH AGENDA

Projects yet to be added to the ACTIVE AGENDA but included in the MoU with the FASB (except as shown)						
	MoU milestone by 2008					
Derecognition	Consider staff research	RR				
Financial instruments (replacement of existing standards)	One or more due process documents	DP				
Intangible assets	Consider research and make agenda decision					
Liabilities and equity [Note 6]	One or more due process documents	DP				
Extractive activities	Not in MoU				DP	

Abbreviations used in the IASB Work Plan:
DP Discussion Paper
ED Exposure Draft
RT Round-table discussion
IFRS International Financial Reporting Standard
TBD The type of initial document (DP or ED) is yet to be determined
RR Research report
AD Agenda decision

Notes:
1. The Memorandum of Understanding (MoU) sets out the milestones that the FASB and the IASB have agreed to achieve in order to demonstrate standard-setting convergence, which is one part of the process towards removal of the requirement imposed on foreign registrants with the SEC to reconcile their financial statements to US GAAP.
2. Work on government grants has been deferred pending the conclusion of work on other relevant projects.
3. The IASB and the FASB will publish individual chapters as they complete each phase. Each board will evaluate the practical implications of doing so in the context of its own GAAP hierarchy.
4. The Liabilities project is the amendments to IAS 37.
5. In December 2007 the IASB decided not to add this project to its active agenda.
6. Project is being conducted as a ‘modified joint’ project. The FASB has published a Preliminary Views paper which will form the basis of a Discussion Paper to be issued by the IASB.