Project	**Insurance Contracts**
Topic	**Reporting changes in circumstances – Cover note**

Appendix B: Assets backing insurance liabilities under US GAAP

Financial assets

A1. Under current U.S. GAAP, financial assets are classified as held to maturity (accounted for at amortized cost), available for sale (accounted for at fair value with changes in fair value recognized in other comprehensive income) or trading (accounted for at fair value with changes in fair value recognized in profit or loss).

A2. In May 2010, the FASB issued an exposure draft of a proposed Accounting Standards Update that addresses accounting for financial instruments.[1]

A3. Under the FASB's exposure draft, financial assets that are debt instruments (loans, receivables, and debt investment securities) that meet certain criteria, may measure those financial assets at fair value with qualifying changes in fair value recognized in other comprehensive income. One such criteria is that the entity must have a business strategy of holding those debt instruments for collection or payment of cash flows. If those criteria are not met, the financial asset would be required to be measured at fair value with all changes in fair value recognized in net income.

A4. The proposal would require all investments in equity securities, including those that do not meet the proposed criteria for equity method of accounting and those that do not have a readily determinable fair value as defined in current U.S.

[1] Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

GAAP, to be measured at fair value with all changes in fair value recognized in net income. Therefore, investments in equity securities that were previously permitted to be classified as available-for-sale with changes in fair value recognized in other comprehensive income would be measured at fair value with all changes in fair value recognized in net income.

A5. The FASB plans to begin redeliberations of its proposed classification and measurement approach in December 2010.

Investments in associates and joint ventures

A6. Under U.S. GAAP, joint ventures and associates (ie equity method investees) are generally accounted for using the equity method of accounting. Similar to IFRS, an entity can choose to measure investments in associates and interests in joint ventures at fair value, with changes in profit or loss. Proportionate consolidation may be permitted in limited circumstances to account for interests in joint ventures in unincorporated entities in industries in which it is an established industry practice (eg in the construction and extractive industries).

A7. The FASB's exposure draft about accounting for financial instruments would change the criteria that must be met to apply the equity method of accounting. The proposal would not change the level of influence (significant influence) required to apply the equity method of accounting. However, the proposal also would require that an equity investment be in an entity with operations related to the investor's business to qualify for equity method accounting. If either criterion is not met, the equity method of accounting would be prohibited and the investor would account for the equity investment at fair value with all changes in fair value recognized in net income. In addition, the fair value option would no longer be available for equity method investments that meet the criterion.

Investment properties

A8. Investment properties are generally accounted for at historical cost less accumulated depreciation unless included in an investment company. Current U.S. GAAP does not provide an option to measure investment properties at fair value. However, the FASB has a project on its agenda to consider whether entities should be given the option (or be required) to measure an investment property at fair value through earnings and how an entity should consider a lease when measuring the fair value of a leased investment property. The FASB has tentatively decided to issue a proposed Accounting Standard Update that would require an investment property to be measured at fair value and is contemplating the requirements for an asset to be considered an investment property.

Property, plant and equipment

A9. Under U. S. GAAP, an entity cannot choose to measure property, plant and equipment at fair value. Rather, these assets are reported at historical cost less accumulated depreciation.