

## Welcome to IASB Update

This IASB Update is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The IASB met on 27 April 2011. The Board discussed insurance contracts and hedge accounting. The insurance contracts session was held jointly with the FASB, with its board members participating via videoconference from Norwalk. FASB staff also participated in the hedge accounting session.

Two IASB Board members were unable to participate in the meeting.

The topic discussed at the joint IASB/FASB board meeting was:

- [Insurance contracts](#)

The topic discussed at the IASB meeting was:

- [Financial instruments: hedge accounting](#)

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### Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings in 2011 are:

4 May  
11 May  
16-20 May

To see all Board meetings for 2011, [click here](#).

### Archive of IASB Update Newsletter

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### Podcast summaries

To listen to a short Board meeting audio summary (podcast) or previous Board meetings, [click here](#).

## Joint IASB and FASB sessions

### Insurance contracts

The IASB and FASB continued their discussions on insurance contracts. The boards discussed whether a different approach should be used for the accounting in the pre-claims period for contracts, typically of short duration, that meet specified criteria. In particular, the boards discussed what those

criteria might be and whether that different approach was a proxy for the building block approach or a separate model.

The boards tentatively decided that:

- a. They would consider whether the pre-claims obligation should reflect the time value of money, based on their tentative decision in the revenue recognition project on reflecting the time value of money.
- b. The insurer shall reduce the measurement of the pre-claims obligations over the coverage period as follows:
  - i. on the basis of time, but
  - ii. on the basis of the expected timing of incurred claims and benefits if that pattern differs significantly from the passage of time.
- c. An insurer should perform an onerous contract test if facts and circumstances indicate that the contract has become onerous in the pre-claims period.

In addition, the IASB tentatively decided that an insurer should deduct from the pre-claims obligation measurement the acquisition costs that would be included in the measurement of the insurance contract liability under the building block approach. Nine of the thirteen IASB members present supported this approach. The FASB did not vote on this issue.

The boards will continue deliberations on insurance contracts on 4 May 2011 on the following topics:

- The measurement of contracts with policyholder participation features,
- Unbundling of goods and services and investment components from an insurance contract

## IASB sessions

### Financial instruments: hedge accounting

At this meeting the IASB continued its redeliberations on the exposure draft (ED) *Hedge Accounting* and discussed zero-cost collars, accounting for fair value hedges and nominal components that are 'layers'.

#### Zero-cost collars

A 'zero-cost collar' is a combination of a purchased and a written option, one being a put and one being a call option, that at inception has a net nil time value. The Board discussed whether the treatment of changes in the time value for zero-cost collars and other options should be aligned (to the extent applicable).

The Board received feedback on the ED that many respondents think the accounting for the time value of options should also extend to the time value of zero-cost collars. Those respondents were concerned that to do otherwise would result in arbitrary accounting outcomes and artificial structuring incentives would arise.

The Board tentatively decided that the accounting treatment for changes in the time value of options and zero-cost collars should be aligned, with 11 Board members supporting this decision, one against and one abstaining.

The Board will discuss what that treatment should be at a future meeting.

#### Accounting for fair value hedges

The Board discussed the mechanics of presenting fair value hedges. The discussion addressed three aspects:

- Presentation in the statement of comprehensive income.
- Presentation in the statement of financial position.
- Linked presentation.

#### *Presentation in the statement of comprehensive income*

In the ED, the Board proposed that the gain or loss on the hedging instrument and the hedged item should be presented in other comprehensive income (OCI) with the ineffective portion of the gain or loss presented in profit or loss. Although most respondents supported providing this type of information, many disagreed with the proposed location (in the statement of comprehensive income). The main concerns were their perception that using OCI lacked a conceptual basis and also the additional number of line items in the statement of comprehensive income.

The Board discussed this feedback and tentatively decided to retain the requirement in IAS 39 *Financial Instruments: Recognition and Measurement*, which means that gains and losses from hedging instruments and hedged items for the hedged risk of a fair value hedge are presented in profit or loss. However, in order to provide more transparency about hedging activities, the Board also tentatively decided to require in the notes to the financial statements disclosure in one single note of the effects of fair value hedges and cash flow hedges on profit or loss and OCI, respectively. That disclosure includes the gross gain or loss from the hedged item and the hedging instrument as well as hedge ineffectiveness. This decision was supported by 11 Board members with one against and two abstaining.

#### *Presentation in the statement of financial position*

In the ED, the Board proposed that the gain or loss on the hedged item that is attributable to the hedged risk should be presented as a separate line item in the statement of financial position. Most respondents supported the elimination of 'mixed measurements' (ie part fair value and part cost-based) in the statement of financial position but many were concerned about the addition of several line items to the statement and would prefer providing this information in the notes to the financial statements.

The Board discussed this feedback and tentatively decided to retain the requirements in IAS 39 (ie a direct adjustment of the hedged item for the effects of fair value hedging), but with a requirement to disclose the fair value hedge adjustment in the notes. All Board members present supported this decision.

#### *Linked presentation*

In the ED, the Board proposed that linked presentation not be allowed for fair value hedges. The majority of respondents agreed with the Board's proposal not to allow linked presentation. Respondents felt that linked presentation should not be considered, but only within the context of only hedge accounting.

The Board discussed this feedback and tentatively decided to retain the proposal not to allow linked presentation for fair value hedges, subject to doing some further outreach. This decision was supported by 12 Board members with one against.

#### Nominal components-layers

In the ED, the Board proposed that:

- a layer component of the nominal amount of an item would be eligible for designation as a hedged item.
- a layer component of a contract that includes a prepayment option would not be eligible as a

hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk.

Respondents agreed with the proposal that a layer component of the nominal amount of an item should be eligible for designation as a hedged item, but had mixed views on the proposals regarding contracts that include a prepayment option.

The Board discussed suggestions for changes to the proposals and tentatively decided:

- to confirm the proposal to allow layer-based designation of a hedged item (when the item does not include a prepayment option whose fair value is affected by changes in the hedged risk). This decision was supported by all the Board members present.
- that for *partially* prepayable items a layer-based designation of the hedged item should be allowed for *those amounts* that are *not prepayable* at the time of designation. This decision was supported by 12 Board members with one against.
- that a designation of a layer as the hedged item should be allowed *if it includes* the effect of a related prepayment option when determining the change in fair value of the hedged item. This decision was supported by 11 Board members with two against.
- not to differentiate written and purchased prepayment options for the purpose of the eligibility of layer-based designation of hedged items (ie to confirm the proposal in the ED, which does not make that differentiation). This decision was supported by all the Board members present.

The Board will next discuss hedge accounting at the meeting on 11 May 2011.

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