30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting: **24 May 2006, London**

Project: **Insurance contracts (phase II) (Agenda Paper 4)**

AGENDA PAPER 4
OVERVIEW OF PAPERS FOR THIS MEETING

Objective of this paper

1. This paper lists the items to be discussed at this meeting, summarises the measurement model the Board has tentatively decided to adopt and gives an updated timetable.

Papers for this meeting

2. At this meeting, the staff will ask the Board to discuss:

   (a) Items carried forward from the April meeting:

      (i) Universal life contracts (agenda paper 4A, updated version of April agenda paper 7D)

      (ii) Unit-linked and index-linked payments (agenda paper 4B, updated version of April agenda paper 7E). The Board had a brief discussion of this paper in April, but did not have time to finish it.

      (iii) Credit characteristics of insurance liabilities (agenda paper 4C, updated version of April agenda paper 7G)

   (b) Reinsurance (agenda paper 4D)

(c) Overview of relevant FASB projects (agenda paper 4E).

(d) Salvage and subrogation (agenda paper 4F)

(e) Business combinations and portfolio transfers (agenda paper 4G).

(f) Policyholder participation rights (agenda paper 4H).

(g) Changes in insurance liabilities (agenda paper 4I).

Measurement model

3. The following is a brief summary of the Board's tentative decisions to date:

   (a) An insurer should recognise rights and obligations created by an insurance contract when it becomes a party to the contract.

   (b) An insurer should derecognise an insurance liability (or a part of an insurance liability) when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

   (c) In relation to the measurement attribute:

      (i) The measurement attribute for insurance liabilities should be current exit value, both at initial recognition and subsequently. Current exit value would be defined as the amount that the insurer would expect to have to pay today to another entity if it transferred all its remaining contractual rights and obligations immediately to that entity (and excluding any payment receivable or payable for other rights and obligations).

      (ii) It follows that an insurer would not be prohibited from recognising a net gain (ie net after acquisition costs) or net loss at the inception of an insurance contract. However, if an insurer identifies an apparently significant gain or loss at inception, it would need to check carefully for errors or omissions.

      (iii) It is too early to conclude whether current exit value is synonymous with fair value. The Board will review that question as work proceeds on the fair value measurement project.

      (iv) Using current exit value as the measurement attribute is not intended to imply that an insurer can, will or should actually transfer the liability to a third party. Indeed, in most cases, insurers cannot transfer the liabilities to a third party and would not wish to do so. Rather, the purpose of specifying this measurement attribute is to provide useful information that will help users make economic decisions. Current exit value is more suitable for this purpose than other approaches the Board has considered because it emphasises current estimates of the amount, timing and uncertainty of those cash flows, and current estimates of the price for those cash flows and uses observable market inputs, to the extent they exist.

(d) Typically, the current exit value of an insurance liability is not observable, so it must be estimated using the following inputs:

   (i) current unbiased probability-weighted estimates of future cash flows.

   (ii) current market discount rates that adjust the estimated future cash flows for the time value of money (see paragraph 3(f)).

   (iii) an unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and providing other services (a profit margin).

(e) The Board does not intend to develop detailed guidance on estimating cash flows or prescribe specific techniques for developing risk margins, but the Discussion Paper (and ultimately an IFRS) will explain characteristics of techniques that make estimates of cash flows and of risk margins consistent with the measurement attribute.

(f) The discount rate should be consistent with observable market prices for cash flows whose characteristics match those of the insurance liability in terms of timing, currency and liquidity. The observed discount rate should be adjusted to exclude any factors that influence the observed rate but are not relevant to the liability (for example, risks present in the instrument used as a benchmark but not present in the liability).

(g) When an insurer recognises rights and obligations arising under an insurance contract, it should also:

   (i) recognise the portion of the customer relationship (relationship with the policyholder) that relates to future payments that the policyholder must make to retain a right to guaranteed insurability.

   (ii) measure that portion of the customer relationship at current exit value and present it as part of the related liability, not as a separate asset. The staff will investigate how best to provide useful disclosure about the extent to which the liability incorporates cash flows that are enforceable.

(h) The Board should not require insurers to unbundle deposit and service components of insurance contracts for the purpose of recognition and measurement (but agenda paper 4I for this meeting discusses the presentation of premium receipts). The staff will investigate whether unbundling should be prohibited in some or all cases.

(i) Acquisition costs should be recognised as an expense when incurred.

(j) Policyholder participation rights create a liability when the insurer has an unconditional obligation that compels the insurer to transfer economic benefits to policyholders, current or future (agenda paper 4H gives more detail).

Timetable

Topic and brief summary of content	**Date**
Insurance Working Group (IWG) meeting	29-30 June 2006
Long-term savings. Do conclusions reached for insurance contracts have implications for treatment of long-term savings contracts?	July IASB meeting
Unit of account. Follow up of issues discussed in April.	July IASB meeting
Separate accounts. Follow up the pass-through criteria discussed in April.	July IASB meeting
Issues arising at the June meeting of the IWG (for issues requiring more than minimal research, wait until the September meeting)	July IASB meeting
First pre-ballot draft	July 2006
Second pre-ballot draft	September 2006
Sweep issues (if any) and remaining issues (if any) arising from the July meeting of the Insurance Working Group	September IASB meeting
Ballot draft	November 2006
Publication	December 2006