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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting:	**18 September 2008, London**
Project:	**Insurance Contracts**
Subject:	**Comparison between current exit value, current fulfilment value and value in use (agenda paper 14B)**

Purpose of this paper

1. Agenda paper 14A provides an overview of input from respondents to the discussion paper (DP) P*reliminary Views on Insurance Contracts* to give the Board more understanding of what constituents are aiming for with fulfilment value and how respondents would define such a notion.

2. To support agenda paper 14A, this paper provides a tabular comparison between some of the key features of current exit value, current fulfilment value and value in use. The three notions are based on:

   (a) Current exit value: as defined by the DP.

   (b) Current fulfilment value: as proposed by respondents in their comment letters to the DP and further input by respondents to clarify their views on fulfilment value.

   (c) Value in use: as defined by IAS 36 *Impairment of assets.*

3. For current fulfilment value, the table presents the description of fulfilment value that respondents generally seem to aim at [although the two approaches to risk margins and day one profits are noted separately in the table]. However, some respondents have different views for some features; these views are mentioned in agenda paper 14A.

COMPARISON BETWEEN CURRENT EXIT VALUE, CURRENT FULFILMENT VALUE AND VALUE IN USE

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)	Value in Use (as per IAS 36)
1	Definition	The amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.	The expected present value of the cost of fulfilling the obligation to the policy holder over time.	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.
2	Building blocks for the measurement attribute	Building block approach consisting of: - future cash flows - time value of money - a margin	Building block approach consisting of: - future cash flows - time value of money - a margin	Building block approach consisting of[1]: - future cash flows - expectations about variations in those cash flows - time value of money - price for bearing uncertainty inherent in the asset - other factors that market participants would reflect in pricing the assets
3	Inputs for estimates of cash flows			
3a	Inputs for which observable market information is available	Consistent with observed market prices.	Consistent with observed market prices.	IAS 36 does not give an explicit answer.
3b	Other inputs	The entity's estimate of the estimates that other market participants would make.	The entity's own estimates.	The entity's own estimates.
4	Characteristics of cash flows			
4a	Cash flows that arise from the	Included	Included	Included

[1] Staff believes that the five items mentioned in paragraph 30 of IAS 36 essentially correspond with the three building block approach from the DP on Insurance Contracts.

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)	Value in Use (as per IAS 36)
	characteristics of the portfolio (portfolio-specific)			
4b	Cash flows that arise from the characteristics of the entity (entity-specific)	Excluded	Included	Included
5	Subsequent measurement of cash flows	Current estimates are to be used for all variables.	Current estimates are to be used for all variables.	Current estimates are to be used for all variables.
6	Changes in estimates of cash flows	Included in profit or loss.	Views are mixed, with – broadly – two approaches: A: changes are not absorbed by the margin. B: changes are absorbed by the margin, until the contract becomes onerous[2].	Included in profit or loss if the asset is impaired.
7	Time value of money	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the asset.
8	Risk Margins	A margin for compensation for bearing risk as required by market participants.	Views are mixed, with – broadly – two approaches: A: risk margin related to the cost of bearing risk B: risk margin calibrated to the premium	The price for bearing uncertainty inherent in the asset as perceived by market participants is included through adjustments to the cash flows or the discount rate.

[2] Staff will seek further clarification from the advocates of approach B on this subject.

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)	Value in Use (as per IAS 36)
9	Service margins	A margin for compensation for other services as required by market participants.	Views are mixed, with – broadly – two approaches: A: no service margins included in the fulfilment value B: service margin implicitly included in the margin by calibrating to the premium	No service margins.
10	Day one difference (the difference between the actual margin and the required margin)	Recognised in profit. Not expected to be common and significant.	Views are mixed, with – broadly – two approaches: A: not included in fulfilment value[3] B: no difference on day one	Not applicable.
11	Own credit risk	Included, but not considered to be significant at inception.	Excluded	Not applicable.

[3] The day one difference is not considered to be part of the fulfilment value of the insurance contracts, but views differ on how to treat the day one difference.