Project	**Insurance Contracts**
Topic	**Update on relevant projects – for information**

Objective

1. This paper provides an overview of the projects on the IASB's technical agenda that are of most relevance to the insurance contracts project. The projects covered are:

MOU Projects

(a) Financial instruments (paragraphs 6-24).

(b) Consolidation (paragraphs 25-27).

(c) Derecognition (paragraphs 28-31).

(d) Fair value measurement (paragraphs 32 and 33).

(e) Revenue recognition (paragraphs 34 and 35).

(f) Leases (paragraphs 36-38).

(g) Financial statement presentation (paragraphs 39-**Error! Reference source not found.**).

Other Projects

(h) Liabilities – IFRS to replace IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (paragraphs 42 and 43).

(i) Conceptual framework (paragraphs 44 and **Error! Reference source not found.**).

(j) Effective dates and transition (paragraphs 45-48).

Overview – MoU projects

2. The G20 has urged the IASB and the US FASB to increase efforts to achieve a single set of high quality, global accounting standards, within the context of an independent standard-setting process, and complete the boards' convergence

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB working group identified in the header of this paper.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

The meeting at which this paper is discussed is a public meeting but it is not a decision-making meeting of the Board.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

programme by 2011. Responding to concerns from many interested parties on their ability to provide high quality input to the large number of standards simultaneously published for public comment, in June we published, with the FASB, a modified work plan. That plan was designed:

- to give priority to the major projects in our Memorandum of Understanding (MoU) to permit a sharper focus on the issues and projects for which we believe that the need for improvement of both IFRSs and US GAAP is the most urgent; and
- to phase the publication of exposure drafts and related consultations (such as public round-table meetings) to enable the broad-based and effective stakeholder participation in due process that is critically important to the quality of our standards.

3. The modified strategy retains the target completion date of June 2011 or earlier for the projects for which we believe that the need for improvement in financial reporting is the most urgent.

4. The IASB has four major projects for which we are targeting completion by 30 June 2011—*Financial Instruments, Revenue Recognition, Leases* and *Insurance Contracts*. We have recently finalised improvements in relation to *Derecognition* disclosures and will finalise the new requirements for *Consolidations* (including addressing structured investment vehicles) by the end of 2010, ensuring that IFRSs and US GAAP have substantially converged. We will also finalise in the first quarter of 2011 the requirements for how to measure *Fair Value* (including when markets are illiquid).

5. The IASB has responsibilities to a broad range of stakeholders and jurisdictions. We therefore have other technical projects on our agenda, including many that are being undertaken jointly with the FASB. These include, among others, *Financial Statement Presentation*, defining *Equity,* and *Emissions Trading Schemes*. The IASB is also completing improvements in relation to the accounting for *Joint Ventures* and *Defined Benefit Plans,* which will also reduce differences between IFRSs and US GAAP.

Financial Instruments

6. Our efforts to improve our requirements and reach a common solution have been complicated by differing imperatives that pushed our respective development timetables out of alignment. In particular, responding to requests from ECOFIN, the G20 Leaders and others, the IASB has been replacing its financial instrument requirements in a phased approach, whereas the FASB developed a single proposal. Those differing development timetables and other factors have impeded the ability of the boards to publish joint proposals on a number of important technical issues, resulting in different approaches being exposed for public comment.

7. Our strategy for addressing those differences remains the same—each board has been publishing its proposals while also soliciting comment on those of the other board, as a way of giving interested parties the opportunity to compare and assess the relative merits of both boards' proposals. We will consider the comment letters and other feedback that we each receive, in an effort to reconcile our differences in ways that foster improvement and convergence.

Replacement of IAS 39

8. In order to undertake a comprehensive review of the accounting for financial instruments, while dealing with the most urgent issues in a timely manner, the IASB split the project to replace IAS 39 into three main phases—classification and measurement, impairment accounting (provisioning) and hedge accounting.

Classification and measurement

9. In July 2009 the IASB published for public comment an exposure draft proposing improvements to the classification and measurement of financial instruments.

10. In November 2009 the IASB finalised new requirements on the classification and measurement of financial assets by issuing IFRS 9 *Financial Instruments*. Although the mandatory application date for IFRS 9 is 1 January 2013, it was made available for earlier application from when it was published. Those who wished to use it could therefore do so for their 2009 year-end financial statements. However, as noted in the Basis for Conclusions on IFRS 9, the

Board will consider delaying the effective date of IFRS 9 if the new IFRS on insurance contracts has a mandatory effective date later than 2013, so that an insurer would not have to face two rounds of major changes in a short period.

11. Many jurisdictions have already made this first part of IFRS 9 available for use by their registrants, including Australia, Hong Kong, Japan (for those applying IFRSs from 2010) and New Zealand. The European Commission decided not to accelerate endorsement of IFRS 9 but instead to defer making a decision regarding endorsement until all of the phases of the project have been completed.

12. In publishing the first phase of IFRS 9, the IASB chose to defer consideration of the accounting for financial liabilities, limiting the standard to financial assets. Most respondents to the exposure draft preceding IFRS 9 told us that the accounting for financial liabilities has worked well except for one issue—the volatility in net income that arises when an entity's own debt is measured at fair value. In such cases, changes in the creditworthiness of the issuer causes net income volatility (the 'own credit issue'). There is particular concern that as an entity's credit quality deteriorates, the entity reports accounting gains, which is counter-intuitive. Responding to feedback received, the IASB decided not to undertake a comprehensive overhaul of the accounting for financial liabilities, but instead to make a targeted change to address only the own credit issue.

13. In May 2010 we published an exposure draft proposing a solution to address the 'own credit' problem. The comment period ended in mid-July and the Board has considered the feedback received from comment letter respondents and from our outreach activities. On 28 October 2010, the Board published additions to IFRS 9 for financial liability accounting. These additions to IFRS 9 *Financial Instruments* complete the classification and measurement phase of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

Impairment

14. Following our publication of a *Request for Information* in June 2009, in November 2009 we published an exposure draft proposing a move to a more forward-looking expected loss impairment/provisioning model. Recognising the significant practical challenges of moving to such a model the exposure draft

had an extended comment period of eight months, ending on 30 June 2010. During the comment period an Expert Advisory Panel (EAP) was formed comprising credit and systems experts. The mandate of the EAP was to provide the Board with feedback on the operational issues associated with introducing an expected loss impairment model. Prudential regulators were active participants in the EAP.

15. We have received broad support for a move to an expected loss impairment model. However, a number of operational challenges were identified with the model proposed in the exposure draft, and the EAP has suggested solutions for many of these issues. The Board has been working through the issues identified by comment letter respondents, by the EAP and in our extensive outreach programme, conscious that, given the comments received, any modified proposals are likely to need to be published as another exposure document.

16. The Board has held education sessions with the FASB as preparation for the joint discussions that can begin after the FASB's round-table meetings are completed in October. We have special joint board sessions planned for November to focus on the impairment model. We have also maintained an active dialogue with prudential supervisors—including having regular meetings with the Accounting Task Force of the Basel Committee on Banking Supervision and enhanced dialogue with senior banking regulators.

17. Even if another exposure document is required, the objective remains to complete this phase by 30 June 2011.

Hedge accounting

18. The Board is currently deliberating the hedge accounting phase of the project. In response to the overwhelming feedback received from the outreach activities that have been conducted, the Board is undertaking a comprehensive review of the hedge accounting requirements. The exposure draft will address hedge accounting both for financial and for non-financial exposures. The Board expects to publish the exposure draft on hedge accounting in the fourth quarter of 2010 and aims to complete this phase by June 2011.

FASB exposure draft

19. In May 2010 the FASB published an exposure draft addressing the classification and measurement of financial instruments, impairment accounting and hedge accounting. The comment period ended on 30 September 2010 and the FASB held a series of round tables in October. The FASB's exposure draft proposes a much greater use of fair value measurement than IFRS 9 with almost all financial instruments on the balance sheet at fair value.

20. The boards will decide how to proceed after the FASB has decided whether to reaffirm the fair value measurement approach proposed in its exposure draft.

Balance sheet netting of derivatives and other financial instruments

21. In response to stakeholders' concerns (including those of the Basel Committee on Banking Supervision and the Financial Stability Board) regarding the comparability of entities using IFRSs and US GAAP, the IASB and FASB decided to expand the scope of the joint project on financial instruments to address the netting or offsetting of financial assets. This is the single largest source of difference between the balance sheets of financial institutions using US GAAP and those using IFRSs. A common solution would be of great assistance to regulators and other users of financial statements.

22. The boards have already begun their joint deliberations and are aiming to publish a joint exposure draft before the end of 2010.

Financial instruments with the characteristics of equity

23. The existing IFRS and US GAAP requirements are similar in many respects but also differ in others, such as the accounting for convertible debt. Moreover, some aspects of the current IFRS and US GAAP requirements have been criticised for their complexity or inconsistency.

24. The boards do not have the capacity currently to devote the time necessary to deliberate the project issues. Consequently, the boards tentatively decided to not issue an exposure draft in the near term as originally planned. The boards will return to this project when they have the requisite capacity. This is expected to be after June 2011.

Consolidation

25. In 2008, as part of our comprehensive review of off balance sheet activities, we published an exposure draft of a replacement of our consolidation requirements, which included a new definition of control of an entity that would apply to all entities and be more difficult to evade by structuring. The exposure draft also proposed enhanced disclosures about securitisation and investment vehicles (such as special purpose entities and structured investment vehicles) that an entity has sponsored or with which it has a special relationship, but does not control.

26. In June 2009 the FASB completed a project that amended and improved US GAAP to address issues in the consolidation of variable interest entities (and related disclosures) highlighted by the recent financial crisis. The IASB expects to finalise and issue its new consolidation standard by the end of 2010 (including improved disclosures about structured entities). The standard is expected to result in the same consolidation decisions about structured entities by companies whether they are applying IFRSs or US GAAP. Differences will remain, however, in relation to what US GAAP refers to as voting interest entities; US GAAP has a legalistic approach to defining control whereas the new IFRS will have a broader definition of control.

27. On 29 September we posted on our website a staff draft of the new IFRS on consolidation. On 22 November the FASB is, in conjunction with the IASB, holding round-table meetings to consider that draft. The aim of the public meetings is to help the FASB decide whether it should publish an exposure draft based on our forthcoming IFRS, as a first step towards aligning the requirements for voting interest entities.

Derecognition

28. The IASB and FASB agreed that their near-term priority for derecognition should be on increasing the transparency and comparability of their standards by improving and aligning US GAAP and IFRS disclosure requirements for financial assets transferred to another entity.

29. Accordingly, we have brought forward our plans to finalise amendments designed to enhance the information available to investors to help them to

understand better the risk exposures that an entity remains exposed to as a result of any continuing involvement with financial assets that have been derecognised. The amendments will also make it easier to assess whether an entity has undertaken transactions to achieve a particular accounting result close to the end of a financial period—so-called window dressing.

30. These new disclosure requirements, which were exposed in 2009, were published on 7 October 2010 and will apply to annual periods beginning on or after 1 July 2011.

31. The boards made this decision in the light of the recent FASB amendments that reduce the differences between IFRSs and US GAAP, and of the guidance the IASB received from national standard-setters on the largely favourable effects of the IFRS derecognition requirements during the financial crisis. The boards will conduct additional research and analysis, including a post-implementation review of the FASB's recently amended requirements, as a basis for assessing the nature and direction of any further efforts to improve or align IFRSs and US GAAP in relation to derecognition.

Fair value measurement

32. The objective of this project is to develop a common definition of fair value and common implementation guidance by the FASB and the IASB, such as guidance on measuring fair value when markets are illiquid. Achieving convergence of the definition of fair value is necessary to achieving full convergence of any standards that require a fair value measure. The IASB standard will not, and the FASB standard did not, introduce any new requirements about when to use fair value. The fair value measurement standards are concerned only with how to measure fair value where it is required or permitted by other standards.

33. In June 2010 the FASB published an exposure draft proposing minor amendments to the wording of the US GAAP requirements and a new sensitivity disclosure. The IASB exposed a proposal to clarify that disclosure requirement. The boards are currently considering responses to those proposals so that they can issue final common standards in the first quarter of 2011. In August we published on our website a staff draft of the IFRS.

Revenue recognition

34. The IASB and FASB published a joint discussion paper in December 2008 that proposed a single revenue recognition model built on the principle that an entity should recognise revenue when it satisfies its performance obligations in a contract by transferring goods or services to a customer. That principle is similar to many existing requirements. However, the boards think that clarifying that principle and applying it consistently to all contracts with customers will improve the comparability and understandability of revenue for users of financial statements.

35. The boards published a joint exposure draft in June, with comments due on 22 October. Round-table meetings are planned for November. IASB and FASB staff have also been undertaking field visits to ensure that the proposals are implementable. We plan to complete the project in June 2011.

Leases

36. The boards included a leases project in the 2006 MoU because their highly similar standards are in significant need of improvement. The objective of this project is to develop common lease accounting requirements that would improve financial reporting by ensuring that all assets and liabilities arising from lease contracts are recognised in the statement of financial position. Lease obligations are widely considered a significant source of off balance sheet financing. The project will provide accounting standards for both a lessor and a lessee.

37. In August the boards published a joint exposure draft. The proposals, if implemented, would bring lease obligations and the related asset onto the balance sheet of lessees. The accounting for lessors is designed to ensure that an entity that retains significant risks or benefits of the leased asset would recognise that asset and an associated obligation to allow the lessee to use the asset. In other cases, ie when the significant risks or benefits of the leased asset are transferred to the lessee, the lessor derecognises the portion of the asset that is transferred by the lease agreement.

38. The comment period ends on 15 December 2010. We have round-table meetings planned for December and January. We expect to complete the project by June 2011.

Financial statement presentation

39. The FASB and IASB have been working together to establish a common standard that would improve how information is organised and presented in the financial statements. The IASB has implemented the decisions reached in the first phase of this project into IFRSs. The FASB has not yet implemented those improvements.

40. In 2008, the boards published a discussion paper in which they set out the principles for presenting financial statements. Through comment letters on the discussion paper, discussions with the boards' respective advisory councils, and other constituent outreach, preparers communicated to both boards their concerns about whether the benefits of the proposed changes would justify the expected implementation costs, which could be significant. Because this project will shape the presentation of financial information for many years to come, the boards decided in May to modify their strategies and work plan.

41. The staff and board advisors will meet with the project working group in December 2010 to discuss the cost and benefit information received during outreach activities and possible ways to move forward. The boards will return to this project when they have the requisite capacity. This is expected to be after June 2011.

Other projects

Liabilities - IFRS to replace IAS 37 Provisions, Contingent Liabilities and Contingent Assets

42. In September, the Board considered a summary of comments received on the exposure draft Measurement of Liabilities in IAS 37. The comments we received reinforced those that we had received while interacting with respondents and other interested parties during the comment period. A wide range of concerns was expressed, including matters related to parts of the proposed replacement of IAS 37 that had not been re-exposed.

43. The Board decided to continue to work on the project because parts of IAS 37 are causing diversity in practice and need amendment. However, in the light of the concerns raised, the Board expressed a willingness to reconsider all of the matters raised by respondents and will continue to interact with them. Any proposal that results from this additional work will be exposed in its entirety for further comment. Although the Board wants to avoid unnecessary delay, other priorities, and the need to give proper consideration to the matters raised by respondents, mean that we are unlikely to be able to issue an exposure draft before the second half of 2011.

Conceptual Framework

44. On 28 September we published two new chapters of the revised conceptual framework, addressing *Objectives* and *Qualitative Characteristics*. We are currently considering comments received on the draft *Reporting Entity* chapter and also considering how long it will take us to address these issues.

Effective dates and transition

45. On 19 October the IASB and the FASB each published documents seeking views on when new financial reporting standards resulting primarily from their work to improve and achieve convergence of International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) should become effective.

46. When finalising an IFRS, the IASB will identify a date from which entities will be required to start applying the new requirements (known as the effective date). This date is often 12-18 months after the date the IFRS is published, allowing time for entities to prepare for the change and for jurisdictions to implement the IFRS into their legal or regulatory regime.

47. With a number of major projects planned to be completed in 2011, the boards are seeking views on whether or how to sequence effective dates in order to reduce the burden to interested parties. In deciding how to proceed, the IASB will consider the needs of jurisdictions already using IFRSs as well as those planning to do so. Feedback from the consultation will inform the boards as they jointly develop an implementation plan for those new standards that helps stakeholders to manage both the pace and cost of change.

48. The projects covered by the request for views include the second and third phases of *Financial Instruments*, *Revenue from contracts with customers*, *Insurance contracts* and *Leases*. Comments are requested by 31 January 2011.