

## **10. International Financial Reporting Standards**

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ABI Lead Committee: Financial Regulation & Taxation

Other interested committees: European Committee

### **Issue: Insurance Contracts Phase 2**

**Status:** The International Accounting Standards Board (IASB) has confirmed that the project remains a priority. It plans to issue a draft standard by April 2010 and a final standard by mid 2012, with mandatory application from 2013 (to coincide with the mandatory application date for the full IAS39 replacement standard). This timetable remains challenging. It is also not clear that the IASB and Financial Accounting Standards Board (FASB) will reach agreement within that timescale. Within the last quarter the indicative timetable has already slipped. We continue to push for 2012.

The major issue remains what measurement model should be used for calculating insurance liabilities. The IASB had favoured an exit value approach, whereby the value of the liabilities is the amount at which they can be transferred to a third party. However, the IASB is now proposing a modified IAS 37 model, which measures the amount an entity would rationally pay at the balance sheet date to be relieved of a liability. It is not the amount a third party would charge to take over the liability, and is instead measured from the perspective of the entity with the liability. However, although this model has now been supported by both Boards, it remains to be articulated much more fully, including what happens beyond day 1.

**ABI Action:** The ABI will continue to monitor developments on the new standard. The ABI will remain actively involved with the CEA and CFO Forum.

### **Issue: Replacement of IAS39, financial instruments**

The IASB has continued to carry out its IAS39 replacement project in three phases:

- 1) Classification and measurement of financial assets – IFRS 9 was issued in November, following consultation in the summer. Other than in Europe, which decided not to endorse it, it may be applied for 2009 year-ends. Its requirements are better than those in the exposure draft, responding to criticisms from the ABI and others - particularly on its inflexibilities, on the need for a business model basis for reporting, and against the inclusion of own credit risk in financial liabilities. The Boards are looking again at requirements for financial liabilities. The EU is waiting for the IASB to finish all three phases before considering endorsement further;
- 2) Amortised cost and impairment – The IASB published its exposure draft in November, with comments due by 20 June 2010. This follows its consultation in the summer on the issues associated with making

the expected loss approach operational. Many respondents said that it was difficult.

- 3) Hedge accounting - an exposure draft will be issued in Q1 2010 (a recent delay from Q4 2009).

While we have expressed concerns about the IASB's overall approach and about certain of its decisions and proposals, we are committed to global standards and independent standard setting. Hence, we supported the EFRAG's proposed technical assessment supporting EU adoption. We do not want the adopting process to become an integral part of standard setting, nor do we want stand alone European standards.

A particular concern has been that the IASB are proceeding on a much faster timetable than FASB and they appear to be reaching different conclusions. They have committed again to working jointly, but this does not bode well for the convergence agenda.

ABI Action: The ABI will continue to monitor developments on the replacement to IAS 37, and to work closely with the CEA and the CFO Forum.

**Useful documents:**

[Latest developments on IASB website](#)