

STAFF PAPER

Insurance working group

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**Insurance
contracts****The Technical Agenda**

CONTACT(S)	Alan Teixeira	ateixeira@ifrs.org	+44 (0)20 7246 6442
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the Insurance working group. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. The IASB reports its decisions made in public meetings in *IASB Update*.

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Project	Status
<p><i>IFRS 9— replacement of IAS 39</i></p> <p><i>Classification and measurement</i></p>	<p>The IASB issued IFRS 9 <i>Financial Instruments</i> in November 2009. At that time the IASB did not address the accounting for financial liabilities. Most respondents to the exposure draft that preceded IFRS 9 said that the accounting for financial liabilities 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 cause net income volatility (the ‘own credit issue’).</p> <p>In May 2010 the Board issued an exposure draft proposing a solution to the own credit issue. In October 2010 the Board amended IFRS 9 by carrying forward from IAS 39 the existing requirements for financial liabilities and added new requirements for financial liabilities. Once the FASB has made its decisions about classification and measurement, the IASB will assess how best to expose the FASB’s final conclusions. The IASB will then seek views on whether the IASB will need to consider how, or indeed if, it should bridge or reconcile any differences between IFRS 9 and US GAAP.</p>
<p><i>IFRS 9—Deferral of the effective date</i></p>	<p>On 4 August 2011 The IASB published for public comment an exposure draft of proposals to adjust the mandatory effective date of IFRS 9 <i>Financial Instruments</i>. The exposure draft proposes an effective date of 1 January 2015 (instead of the current effective date of 1 January 2013) for IFRS 9.</p> <p>In publishing the exposure draft, the Board noted the importance of aligning all phases of the project (both completed and on-going) to have the same effective date.</p> <p>The proposed deferral would only change the date when IFRS 9 would be mandatory. Entities could still elect to use IFRS 9 before 2015. The comment period of the exposure draft closes on 21 October 2011.</p>

Project	Status
<p><i>IFRS 9—replacement of IAS 39</i></p> <p><i>Amortised cost and impairment of financial assets</i></p>	<p>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.</p> <p>In November 2009 the IASB published for public comment an exposure draft on provisions. The proposals followed an initial <i>Request for Information</i>, 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.</p> <p>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.</p> <p>Since then, the IASB and the FASB have focused on an approach that places financial assets into three categories (or ‘buckets’) for the purpose of assessing expected losses, making the maximum use of credit risk management systems.</p> <p>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 the point 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.</p>

Project	Status
<i>IFRS 9—replacement of IAS 39</i> <i>General hedge accounting</i>	<p>In December 2010 the IASB published proposals to revise hedge accounting, for both financial and non-financial exposures. There was strong support for the proposals, with respondents welcoming the Board’s approach, namely to address hedge accounting comprehensively. The exposure draft did not address portfolio hedges. The Board expects to develop more fully its proposals related to portfolio hedging before it finalises the more general hedging requirements.</p> <p>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 would 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 to undertake additional outreach. The Board also wishes to give the FASB the opportunity to consider the planned requirements. The Board decided that re-exposure of the proposed IFRS would not be necessary and is therefore not formally requesting comments on the draft. The Board plans to finalise the requirements once this review has been completed.</p>
<i>IFRS 9—replacement of IAS 39</i> <i>Macro hedge accounting</i>	<p>The objective of this phase of the project is to address risk management strategies referring to open portfolios (macro hedging) that are not covered by the exposure draft that was issued in December 2010 for general hedge accounting. The deliberation considers the feedback received on the general hedge accounting model.</p> <p>The Board expects to publish an exposure draft in the first half of 2012.</p>

Project	Status
<p><i>IFRS 9—replacement of IAS 39</i></p> <p><i>Offsetting of financial assets and financial liabilities</i></p>	<p>On 28 January 2011 the International Accounting Standards Board (IASB) published for public comment an exposure draft (the ED) on offsetting financial assets and financial liabilities. The accounting differences in balance sheet presentation that result from whether IFRSs or US GAAP is applied result in the single largest quantitative difference in reported numbers in balance sheets prepared in accordance with IFRSs and US GAAP. This reduces the comparability of these balance sheets, and is especially prominent in the presentation of derivative assets and derivative liabilities by financial institutions. As a result, users of financial statements requested that the boards should find a common solution for offsetting these items.</p> <p>The boards proposed that offsetting should apply only when the right of set-off is enforceable at all times, including default and bankruptcy, and when the ability to exercise this right is unconditional (ie, it does not depend on a future event). The companies must intend to net settle, or simultaneously settle, the gross amounts. Provided all of these requirements were met, offsetting would be required. Responses to the ED were mixed.</p> <p>In June 2011 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. As a consequence, the IASB decided to complete the disclosure proposals that had been exposed and to provide additional application guidance in IAS 32 <i>Financial Instruments: Presentation</i>, to address 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 <i>Financial Instruments: Disclosures</i> in December 2011.</p>

Project	Status
<i>Financial instruments with characteristics of equity</i>	<p>In February 2008 the IASB published a discussion paper <i>Financial Instruments with Characteristics of Equity</i>. The IASB and FASB used the responses to help them develop a working draft of a proposal to replace IAS 32, which they used to undertake focused outreach. In the light of comments received, the boards decided to focus on other projects and not to publish an exposure draft in the near term as had originally been planned.</p> <p>However, in November 2010 the IASB asked the IFRS Interpretations Committee to explore potential solutions to address concerns that have been raised on the accounting for put options written over non-controlling interests.</p> <p>In September 2011 the Board considered the recommendations of the Interpretations Committee to amend the scope of IAS 32 to exclude put options over non-controlling interests. However, the Board decided that a narrower-scope amendment to IAS 32 than that proposed by the Interpretations Committee would be more appropriate and expressed support for addressing the potential inconsistency, not by changing the measurement basis of the non-controlling interest, but instead by clarifying the accounting for subsequent changes in the measurement of such puts. They asked the staff to obtain feedback from the Interpretations Committee on how they wish to be involved in further considering this issue.</p>
<i>Revenue recognition</i>	<p>The IASB is working to replace its very general requirements that cause preparers to rely on US GAAP for specific guidance. The FASB is working to replace its wide range of detailed and sometimes inconsistent industry-specific requirements with cohesive principles.</p> <p>The IASB and FASB published a joint discussion paper in December 2008 and an exposure draft in June 2010.</p> <p>In June 2011 the boards concluded that, although their due process requirements made it clear that re-exposure was not required, they would re-expose the proposals because of the special nature of revenue.</p> <p>The re-exposed proposals constitute a new exposure draft. The Board has decided that the revised ED will have a 120-day comment period and, like any ED, will have a full Basis for Conclusions and any related application guidance and illustrative examples.</p> <p>The exposure draft is expected to be issued in November 2011.</p>

Project	Status
<i>Leases</i>	<p>Lease obligations are widely considered a significant source of off balance sheet financing. The objective is to improve financial reporting by lessors and lessees.</p> <p>The boards published a joint exposure draft in August 2010.</p> <p>During 2011 the IASB and FASB have been considering the comments received. 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,</p> <p>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 are recommending that it should have a 120-day comment period and, like any ED, will have a full Basis for Conclusions and any related application guidance and illustrative examples.</p> <p>The exposure draft is expected to be issued in February 2011.</p>

<i>Insurance contracts</i>	<p>The IASB is developing an IFRS to replace the interim standard, IFRS 4 <i>Insurance Contracts</i>, to provide a basis for consistent accounting for insurance contracts. The FASB joined the IASB on the project in October 2008.</p> <p>The IASB published a discussion paper in 2007 and an exposure draft in 2010. The FASB published a discussion document in 2010, but has yet to publish an exposure draft.</p> <p>In 2011 the boards began considering together the feedback received on the IASB's exposure draft and the FASB Discussion Paper.</p> <p>The IASB is considering whether to publish a revised exposure draft as its next step. This would align the IASB and FASB phases of the project. However, the boards have reached different conclusions on several important aspects of the project and are currently identifying ways to address those differences.</p>
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Narrow-scope improvements

Project	Update
<i>Annual Improvements</i>	<p>In June 2011 the IASB published for public comment an exposure draft of seven proposed amendments to five IFRSs under its annual improvements project. The project provides a streamlined process for dealing efficiently with a collection of narrow-scope amendments to IFRSs.</p> <p>The comment period for those proposals closes on 21 October 2011.</p> <p>The Board has also been considering proposals for the next package of annual improvements. Those proposals are expected to be published in an exposure draft in December 2011.</p>
<i>IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine</i>	<p>In August 2010 the IFRS Interpretations Committee, the interpretative body of the IASB, published for public comment proposed guidance on the accounting for stripping costs in the production phase of a surface mine. The Interpretations Committee was asked to consider how to account for stripping costs (the process of removing waste from a surface mine in order to gain access to mineral ore deposits) given the divergence in practice that exists.</p> <p>The Interpretations Committee considered the comments received and as a consequence developed and approved IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>. The Board ratified IFRIC 20 at its Board meeting in September 2011.</p>

Project	Update
	The IASB expects to publish the new Interpretation in mid-October.
<i>Amendment to IFRS 1 (prospective application of IAS 20)</i>	<p>In September 2011 the Board considered a request to amend IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> that would allow for the prospective application of paragraph 10A of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> for first-time adopters. The amendment would provide the same relief granted to existing preparers.</p> <p>The Board decided to propose this narrow scope amendment to IFRS 1 and the related exposure draft is expected to be ready for publication in mid-October 2011.</p>
<i>Investment entities</i>	<p>On 25 August 2011 the IASB published proposals that would exempt a class of entities called <i>investment entities</i> from the accounting requirements in IFRS 10 <i>Consolidated Financial Statements</i>.</p> <p>Such entities would not consolidate investments in entities that they control. Instead, they would measure those investments at fair value, with any changes in fair value recognised in profit or loss. The FASB is planning to release similar proposals.</p> <p>The comment period for the exposure draft closes on 5 January 2012.</p>

Agenda Consultation

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On 26 July 2011 the IASB launched its first formal public agenda consultation on its future work plan. Comments are requested by 30 November 2011.

Through the agenda consultation the IASB is seeking input from all interested parties on the strategic direction and the broad overall balance of the work plan. The agenda consultation will provide the Board with important input when considering possible agenda items.

Appendix—IFRSs and amendments to IFRSs published in 2011

IFRS	Description	Effective Date
<i>IFRS 10 Consolidated Financial Statements</i>	On 13 May 2011 the IASB issued IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i> .	The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
<i>IFRS 11 Joint Arrangements</i>	IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 <i>Consolidated and Separate Financial Statements</i> and SIC-12 <i>Consolidation—Special Purpose Entities</i> .	
<i>IFRS 12 Disclosure of Interests in Other Entities</i>	IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 <i>Interests in Joint Ventures</i> and SIC-13— <i>Jointly Controlled Entities—Non-monetary Contributions by Venturers</i> .	
<i>IAS 27 Separate Financial Statements</i>	IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.	
<i>IAS 28 Investments in Associates and Joint Ventures</i>	As a consequence of these new IFRSs, the IASB also issued an amended and retitled IAS 27 <i>Separate Financial Statements</i> and an amended and retitled IAS 28 <i>Investments in Associates and Joint Ventures</i> .	

<i>IFRS 13 Fair Value Measurement</i>	<p>On 13 May 2011 the IASB issued IFRS 13 <i>Fair Value Measurement</i>.</p> <p>IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.</p>	<p>The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.</p>
<i>IAS 19 Employee Benefits</i>	<p>On 16 June 2011 the Board issued amendments to IAS 19 <i>Employee Benefits</i>.</p> <p>The amendments will improve the recognition and disclosure requirements for defined benefit plans.</p>	<p>The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.</p>
<i>IAS 1 Presentation of Items of Other Comprehensive Income</i>	<p>On 16 June 2011 the Board issued amendments to IAS 1 <i>Financial Statement Presentation</i>.</p> <p>These amendments improve how we present components of other comprehensive income. The FASB issued equivalent requirements on the same day.</p>	<p>The new IASB requirements are effective for annual periods beginning on or after 1 July 2012.</p>
