



IASB Insurance Contracts Project

Field Testing Questionnaire: Embedded Derivatives Date: Oct 2009

Field Testing – Round 1

In Round 1 of the targeted field test we ask you to submit information on specific topics prior to the publication of an exposure draft (ED). The questions we would like you to answer are detailed below. The questionnaire is supported by background information, including the most recent decisions made by the IASB and FASB boards.

We shall treat any information that you provide to us in the strictest confidence.

Separation of Embedded Derivatives

Return date: 23 October

Under IFRS 4 *Insurance Contracts*, ‘derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract’ are accounted for separately applying IAS 39 *Financial Instruments: Recognition and Measurement*.

The Application Guidance in IAS 39 provides some examples when an entity does not account for the embedded derivative separately from the host contract as the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract. IG Example 2 of the *Guidance on Implementing IFRS 4* gives examples of derivatives that require separation and derivatives that do not require separation.

Similarly, under SFAS 133 *Accounting for Derivative Instruments and Hedging Activities* (Topic 815-15-25 in the new codification) an entity is required to separately account for derivatives embedded in insurance contracts when specific conditions are met. SFAS 133 (Topic 815-15-55 in the new codification) also provides examples of derivatives embedded in insurance contracts which are not accounted for separately.

We would like to understand how you deal with embedded derivatives under current accounting practice and would appreciate if you could provide by the deadline answers to include any input at the November Board meeting.

Question 1

Under the current accounting model that you apply, how often do you need to bifurcate embedded derivatives included in an insurance contract and how significant is the impact? (Please specify which GAAP you apply, and describe which contracts are affected).

Please submit your results to
Jane Jordan (jjordan@iasb.org - tel: +44 20 7246 6423) by 23 October.