Insurance Working Group

Staff Paper

Agenda reference **3**

Date **June, 2009**

Project **Insurance contracts**

Topic **Update on other relevant projects**

Purpose

1. This paper gives a short overview of the current status (as of June 2009) of projects that are interrelated to the project on insurance contracts.

2. The projects covered are:

   (a) Financial instruments (parts are joint projects: IASB/ FASB) (paragraphs 3 - 5)

   (b) Conceptual framework (joint project: IASB/ FASB) (paragraphs 6 - 10)

   (c) Financial statement presentation (joint project: IASB/ FASB) (paragraphs 11 - 13)

   (d) Revenue recognition (joint project: IASB/ FASB) (paragraphs 14 - 16)

   (e) Leases (joint project IASB/FASB) (paragraphs 17 -18)

   (f) Fair value measurement (IASB and FASB projects) (paragraphs 19 - 22)

   (g) Consolidation (IASB and FASB projects) (paragraphs 23 - 26)

   (h) Liabilities – amendments to IFRS 37 (IASB project) (paragraphs 27 - 29)

   (i) Transfers of Financial Assets (FASB project) (paragraph 30)

   (j) Credit Crisis Projects (FASB project) (paragraphs 31-38)

(k) Disclosures about Fair Value Measurements (FASB project) (paragraph 39)

(l) Recoveries of Other-Than-Temporary Impairments (Reversals) (FASB project) (paragraph 40)

(m) Deferred Taxes on Certain AFS Debt Securities (FASB project) (paragraph 41)

(n) Loan Loss Disclosures (FASB project) (paragraph 42)

(o) Disclosures of Certain Loss Contingencies (FASB project) (paragraph 43)

(p) Codification (FASB project) (paragraph 44-45)

(q) XBRL (paragraphs 46-49)

Financial Instruments

3. The projects relating to financial instruments can be split in two categories:

   (a) Major projects on financial instruments

   (b) Amendments to standards

4. The major projects on financial instruments are part of the memorandum of understanding (MoU) between the FASB and the IASB, which envisages the publication of one or more due process documents on financial instruments. The objective of this project is to significantly improve the decision usefulness of financial instrument reporting for users of financial statements. The FASB and IASB issued for comment a Discussion Paper, *Reducing Complexity in Reporting Financial Instruments,* in March 2008. The comment period ended September 19, 2008. The project eventually will replace the FASB's and IASB's respective financial instruments standards with a common standard. The three current long term projects relating to financial instruments are:

   (a) Derecognition of financial instruments. The IASB published an exposure draft (proposed amendments to IAS 39 and IFRS 7) in March

2009. The IASB has recently held round tables to discuss the proposals in the derecognition exposure draft together with the proposals in the exposure draft on consolidation. The Board plans to publish a final amendment of the derecognition requirements in IAS 39 in the first half of 2010.

(b) Financial instruments with characteristics of equity. On November 30, 2007, the FASB issued its Preliminary Views, *Financial Instruments with Characteristics of Equity.* The comment period ended on May 30, 2008. In February 2008, the IASB published a discussion paper *Financial Instruments with Characteristics of Equity*. The discussion paper was open for comment until September 2008. The boards envisage publishing an exposure draft in the fourth quarter of 2009 and a final standard in 2011.

(c) Replacement of IAS 39. The objective of this project is to improve the decision-usefulness of financial statements for users by simplifying the classification and measurement requirements for financial instruments. The project will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB intends to publish:

(i) an exposure draft on the classification and measurement of financial instruments in July 2009.

(ii) an exposure draft on the accounting for provisioning by October 2009

(iii) by December 2009 an exposure draft on hedging.

On the basis of those proposals the IASB aims to issue the new requirements on classification and measurement by December 2009, in time for 2009 year-end financial statements and ultimately to replace all of the requirements of IAS 39 during 2010.

(d) In a separate project, the FASB issued the June 2008 Exposure Draft, *Accounting for Hedging Activities, an amendment of FASB Statement*

No. 133. The Exposure Draft proposed amendments intended to simplify hedge accounting and improve financial reporting

5. The amendments to standards cover the following projects:

   (a) Embedded derivatives (amendments to IFRIC 9 and IAS 39). In March 2009, the IASB issued amendments to clarify the accounting treatment for embedded derivatives.

   (b) Improving disclosures about financial instruments. In March 2009, the IASB issued amendments to IFRS 7 to clarify and enhance disclosures about fair value measurements and the liquidity risk of financial instruments.

   (c) Investments in debt instruments (proposed amendments to IFRS 7). In December 2008, the IASB published an exposure draft proposing more comprehensive disclosures for investments in debt instruments (other than those classified as at fair value through profit or loss). Comments were due by 15 January 2009. In January 2009 the IASB decided not to proceed with the proposed amendments at this time.

Conceptual framework

6. The boards are conducting this joint project in eight phases (phase A through G). Each of the first seven phases will address and involve planning, research, initial Board deliberations, public comment, and redeliberations on major aspects of the boards' frameworks. The eighth phase will be used to address any remaining issues and is expected to lead to an exposure draft of the final proposed improvements for the entire converged framework.

7. The aim of Phase A, Objectives and Qualitative Characteristics of Financial Reporting, is to consider the objective of financial reporting, the qualitative characteristics of financial reporting information and the trade-offs among qualitative characteristics and how they relate to the concepts of materiality and

cost-benefit relationships. A final document is currently envisaged for the third quarter of 2009.

8. The objectives of Phase B, Elements and Recognition, are to refine and converge the boards' frameworks: revise and clarify the definitions of *asset* and *liability*, resolve differences regarding other elements and their definitions, revise the recognition criteria concepts to eliminate differences and provide a basis for resolving issues such as derecognition and unit of account. A discussion paper may be expected for the second half of 2010.

9. The objective of Phase C, Measurement, is to provide guidance for selecting measurement bases that satisfy the objectives and qualitative characteristics of financial reporting. A discussion paper is currently envisaged for the fourth quarter of 2009, the exposure draft for the second half of 2010.

10. The objective of Phase D, Reporting Entity, is to determine what constitutes a reporting entity for the purposes of financial reporting. The exposure draft is expected in the third quarter of 2009 and the final chapter in the first half of 2010.

Financial Statement Presentation

11. Financial statement presentation is a joint project of the IASB and the FASB and part of the MoU. The purpose is to establish a standard that will guide the organisation and presentation of information in the financial statements.

12. The boards are conducting the project in three phases:

    (a) Phase A. Complete set of financial statements and requirements to present comparative information. This phase is completed.

    (b) Phase B. More fundamental issues for presentation of information in the financial statements.

    (c) Phase C. Presentation and display of interim financial information.

13. On 16 October 2008 both boards published for public comment the discussion paper *Preliminary Views on Financial Statement Presentation*. The comment period ended on 14 April 2009. The exposure draft is expected for the first half of 2010 and the final document for 2011.

Revenue Recognition

14. The IASB and the FASB are undertaking a joint project to develop a new, joint standard for revenue recognition. In IFRSs, the new standard will replace the existing standards on revenue recognition, IAS 11 *Construction Contracts* and IAS 18 *Revenue*. This project is included in the MoU.

15. On 19 December 2008, the boards published for public comment a discussion paper *Preliminary Views on Revenue Recognition in Contracts with Customers*. In the discussion paper, the boards propose a single revenue recognition model that can be applied consistently across a range of industries and geographical regions. Applying the underlying principle proposed by the boards, an entity would recognise revenue when it satisfies its performance obligations in a contract by transferring goods and services to a customer. That principle is similar to many existing requirements. However, the boards think that clarifying that principle and applying it consistently to all contracts with customers will improve the comparability and understandability of revenue for users of financial statements. The discussion paper was open for public comment until 19 June 2009.

16. An exposure draft is estimated for the first half of 2010, the final standard for 2011.

Leases

17. On March 19. 2009 the IASB and the (FASB published their preliminary views on lease accounting in a joint discussion paper. In the discussion paper the IASB and the FASB discuss a possible new approach to lease accounting. The boards

propose that lease accounting should be based on the principle that all leases give rise to liabilities for future rental payments and assets (the right to use the leased asset) that should be recognised in an entity's statement of financial position. This approach is aimed at ensuring that leases are accounted for consistently across sectors and industries.

18. The discussion paper deals mainly with lessee accounting. However, it also describes some of the issues that will need to be addressed in a future standard on lessor accounting. The discussion paper is open for comment until 17 July 2009.

Fair value measurement

19. Guidance on measuring fair value is dispersed across many IFRSs and it is not always consistent. Furthermore, the current guidance is incomplete, in that it provides neither a clear measurement objective nor a robust measurement framework. The Board believes that this adds unnecessary complexity to IFRSs and contributes to diversity in practice. The Board's objectives in the fair value measurement project are:

    (a) to establish a single source of guidance for all fair value measurements;

    (b) to clarify the definition of fair value and related guidance;

    (c) to enhance disclosures about fair value; and

    (d) to increase convergence between IFRS and US GAAP.

20. This project forms part of the MoU between the IASB and the FASB.

21. On 28 May 2009, the Board published an exposure draft *Fair Value Measurement*. The exposure draft is largely consistent with the US Standard SFAS 157, including related guidance published by the FASB and is consistent with the report published by the IASB's Expert Advisory Panel on measuring fair value in inactive markets. The exposure draft is open for public comment

until 28 September 2009. The Board plans to hold round-table discussions with interested parties during the fourth quarter of 2009.

22. The current project plan is to publish a final IFRS on fair value measurement guidance in the first half of 2010.

Consolidation

23. The project objective is to publish a single IFRS on consolidation replacing IAS 27 *Consolidated and Separate Financial Statements* and the interpretation SIC-12 *Consolidation - Special Purpose Entities*. The project addresses the following aspects:

    (a) a revision of the control definition in order to apply the same control criteria to all entities. The work on the revised control definition will focus on, but is not limited to, the consolidation of structured entities.

    (b) enhanced disclosures about consolidated and non-consolidated entities.

24. In response to the recommendations of the Financial Stability Forum, the Board accelerated its consolidation project and published an exposure draft in December 2008. The Exposure Draft was open for public comment until 20 March 2009. The IASB held round-table discussions in June 2009 on its proposals for consolidation and derecognition of financial instruments in North America, Asia and Europe.

25. The current project plan envisages the issue of a revised standard in the fourth quarter of 2009.

26. On June 12, 2009 the FASB published Financial Accounting Statement No. 167, *Amendments to FASB Interpretation No. 46(R),* which changes the way entities account for special-purpose entities. Statement 167 is a revision to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities,* and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate

an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new standard will impact financial institution balance sheets beginning in 2010.

Liabilities – amendments to IAS 37

27. This project will amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (and make consequential amendments to IAS 19 *Employee Benefits*). IAS 37 provides guidance on recognising, measuring and disclosing liabilities that are not within the scope of other Standards.

28. The main objectives of the amendments are:

    (a) Convergence with US GAAP. The Board proposes to align application guidance for costs associated with restructuring in IAS 37 (and termination benefits in IAS 19 Employee Benefits) with the more recent and conceptually superior requirements in SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*.

    (b) Improvements in the requirements relating to identification and recognition of liabilities. In particular, the Board proposes to reanalyse 'contingent assets' and 'contingent liabilities' in terms of assets and liabilities (ie in line with the IASB Framework).

29. The Board envisages publishing a final document in the fourth quarter of 2009.

Accounting for Transfers of Financial Assets

30. On June 12, 2009, the FASB published Statements of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets,* which changes the way entities account for securitizations. Statement 166 is a revision to Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and will require more information about

transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. The new standard will impact financial institution balance sheets beginning in 2010.

Credit Crisis Projects:

31. On January 12, 2009 the FASB issued **FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20***, (FSP) that amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance.

32. On April 9, 2009, the FASB issued three final Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. The first, **FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly***, relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what FASB Statement No. 157, *Fair Value Measurements*, states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a

formerly active market has become inactive and in determining fair values when markets have become inactive.

33. The second FSP issued on April 9, 2009, **FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments***, relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

34. The third FSP issued on April 9, 2009, is **FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments***, on other-than-temporary impairments which is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

35. These three FSPs (paragraphs 31-33) are effective for interim and annual periods ending after June 15, 2009, but entities may early adopt the FSPs for the interim and annual periods ending after March 15, 2009.

36. On January 14, 2009, the FASB released proposed Implementation Issue **FAS 133 Implementation C22—Embedded Credit Derivatives Scope Exception** that addresses a scope exception under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. On June 3, 2009, the Board decided to re-expose a revised proposed Implementation Issue C22 for a 45-day comment period. The effective date of the revised proposed Implementation Issue C22 will be the first day of each reporting entity's first fiscal quarter beginning after December 15, 2009.

37. On May 1, 2009, the FASB issued a proposed staff position (FSP), **FSP FAS 157-f, *Measuring Liabilities under FASB Statement No. 157***, that would provide guidance on the fair value measurement of liabilities under FASB Statement No. 157, *Fair Value Measurements*. This FSP would be effective for the first reporting period (including interim periods) beginning after issuance. Earlier application would be permitted. The comment deadline was June 1, 2009.

38. On June 8, 2009, the FASB issued a proposed staff position (FSP), **FSP FAS 157-g, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies***. This proposed FASB Staff Position (FSP) would amend FASB Statement No. 157, Fair Value Measurements, to provide application guidance for estimating the fair value of investments in investment companies that have calculated net asset value per share in accordance with the AICPA Audit and Accounting Guide, Investment Companies. This FSP would be effective upon issuance, including prior periods for which financial statements have not been issued, and applied prospectively. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The comment period ends on July 8, 2009.

Improving Disclosures about Fair Value Measurements

39. The objective of this project is to improve disclosures about the Statement 157 fair value measurements. This project may consider additional disclosures, such as (a) the sensitivity of fair value measurements to changes in assumptions and (b) transfers between the three levels of the fair value hierarchy.

Recoveries of Other-Than-Temporary Impairments (Reversals)

40. The objective of this project is to consider allowing an entity to recover, through earnings, a previously recognized other-than-temporary impairment loss on certain financial instruments when evidence exists that an impairment loss has reversed. Another objective of this project is to converge with IFRSs with regard to the accounting for recoveries of other-than-temporary impairments.

Deferred Tax Assets and Liabilities on Available-for-Sale Debt Securities that Are Expected to Be Held to Recovery

41. The objective of this project is to consider the accounting for deferred tax assets and liabilities on available-for-sale debt securities that are expected to be held to recovery. In particular, the Board will consider whether the assessment of a valuation allowance for a deferred tax asset related to an available-for-sale debt security that an entity expects to hold to recovery, which may be maturity, should be evaluated (a) discretely from the entity's other deferred tax assets or (b) in combination with its other assetsThe Board added this project to its agenda on February 18, 2009.

Loan Loss Disclosures

42. The objective of this project is to improve disclosures a creditor provides about the allowance for credit losses and the credit risks inherent in its loan and lease portfolio. The proposed improvements would apply to all creditors, including public and nonpublic business entities and not-for-profit organizations. The staff will proceed to a draft of a proposed Statement for vote by written ballot. The comment period for the proposed Statement will be 60 days.

Disclosure of Certain Loss Contingencies

43. The objective of this project is to enhance the disclosure requirements for loss contingencies under FASB Statement No. 5, *Accounting for Contingencies.* The Board issued an Exposure Draft, *Disclosure of Certain Loss Contingencies,* on June 5, 2008. The comment period ended on August 8, 2008. The Board will begin redeliberation of disclosure of certain loss contingencies in the second quarter of 2009. The proposed Statement would be effective no sooner than for fiscal years ending after December 15, 2009.

Codification

44. On June 3, 2009, the FASB voted to approve the *FASB Accounting Standards Codification*™ as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP) to be launched on July 1, 2009. The Codification will be effective for interim and annual periods ending after September 15, 2009, which means that preparers must begin to use the Codification for periods that begin on or about July 1, 2009. All existing accounting standard documents are superseded. All other accounting literature not included in the Codification will be considered nonauthoritative.

45. While the Codification does not change GAAP, it introduces a new structure. The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics. It also includes relevant Securities and Exchange Commission (SEC) guidance that follows the same topical structure in separate sections in the Codification. The Codification excludes governmental accounting standards. It codified all standards issued by a standard-setter within levels A through D of the pre-Codification GAAP hierarchy.

XBRL

46. The US Financial Reporting Taxonomy was released initially by XBRL-US in April, 2008. In April, 2009, XBRL-US released the updated taxonomy. The taxonomy includes roughly 13,000 elements, many referencing existing accounting and reporting standards.

47. As a result of adoption of the codification, the majority of non-SEC references in the taxonomy are no longer relevant. In anticipation of the change, the FASB undertook a project beginning in May 2008 to embed Codification references into the taxonomy.

48. The FASB expects to release a Codification reference file to XBRL-US shortly after July 1, 2009 so that XBRL-US can publish a taxonomy extension file of Codification references.

49. Please see http://www.iasb.org/XBRL/XBRL.htm for information about the IASC Foundation's work on XBRL.