STAFF PAPER
For information only

Insurance working group

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Insurance contracts	**The Work Plan**	
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Overview

1. Since the last Council meeting in June, the IASB has:
   (a) completed the effect analyses for the Joint Arrangements and Consolidated Financial Statements projects.
   (b) published two exposure drafts-an ED relating to investment entities and an ED proposing the deferral of the effective date of IFRS 9 Financial Instruments.
   (c) completed its deliberations on the financial asset and liability offsetting project and expects to publish related amendments in December.
   (d) ratified an Interpretation referred to it by the IFRS Interpretations Committee in September, which the IASB expects to publish in October.
2. Accompanying this report you will find a copy of the work plan, as at 30 September 2011, and a more detailed analysis of the work we have been undertaking this year.

Completing the MoU projects

3. Through much of 2010 and the first half of 2011 the focus of the IASB was on the successful completion of four projects by the end of 2011-the three remaining projects on the IASB-FASB MoU (financial instruments, leasing, and revenue recognition) and insurance contracts. However, by July this year it became clear that the projects would not be completed until 2012. The revenue recognition and leasing proposals are both being re-exposed. We have also had difficulties reaching converged solutions with the FASB to financial instruments and insurance. Delays in completing these much needed improvements to financial reporting for those using IFRSs and US GAAP are unfortunate, but they should not be seen as a failure. They reflect the IASB being both cautious and responsive. We know that some of the improvements will change the way some of those using IFRSs and US GAAP report their activities. It is incumbent on the Board to justify those changes. Re-exposure, in this case, is part of that process.
4. In the next sections I provide a brief summary of the developments in these projects.

Financial Instruments

IFRS 9-deferral of the mandatory date

5. In July the Board agreed to expose a proposal to move the mandatory effective date for IFRS 9 Financial instruments from 1 January 2013 to 1 January 2015. The remaining chapters of IFRS 9 were expected to be finished by now, which is one of the factors that the Board considered when it set the original date of 1 January 2013.

Financial instruments-Offsetting of financial assets and financial liabilities

6. The IASB and FASB developed a proposal that would align the requirements for offsetting financial assets and liabilities. The proposal focused on netting on the basis of the ability and intention to offset payments on a day-to-day basis. This is closer to the requirements in IFRSs than to US GAAP, which, for derivatives,

gives primacy to bankruptcy. The current IASB requirements, and the proposals exposed, have been described as a gross approach. This is an unfortunate mischaracterisation of the model. The current IASB requirements, US GAAP and the proposals are all offsetting models, but they use different risk factors as the basis for offsetting. The effect of the proposals would be that entities applying US GAAP would, generally, not be able to offset as many financial assets and liabilities as they do now.

7. In June the IASB and FASB reached different conclusions-the IASB voted 15-0 to confirm the proposals whereas the FASB voted 4-3 not to proceed as proposed.
8. The IASB and FASB are completing the disclosure proposals exposed to help users reconcile between US GAAP and IFRSs in relation to offsetting. In addition, the IASB decided to provide additional application guidance in IAS 32 Financial Instruments: Presentation to address current practice issues identified during the redeliberations. The Board completed its deliberations in September 2011 and expects to issue the amendments to IAS 32 and IFRS 7 Financial Instruments: Disclosures in December 2011. Both sets of amendments will be effective for annual and interim reporting periods beginning on or after 1 January 2013.

Hedge accounting (the general model)

9. The Board has continued to consider the comments received from comment letters and outreach on the general hedge accounting model.
10. In September 2011 the Board completed its deliberations and asked the staff to prepare a draft of the final requirements, including application guidance and a Basis for Conclusions. That draft will be made available on the IASB website for about 90 days. This will provide the Board with the opportunity to undertake an extended fatal flaw process and additional outreach. The Board also wishes to give the FASB the opportunity to consider the planned requirements. The Board plans to finalise the requirements once this review is complete.
11. The Board has not yet completed its formal review of its due process steps. It will do so once the staff have completed the drafting review and reported back to the Board; after which the Board will review its due process steps and will assess whether re-exposure is necessary.

12. The Board resumed its public discussion of portfolio hedges in April and expects to develop further its proposals related to portfolio hedging before it finalises the more general hedging requirements. We therefore expect to publish an exposure draft for portfolio (macro) hedging in the first half of 2012.

Impairment

13. The objective is to increase the usefulness of financial statements by improving the transparency of information about the credit quality of financial assets. The main focus is the estimation and reporting of expected losses in a timely manner. This phase of the project has been developed jointly with the FASB.
14. In November 2009 the IASB published for public comment an exposure draft on provisions. The proposals followed an initial Request for Information, published in June 2009, on the practicalities of moving to an expected loss model. Recognising the significant practical challenges of moving to an expected loss model, the IASB established an Expert Advisory Panel (EAP) in December 2009 that was made up of experts in credit risk management.
15. In January 2011 the IASB published, jointly with the FASB, a supplement to the December 2009 exposure draft. The supplement presented an impairment model that the boards believed would enable them to satisfy at least part of their individual objectives for impairment accounting, while still achieving a common solution to impairment. Feedback was mixed, with many respondents preferring the IASB's simplified proposals and others preferring aspect of the FASB's original model.
16. At the last meeting I reported that the boards were continuing to develop an impairment model building on the previously exposed proposals, taking into account the feedback from the boards' original EDs and the SD. That approach places financial assets into three categories (or 'buckets') for the purpose of assessing expected losses, making the maximum use of credit risk management systems.
17. The boards have been discussing how to determine the category into which a financial asset should be placed on initial recognition and the factors that should determine when a financial asset is transferred into a different category. The boards have agreed that the principle should reflect the point in time when the

credit risk associated with the financial assets increases to a level at which there is current significant uncertainty about the ability to collect contractual cash flows and the entity begins to manage the financial assets more actively because of the heightened credit risk.

18. The next step in the process is likely to be an exposure draft, to be published jointly with the FASB.

Classification and measurement

19. The classification and measurement chapters of the new financial instruments standard, IFRS 9, were completed in 2009 (financial assets) and 2010 (liabilities). The FASB has reached different answers from the IASB model on matters such as the number of classification categories, which assets should be measured and reported at fair value and the bifurcation of embedded derivatives. In addition there are important legacy differences, such as whether items measured through OCI should be recycled to net income when they are sold.
20. The two boards cannot avoid facing these differences. International markets would find significant differences between IFRSs and US GAAP unacceptable. Early on we committed to exposing the FASB proposals for comment. The FASB has yet to decide formally whether they would need to re-expose their model. However, they have made many changes from their original proposals and it may be that they will re-expose.
21. For our part, we are currently exposing a proposal to defer the mandatory application date of IFRS 9 to 1 January 2015. We know that some entities are already applying IFRS 9 and others have made a considerable investment in anticipation of moving to IFRS 9. We are aware of the tensions between eliminating differences between IFRSs and US GAAP, giving users of IFRSs stability and certainty and the need to ensure that the accounting for financial instruments is of the highest quality.

Leasing

22. Lease obligations are widely considered to be a significant source of off balance sheet financing. The objective is to improve financial reporting by lessors and lessees.
23. The boards published a joint exposure draft in August 2010. During 2011 the IASB and FASB have been considering the comments received.
24. In July 2011 the boards decided that, although they had not completed all of their deliberations, they had sufficient information to be able to conclude that they would re-expose the proposals.
25. The boards expect to complete their deliberations in October. They will then prepare the revised exposure draft. The Board has not yet formally decided on the comment period, but the staff recommend a 120 day comment period. Like any ED, it will have a full Basis for Conclusions and any related application guidance and illustrative examples. The exposure draft is expected to be issued in February 2012.
26. The staff and boards will undertake targeted outreach during the exposure period. However, because the revised exposure draft will not be published for some months, outreach plans for the re-exposure phase of the project are only at a preliminary stage of development.

Revenue recognition

27. This is a joint project with the FASB. The boards have issued two due process documents: a discussion paper in December 2008 and an exposure draft in June 2010. As I reported in July, the boards decided to re-expose their revised proposals. It was the unanimous view of the boards that, while there was no formal due process requirement to re-expose the proposals, it was appropriate to go beyond established due process, given the importance of the revenue number to all companies and the need to take all possible steps to avoid unintended consequences.
28. A revised exposure draft is treated no differently to any other exposure draft. It will include a full Basis for Conclusions and any related application guidance (which is an integral part of the proposed IFRS and would therefore be

incorporated into laws and regulations in adopting countries) and illustrative examples (which are educational in nature and accompany the IFRS in order to be helpful to those applying the standard, but are not incorporated into laws and regulations in adopting countries).

29. So far in the re-exposure process the staff have received comments from the boards on two pre-ballot drafts. There is an issue to be taken to the joint board meeting on 19 October. This relates to the disclosure in interim reporting. This topic will not affect the substance of the boards' proposals. We expect to publish the revised exposure draft in November 2011. On that timetable, and with a comment letter period of 120 days, the comment deadline is expected to be in March 2012.
30. In the revised exposure draft, the boards have limited their request for responses to five questions.
31. We plan to conduct the full range of publication outreach within a few days of publication, eg press release, snapshot, webcast and stakeholder letter. In addition, we have planned outreach specifically targeted towards investors, including an Investor Perspective and Investor Spotlight at publication. An investor-specific webcast and analysts' briefing will take place shortly after publication.
32. Before publication, and throughout the comment letter period, a diverse range of outreach is currently planned to raise awareness of the boards' proposals and to discuss their implications with interested parties. The project will be presented at the IFRS conferences in Brazil and Melbourne; at the AOSSG (Asian-Oceanian Standard-Setters Group) meeting in November; and at the FEI (Financial Executives International) Conference in the US. The staff and board members will attend industry-specific outreach such as the European software group, the US Engineering and Construction conference and the EFRAG (European Financial Reporting Advisory Group)-organised industry workshops in Europe.
33. Known areas of change will also be addressed. In particular, the staff will prepare their outreach initiatives to real estate developers in Asia and Brazil to ensure that the proposed standard adequately addresses the issues raised locally in relation to IFRIC 15 Agreements for the Construction of Real Estate.

34. The boards also intend to hold public discussions on their proposals in May 2012 in London, Norwalk and Tokyo. The staff will post updates on the project outreach page throughout the re-deliberations to ensure that the outreach process is transparent.

Other Projects

Insurance contracts

35. In June the boards were planning to publish the next due process documents for insurance by the end of 2011. This is now not expected to happen until at least the first half of 2012.
36. The boards have reached different decisions on several basic matters. In addition, the IASB has already published an exposure draft, whereas the FASB has only published a discussion paper.
37. The boards are assessing how best to address these differences and how to align the timetables so that the outcome is identical final standards. If the IASB re-exposes the insurance contract proposals it will align the project timetables.
38. The other challenge is the relationship between the insurance contracts project and the financial instruments project. We have also made it clear that the IASB will need to ensure that the insurance contract standard and the financial instruments requirements (IFRS 9) work together.

Beyond the MoU

39. The decision by the US SEC about the incorporation of IFRS is expected in the coming months. This is an important decision for the US, as well as other parts of the world that have yet to formally commit to IFRS. The quality of the analysis in the updates by the SEC to its IFRS work plan is evidence that the SEC is taking a deep and thoughtful approach to the decision. It is a decision about which I am optimistic.
40. The IASB is an international standard-setter and we are ready to be a global standard-setter. When the IASB was established in 2001 its standard-setting

process was largely modelled on that of the FASB. Since then both organisations have continued to enhance our respective due processes. For the IASB, this has resulted in enhancements to the depth and transparency of its standard-setting and consultation activities. I have never worked in an organisation that is so transparent in its activities, and that consults so widely.

41. Having said that, we know we can do better. Every country has some form of safety valve in its endorsement process. That is not surprising given that they are delegating a very important process to an independent organisation. We understand the importance of demonstrating to each jurisdiction that we are acting in the best interests of investors with an independent mind-set. Quite simply, we need to justify our work. We are now completing effect analyses and post-implementation reviews for major standards and are committed to the enhanced due process oversight the Trustees have implemented.
42. One area of concern is that that inconsistent application of the standards makes international comparison more difficult. One set of accounting standards is a necessary condition for comparability of financial reporting, but it is not a sufficient condition. We have our part to play, by making sure that the standards are clear and enforceable. We are working more actively with groups of securities regulators such as ESMA. This is also an area where US adoption could help. If the US adopts IFRSs the SEC will remain in full control of enforcement. I think enforcement of IFRSs would benefit from the SEC's rich experience and active participation.
43. The way we develop our new work plan will also be critical. It gives us a chance to demonstrate that we are able to develop a strong and coherent work plan that strengthens financial reporting without putting our constituents under stress.
44. The first triennial public agenda consultation is the catalyst for this change. We have already strengthened our structures internally, by giving greater focus to the forward looking aspects of our work. This includes building a stronger research base, drawing, where appropriate, on the network of national standard-setters and others.
45. We await with interest the decision of the SEC. But whatever they decide, I believe the IASB has positioned itself to deliver what the markets and its participants want and need-global financial reporting standards.