



On the Horizon for IFRS

July 27, 2010

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IASB issues June 1, 2010 additional joint IASB/FASB meeting highlights

Key issues

At the June 1, 2010 additional joint IASB/FASB meeting the following issues were discussed:

- *Consolidation:* The Boards reached a tentative decision on the disclosure requirements for consolidated subsidiaries and unconsolidated structured entities. The IASB reached a tentative decision on the presentation of a financial highlights schedule in the notes to the financial statements for investment companies.
- *Insurance contracts:* The IASB and the FASB reached tentative decisions on the following topics:
 - Transition
 - Portfolio transfers and business combinations

- *Leases:* The IASB discussed whether it has performed all mandatory and sufficient non-mandatory due process steps necessary to issue an Exposure Draft and concluded that it has

All decisions reached at IASB meetings are tentative and may be changed or modified at future meetings. Board decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.

The International Accounting Standards Board has issued an [IASB Update](#), which summarizes the additional joint IASB/FASB meeting that was held in London on June 1, 2010. The FASB participated via video conference for certain sessions.

Highlights of the meetings are discussed below.

Consolidation

The IASB and FASB discussed the disclosure requirements for consolidated subsidiaries and unconsolidated structured entities. The IASB also discussed the disclosure requirements for a reporting entity that meets the definition of an investment company.

Consolidated subsidiaries and unconsolidated structured entities

The Boards tentatively decided that the final disclosure requirements would include a list of disclosure objectives that would be supplemented by specific disclosure requirements.

Disclosure objectives

The Boards tentatively decided that a reporting entity would disclose information that helps users of financial statements to understand:

- The significant judgments and assumptions, and changes to those judgments and assumptions, that a reporting entity makes in determining
 - Whether or not it controls another entity
 - Its involvement with (exposure to variability in returns from) a structured entity
- Non-controlling interests in the group's activities
- Restrictions on the reporting entity's ability to access and use assets, or settle liabilities of consolidated entities, as a result of where the assets or liabilities are held in the group
- The nature of, and changes in, the risks associated with the reporting entity's control of consolidated structured entities or from its involvement with unconsolidated structured entities

Specific disclosures

In addition to the disclosures discussed at prior meetings, the Boards tentatively decided that a reporting entity would be required to disclose the following information to achieve the objectives listed above:

- A reporting entity would be required to disclose the terms of arrangements that might require it to provide financial support to a consolidated structured entity, such as liquidity arrangements or obligations to purchase assets, including the events or circumstances that could expose it to a loss
- If a reporting entity is involved with unconsolidated structured entities, the reporting entity would be required to disclose the following:
 - The carrying amount of assets and liabilities recognized in the consolidated financial statements related to its involvement with unconsolidated structured entities and the line items in the

consolidated statement of financial position in which those assets and liabilities are recognized

- The reporting entity's maximum exposure to loss from involvement with unconsolidated structured entities and how that exposure was determined. If the maximum exposure to loss cannot be determined, that fact must be disclosed.
- A comparison of the carrying amount of the assets and liabilities of the reporting entity that are related to its involvement with unconsolidated structured entities and the reporting entity's maximum exposure to loss

The staff was asked to conduct additional research to determine whether these disclosure requirements should apply to involvement with all entities instead of just structured entities.

Investment companies

The IASB tentatively decided that an investment company would be required to present a financial highlights schedule in the notes to the financial statements. This schedule would include the following information:

- Per share investment income or loss
- Realized and unrealized gains and losses per share
- Distributions to shareholders
- Purchase premiums
- Redemption fees
- Payments by affiliates
- Expense and net investment income ratios
- Total return
- Capital commitments

See the IASB project summary for more information on this project.

Insurance contracts

At this meeting, the IASB and FASB discussed the following topics:

- Transition
- Portfolio transfers and business combinations

Transition

The Boards tentatively decided that an insurer would apply the standard at the beginning of the earliest period presented. For each portfolio of insurance contracts that exists at that date an insurer would

- Adjust the portfolio to the expected present value of cash flows arising from the portfolio of contracts plus a separate risk adjustment (IASB only) with corresponding adjustment to opening retained earnings
- Not include a residual margin
- Derecognize any intangible assets arising from insurance contracts assumed in previously-recognized business combinations and any deferred acquisition costs with corresponding adjustments to retained earnings
- The FASB proposed to use a composite risk margin. Insurers would treat the risk adjustment determined at the beginning of the earliest period as the composite margin at that date. The insurer would disclose the subsequent run-off of that composite margin separately from disclosure of the run-off of composite margins arising after transition.

The Boards also discussed disclosures on the transition date and tentatively decided that an insurer would not be required to include:

- Disclosures about previously-unpublished claims development information that occurred prior to five years before the end of the first financial year in which it applies the proposed standard

- Specific disclosures about transition beyond those already required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and FASB ASC Subtopic 250-10-50, *Accounting Changes and Error Corrections - Disclosure*

The Boards also tentatively decided that on adoption an entity issuing insurance contracts would be permitted to redesignate a financial asset as measured at fair value through profit or loss at the start of the earliest period presented if doing so would eliminate or significantly reduce an inconsistency in measurement or recognition. The entity would recognize the cumulative effect of that redesignation as an adjustment to opening retained earnings of the earliest period presented and remove any related balances from accumulated other comprehensive income.

The IASB tentatively decided that first-time adopters of IFRS would be subject to the same transition arrangements proposed for entities that already apply IFRS.

The Boards did not discuss the effective date or whether early adoption would be permitted.

Portfolio transfers and business combinations

The IASB and the FASB discussed the accounting for insurance contracts assumed as part of a business transaction or other transaction (a portfolio transfer).

Portfolio transfers

The IASB and the FASB did not reach a converged tentative decision on the accounting for portfolio transfers. The IASB tentatively decided that on the date of the transfer an insurer would:

- Determine the expected present value of the cash flows (plus the risk adjustment, in the model that uses such an adjustment) for each portfolio of insurance contracts assumed
- Adjust the consideration to account for any other assets and liabilities acquired in the same transaction, such as financial assets and customer relationships
- Recognize any excess of consideration over the expected present value as in the residual margin or composite margin at that date. A negative difference would be recognized immediately in profit or loss.

The FASB tentatively decided that all differences would be recognized in the residual or composite margin.

Business combinations

The Boards also addressed the measurement of insurance contracts that were assumed in a business combination and tentatively decided that an insurer would:

- Compare the expected present value of the cash flows from those contracts (including the risk adjustment, in the model that uses such an adjustment) with the fair value of those contracts and
 - If the fair value is the higher amount, recognize the difference as the residual margin or composite margin at the acquisition date
 - If the fair value is the lower amount, the contracts would be measured initially at the expected present value of the cash flows (plus the risk adjustment, in the model that uses such an adjustment) as an exception from the general requirement in IFRS 3, *Business Combinations*, and FASB ASC Topic 805, *Business Combinations*, to measure acquired assets and liabilities at fair value. The difference

therefore would increase the initial carrying amount of goodwill recognized in the business combination.

Next steps

The IASB continued their discussion of this project at the joint Board meeting on June 10, 2010. Please refer to the section below titled *IASB issues June 10, 2010 additional joint IASB/FASB meeting highlights*.

See the [IASB project summary](#) for more information on this project.

Leases

The IASB discussed whether it complied with the due process steps listed in paragraphs 110-111 of the IASB Due Process Handbook for the project on leases. One of the issues discussed was whether a discussion paper on lessor accounting should be issued before proceeding to an Exposure Draft because the original discussion paper focused on lessee accounting with limited discussion about lessor accounting. After discussion, the IASB concluded that:

- It has performed all mandatory due process steps necessary to issue an Exposure Draft
- It has performed sufficient non-mandatory due process steps to issue an Exposure Draft

See the [IASB project summary](#) for more information on this project.

IASB issues June 10, 2010 additional joint IASB/FASB meeting highlights

Key issues

At the June 10, 2010 additional joint IASB/FASB meeting the following issues were discussed:

- *Insurance contracts:* The IASB and the FASB reached different tentative decisions on whether investment contracts with a discretionary participation feature should be within the scope of a standard on insurance contracts or within the scope of a standard on financial instruments
- *Joint arrangements:* The Board tentatively decided that in relation to a proposed amendment to the scope exception in IAS 28, *Investments in Associates*, as a result of the joint arrangements project, significant influence is not required at the venture capital organization level to measure the investment in an associate at the group level at fair value through profit and loss, and that the accounting for the investment in the associate at the venture capital organization level does not impact the accounting for the investment at the group level

All decisions reached at IASB meetings are tentative and may be changed or modified at future meetings. Board decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.

The International Accounting Standards Board has issued an [IASB Update](#), which summarizes the additional joint IASB/FASB meeting that was held in London on June 10, 2010. The FASB participated via video conference for certain sessions.

Highlights of the meetings are discussed below.

Insurance contracts

The Boards discussed participating investment contracts and risk adjustment techniques.

Participating investment contracts

The Boards discussed whether investment contracts with a discretionary participation feature should be within the scope of a future standard on insurance contracts or within the scope of a standard on financial instruments, but did not reach a converged conclusion. A discretionary participation feature in a contract with guaranteed benefits is a right to receive significant additional benefits whose amount or timing is at the discretion of the issuer based on the performance of a specified pool or type of contract, realized and/or unrealized investment returns on a specified pool of assets, or the profit or loss of the issuer. The IASB tentatively decided that an investment contract that contains a discretionary participating feature and participates in the same pool of assets as participating insurance contracts would be within the scope of the future standard on insurance contracts. The staff was asked to consider criteria for determining when a specified pool of assets supports both participating insurance contracts and participating investment contracts.

The Board also discussed the contract boundary. The contract boundary of an insurance contract is defined as the point at which the insurer either is no longer required to provide coverage, or has the right to reassess the risk of the particular policyholder and, as a result, can set a price that fully reflects that risk.

The IASB tentatively decided that the boundary of investment contracts with discretionary participation features would be defined as the point at which the contract holder no longer has a contractual right to receive benefits arising from a discretionary participating feature.

The FASB tentatively decided to include investment contracts with discretionary participating features within the scope of standards on financial instruments.

Risk adjustment techniques

The Boards discussed which techniques should be available to measure a risk adjustment for insurance contracts, but did not reach a tentative decision. The staff was asked to develop draft guidance that describes how techniques for measuring risk adjustments would satisfy the proposed objective and characteristics of the risk adjustment.

Next steps

The Boards continued their discussion of this project at their joint meeting on June 15-17, 2010. Please refer to the section below titled *IASB issues June 15-17, 2010 joint IASB/FASB meeting highlights*.

See the [IASB project summary](#) for more information on this project.

Joint arrangements

Sweep issues on IAS 28, Investments in Associates – Clarification of the partial use of fair value at the group level for an investment in an associate

At its meeting in February 2010, the Board initially approved an amendment to IAS 28, *Investments in Associates*, as part of the *Annual Improvements* process. The amendment would enable a parent entity to measure part of an investment in an associate at fair value in its consolidated financial statements if the investment in an associate was held by a subsidiary and that subsidiary applied the scope exception in paragraph 1 of IAS 28. IAS 28 excludes

investments in associates held by venture capital organizations, mutual funds, unit trusts and similar entities including investment-linked insurance funds if those investments are accounted for at fair value through profit or loss. Subsequent to that meeting it was determined that IAS 28 would be amended by the joint arrangements project instead. In drafting the amendments to IAS 28, the staff identified the following two issues which were discussed by the Board:

- Whether significant influence was required at the group level or at the venture capital organization level to qualify for the scope exception at the group level
- To account for the investment in an associate at the group level at fair value through profit or loss, whether the investment in an associate at the venture capital organization also have to be accounted for at fair value through profit or loss

The Board tentatively decided to change the scope exception in IAS 28 to that of a measurement exception. The Board also tentatively decided that:

- Significant influence is not required at the venture capital organization level to measure the investment in an associate at the group level at fair value through profit and loss
- The accounting for the investment in the associate at the venture capital organization level does not impact the accounting for the investment at the group level

Finally, the Board also tentatively decided that the amendment would clarify that the measurement exception is based on the business purpose for holding the investment.

See the [IASB project summary](#) for more information on this project.

IASB issues June 15-17, 2010 joint IASB/FASB meeting highlights

Key issues

At the June 15-17, 2010 joint IASB/FASB meeting the following issues were discussed:

- *Balance sheet – offsetting:* The IASB and the FASB agreed to work together to achieve greater convergence of the criteria for offsetting amounts on the balance sheet. The Boards asked the staff to provide more information on several relevant issues surrounding the netting of financial assets and financial liabilities.
- *Insurance contracts:* The Boards discussed the following topics, among others:
 - Application guidance on cash flows
 - Foreign currency cash flows
 - Application guidance on risk adjustment techniques
 - Reinsurance
- *Leases:* The Boards reached tentative decisions on the following topics:
 - Transition under the partial derecognition approach to lessor accounting
 - Use of a hybrid accounting model for lessors
 - Accounting for purchase options for lessees and lessors
- *Liabilities:* The staff gave a preliminary oral report on the comment letters received on the Exposure Draft, *Measurement of Liabilities in IAS*

All decisions reached at IASB meetings are tentative and may be changed or modified at future meetings. Board decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.

The International Accounting Standards Board has issued an [IASB Update](#), which summarizes the joint IASB/FASB meeting that was held in London on June 15-17, 2010. The FASB participated via video conference for certain sessions.

Highlights of the meetings are discussed below.

Balance sheet – offsetting

The guidance in IFRS and U.S. GAAP for offsetting (netting) of financial assets and financial liabilities are broadly similar, except for some derivative and repurchase agreements. Generally, an entity can only offset a recognized financial asset and financial liability if it has a legally enforceable, unconditional right of offset and has the intention to do so.

At this meeting, the IASB and FASB agreed to work together to achieve greater convergence of the criteria for balance sheet offsetting under IFRS and U.S. GAAP. The Boards tentatively decided that the focus of offsetting should be on financial instruments and other items falling within the scope of the financial instruments standards.

The Boards asked the staff to obtain more information on the following:

- The legal enforceability of the offsetting provisions in the International Swaps and Derivatives Association (ISDA) master netting agreements and other similar agreements, especially those in different jurisdictions. Those agreements, which are widely used in the financial industry, include contractual provisions that in effect mean the parties have a single net financial asset or financial liability, as the case may be.

- The legal enforceability of the right of offset when it is included in a contract other than in a master netting arrangement (for example, a bank's right to offset a deposit payable against a loan receivable with the same customer when the customer is in default of the loan)
- The usefulness of offsetting assets and liabilities in general and in particular offsetting the different types of risks (for example, credit risk, liquidity risk, and market risk). The Boards are considering whether a net or a gross presentation is more representationally faithful in providing information about the various risks.
- The operations of central counter parties (CCP), the extent of protection provided by CCPs for transactions that clear through them and the legal basis of their operations. CCPs are typically clearing houses or exchanges. CCPs potentially reduce exposure to credit or liquidity risk, provided the protections (e.g. margins, collateral, contribution requirements) they have in place are sufficient.

The Boards will continue their discussions on balance sheet offsetting at a future meeting.

See the [IASB project summary](#) for more information on this project.

Insurance contracts

At this meeting, the IASB and FASB discussed the following topics:

- Draft application guidance on cash flows
- Foreign currency cash flows
- Draft application guidance on risk adjustment techniques
- Reinsurance
- IASB and FASB differences in tentative decisions

Draft application guidance on cash flows

The IASB and FASB discussed the staff's draft of application guidance on estimating future cash flows that would be included in the measurement of an insurance contract. The objective of the discussion was to provide the staff with feedback to update the draft. The Boards provided some high-level comments to the staff and directed them to refine the overall principle as well as the section of the guidance related to future events.

Foreign currency cash flows

The Boards discussed whether insurance contracts with cash flows denominated in a foreign currency are monetary items or non-monetary items and tentatively decided that an insurance contract is a monetary item in its entirety.

Draft application guidance on risk adjustment techniques

The Boards discussed draft guidance on risk adjustment techniques for inclusion in the approach that uses a risk adjustment plus a residual margin, and tentatively decided:

- That the objective for determining the risk adjustment would refer to the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows may exceed expected cash flows
- To permit only the following techniques for determining risk adjustments:
 - Confidence interval
 - Conditional tail expectation
 - Cost of capital

Reinsurance

The Boards addressed the following reinsurance issues arising from the joint meeting on February 10, 2010.

Initial measurement of reinsurance assets

The Boards tentatively decided that when a cedant measures a reinsurance contract at initial recognition:

- The cedant would remeasure the underlying insurance liability and apply that amount in the initial measurement of the reinsurance asset under the building block approach. The measurement of the asset would also consider the risk of non-performance by the reinsurer.
- If the consideration paid by the cedant to the reinsurer exceeds the amount determined under the building block approach, the cedant would treat that excess as the residual margin or composite margin at initial measurement
- If the amount determined under the building block approach exceeds the consideration paid by the cedant to the reinsurer, the cedant would recognize that difference as a gain in profit or loss on initial recognition of the reinsurance contract

Ceding commissions

The IASB tentatively decided that the cedant would treat ceding commissions as a reduction in the premium ceded to the reinsurer.

The FASB tentatively decided that the cedant would recognize ceding commissions as a gain in profit or loss to the extent that they relate to the reinsurer's share of the cedant's incremental acquisition costs. The cedant would recognize the gain at the earlier of the date when it recognizes the reinsurance contract or the date when it incurs the incremental acquisition costs. Any remaining ceding commissions would be treated as a reduction in the premium ceded to the reinsurer. The FASB's tentative decision may change if it reconsiders the treatment of acquisition costs at a future meeting.

IASB and FASB differences in tentative decisions

The Boards discussed the main differences between their tentative decisions in the following areas.

Acquisition costs

The Boards affirmed their previous tentative decision that an insurer would recognize all acquisition costs as an expense as incurred. However, the Boards differ on whether to recognize revenue as an offset to acquisition costs.

- The IASB tentatively decided that an insurer would, at inception, recognize as revenue an amount equal to the incremental acquisition costs incurred
- The FASB indicated that it would reconsider its previous tentative decision that an insurer would not recognize any revenue at inception pending a more general discussion on the nature of the cash flows to be included in the measurement of insurance contracts in the future

The Boards discussed, but did not reach any tentative decisions on, how to account for the possible recoverability of acquisition costs if an insurance contract lapses.

Margins

The Boards affirmed their previous tentative decisions on the different approaches to margins in the proposed measurement of insurance contracts:

- The IASB would include a residual margin plus a risk adjustment with interest accreted on the residual
- The FASB would include a single composite margin and would not accrete interest on this margin

Participating contracts

The Boards affirmed their tentative decisions on the treatment of participating contracts:

- The IASB would include participating payments in cash flows in the same manner as any other contractual cash flow
- The FASB would include participating payments in cash flows to the extent that the insurer has an obligation to pay. However, the FASB noted that this conclusion was subject to change pending a more general discussion on the nature of the cash flows to be included in the measurement of insurance contracts in the future.

Insurance risk

The Boards discussed the notion of insurance risk in the context of the definition of an insurance contract. The FASB affirmed that a contract does not transfer insurance risk if there is no scenario in which the present value of net cash outflows can exceed the present value of premiums. The IASB tentatively decided to amend IFRS 4, *Insurance Contracts*, to include that notion of insurance risk.

Embedded derivatives

The IASB and the FASB have tentatively adopted an unbundling principle that would require an insurer to account separately for components of an insurance contract unless the components are so interdependent that they cannot be measured separately. The Boards reconsidered their previous decisions on the interaction of this principle with existing requirements for accounting for embedded derivatives and:

- The FASB affirmed that the proposed unbundling principle would apply to embedded derivatives. Therefore, an insurer would separate them

from the host insurance contract unless they are so interdependent that they cannot be measured separately from the host contract.

- The IASB noted that if a derivative embedded in an insurance contract does not qualify for separate accounting under the proposed unbundling principle, existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, would never require the insurer to account for the derivative separately. Accordingly, it would not be necessary to apply the criteria in IAS 39.

Derecognition

The Boards tentatively decided that an insurer would derecognize an insurance liability when it is extinguished (that is, when the obligation is discharged, cancelled, or expires). The supporting guidance would note that when this occurs, the insurer would no longer be at risk and therefore would no longer be required to transfer any economic resources for the insurance obligation.

Portfolio transfers

The IASB and the FASB tentatively decided that an insurer that assumes a portfolio would recognize the excess of the present value of net cash outflows (plus a risk adjustment, in a residual margin approach) over the consideration received as a loss in profit or loss. In assessing whether such a loss has occurred, the insurer would ascertain whether it has recognized all intangible or other assets acquired in the portfolio transfer and review the measurement of the portfolio of insurance liabilities at initial recognition.

Next steps

The Boards continued their discussion of this project at an additional joint Board meeting on June 23, 2010. Please refer to the section below titled *IASB issues June 23, 2010 additional joint IASB/FASB meeting highlights*.

See the [IASB project summary](#) for more information on this project.

Leases

At this meeting, the Boards discussed the following topics:

- Transition
- Lessor accounting models
- Accounting for arrangements with service and lease components
- Accounting for purchase options

Transition

The Boards discussed transition under the partial derecognition approach to lessor accounting. Under the partial derecognition approach to lessor accounting, the lessor would recognize a receivable and a residual asset for the lessor's remaining rights to the underlying asset and derecognize a portion of the underlying asset.

The Boards tentatively decided that lessors would recognize and measure all outstanding leases at the date of initial application of the proposed new lease requirements. The recognized lease receivable would be measured at the present value of the remaining lease payments. The recognized residual asset would be measured at fair value.

Lessor accounting models

Over the course of the lease project the Boards have discussed two lessor accounting models: the performance obligation approach and the derecognition approach. At the May 2010 IASB and FASB joint meeting, the FASB expressed a preference for the performance obligation approach for lessors. The IASB expressed a preference for a hybrid model in which the lessor would apply the derecognition approach for some leases and the performance obligation approach for others.

At this meeting, the Boards continued to debate which model to apply. After considering several options presented by the staff, the Boards tentatively decided to use a hybrid accounting model. Under that hybrid model, the lessor would use a performance obligation approach to account for leases that expose the lessor to significant risks and benefits associated with the underlying asset. A derecognition approach would be applied to all other leases.

Accounting for arrangements with service and lease components

The Boards discussed how a lessor would account for arrangements with service and lease components. Under the derecognition approach to lessor accounting a portion of the leased asset would be derecognized and revenue and cost of sales would be recognized at lease commencement. If a lease arrangement includes both lease components and service components and a lessor is not able to identify the service components in the arrangement, there is a concern that there would be an overstatement of revenue under the derecognition approach to lessor accounting at lease commencement.

The Boards did not reach a tentative decision. They asked the staff to provide examples of how to apply two different approaches to separating the lease components from the service components of a contract for a lessee and for a lessor under both approaches to lessor accounting. The staff was asked to include instances when the lease components are and are not distinct from the service components.

Accounting for purchase options

At prior joint IASB and FASB meetings, the Boards tentatively decided that lessors under the performance obligation model and lessees would include the exercise price of the purchase option in a lease receivable/liability if the purchase option is more likely than not to be exercised. The Boards did not tentatively conclude on the accounting for purchase options for lessors under a derecognition approach.

At this meeting, the Boards reconsidered their previous tentative decision and tentatively decided that both lessees and lessors would account for purchase options only when they are exercised.

See the [IASB project summary](#) for more information on this project.

Liabilities

The staff presented a brief oral report on the responses to the Exposure Draft, *Measurement of Liabilities in LAS 37*. The staff will prepare a detailed written analysis of the responses for discussion at the September 2010 Board meeting.

See the [IASB project summary](#) for more information on this project.

IASB issues June 23, 2010 additional joint IASB/FASB meeting highlights

Key issues

At the June 23, 2010 additional joint IASB/FASB meeting the following issues were discussed:

- *Insurance contracts*: The Boards reached the following tentative decisions:
 - The measurement of a portfolio of insurance contracts would include the expected present value of the incremental cash flows arising from that portfolio
 - A margin presentation for income and expense for insurance contracts would be used on the statement of comprehensive income

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The International Accounting Standards Board has issued an IASB Update, which summarizes the additional joint IASB/FASB meeting that was held in London on June 23, 2010. The FASB participated via video conference for certain sessions.

Highlights of the meetings are discussed below.

Insurance contracts

At this meeting, the Boards discussed the following topics:

- Cash flows
- Unbundling
- Statement of comprehensive income presentation
- Interest accretion

Cash flows

The Boards tentatively decided that an entity's measurement of a portfolio of insurance contracts would include the expected present value of the incremental cash flows arising from that portfolio. An entity would include the following cash flows in its measurement:

- Participating benefits that the insurer expects to pay to policyholders of participating insurance contracts
- The incremental costs of selling, underwriting, and initiating an insurance contract that is issued

Unbundling

The Boards discussed an unbundling principle proposed by the staff that would be based on an assessment of whether there is significant interdependence between components of an insurance contract. The Boards asked the staff to develop an unbundling principle that starts with whether a component can introduce variability in the overall cash flows of the insurance contract for risks that are not considered part of the provision of insurance protection. If such a principle cannot be developed, the Boards tentatively decided that the Exposure Draft would include an unbundling principle based on significant interdependence.

Statement of comprehensive income presentation

The Boards tentatively decided that an insurer would use a margin presentation for income and expense for insurance contracts and identified specific items that entities would include in the presentation. The margin presentation would include:

- The release of the expected margin during the period flowing from the measurement model, showing the release of the risk adjustment separately from the release of the residual margin
- The difference between the expected and the actual cash flows
- Changes in estimates (remeasurements)
- Interest on insurance liabilities

The margin presentation would be supplemented by disclosures of premiums and contract-related expenses.

Interest accretion

The IASB and the FASB discussed interest accretion for residual and

composite margins, but did not reach a joint tentative decision. The IASB affirmed its tentative decision to accrete interest on residual and composite margins and to use an interest rate that is locked-in at inception of the contract. The FASB affirmed its tentative decision not to accrete interest on residual and composite margins.

Next steps

The IASB plans to issue an Exposure Draft on insurance contracts in late July 2010, while the FASB will decide in July 2010 the best means of gathering feedback on the IASB's proposal, which might include issuing an Exposure Draft.

Future IASB meetings

The IASB held subsequent meetings (some of them jointly with the FASB) on July 19-23, 2010. The next IASB meetings (some of them jointly with the FASB) will be held on August 3 and 24, 2010 and September 13-17, 2010.

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