

STAFF PAPER

27 February – 2 March 2012

REG IASB Meeting

Project	Insurance contracts		
Paper topic	Financial instruments with discretionary participation features - overview of papers		
CONTACTS	Joan Brown (Insurance)	jbrown@ifrs.org	+44 (0)20 7246 6916
	Joao Santos (FI)	jsantos@ifrs.org	+44 (0)20 7246 6926

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Overview

- 1 This set of papers addresses the treatment of financial instruments that are not insurance contracts but have ‘discretionary participation features’ similar to those found in many insurance contracts.
- 2 The papers ask the IASB to decide:
 - (a) whether the model being developed for insurance contracts should also apply to those other financial instruments with discretionary participation features; and
 - (b) if so, how the term ‘discretionary participation feature’ should be defined.

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

- 3 The staff are asking each of the boards (the IASB and the FASB) to reach its own decisions on these questions because the boards have different factors to consider:
- (a) the instruments are widespread in some countries but are uncommon in the US.
 - (b) all financial instruments with discretionary participation features are within the scope of IFRS 4 *Insurance Contracts* at present. Consequently, the IASB needs to specify requirements for these instruments when it withdraws IFRS 4. In contrast, there are no specific requirements in US GAAP at present. The FASB would not necessarily have to specify requirements within the timetable of the insurance contracts project.
 - (c) if excluded from the insurance contracts standard, financial instruments with discretionary participation features would be within the scope of the financial instruments standards. The IFRS financial instruments standards are not the same as the US GAAP financial instruments standards. Thus, the consequences of excluding financial instruments with discretionary participation features from the insurance contracts standard could be different for the two boards.
- 4 Because IFRS financial instruments standards are not the same as the US GAAP financial instruments standards, the IASB and FASB will achieve convergence on this matter only if:
- (a) they both choose to apply the insurance contracts model to all financial instruments with discretionary participation features; or
 - (b) they jointly develop requirements and/or application guidance specifically for financial instruments (other than insurance contracts) with discretionary participation features.

The papers in this set

Paper 14A Background information

- 5 Paper 14A contains the background information to support paper 14B. It explains:
- (a) the IFRS 4 definition of a ‘discretionary participation feature’;
 - (b) the nature of financial instruments with discretionary participation features;
 - (c) existing accounting requirements in IFRSs and US GAAP;
 - (d) the IASB proposal to *include* financial instruments with discretionary participation features within the scope of the insurance contracts standard;
 - (e) the FASB proposal to *exclude* them; and
 - (f) feedback from respondents.
- 6 Paper 14A does not ask the Board for any decisions.

Paper 14B Applicable standard

- 7 Paper 14B analyses, from an IFRS perspective, the arguments for and against including financial instruments with discretionary participation features within the scope of the insurance contracts standard.
- 8 The staff recommend that the IASB should include them.

Paper 14C Definition of ‘discretionary participation feature’

- 9 Paper 14C considers the proposed definition of a ‘discretionary participation feature’. In particular, it considers feedback on the exposure draft proposal to add to the existing definition (in IFRS 4) a requirement for the contracts to share in the performance of the same pool of assets as insurance contracts.
- 10 The staff recommend that this requirement *should not* be added to the definition—the definition should be the same as the existing definition in IFRS 4.