



30 Cannon Street, London EC4M 6XH, United Kingdom  
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411  
E-mail: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)

International  
Accounting Standards  
Board

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards. These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### INFORMATION FOR OBSERVERS

**Board Meeting:** March 2009, London  
**Project:** Insurance Contracts  
**Subject:** Cover Note (Agenda paper 11)

---

#### Agenda papers for this meeting

1 We have prepared the following agenda papers for this meeting:

Agenda Paper No.	Title	Objective
11	Cover note	Outlines objectives for this meeting and next steps
11A	Guidance on cash flows	Discusses the high-level direction on the cash flows that would be included in a measurement of insurance liabilities

#### Objective of this meeting

2 Agenda paper 11A asks the boards for high-level direction on the cash flows that would be included in a measurement of insurance liabilities.

#### Tentative decisions to date

3 In February 2008, the boards discussed a list of measurement approaches identified by staff as possibly viable candidates for selection in the case of insurance liabilities. The following topics were addressed:

<b>Topic</b>	<b>IASB</b>	<b>FASB</b>
Features of a measurement approach	<p>The IASB tentatively decided that a measurement approach for insurance contracts conceptually should:</p> <ul style="list-style-type: none"> <li>a) use estimates of financial market variables that are as consistent as possible with observable market prices</li> <li>b) use explicit current estimates of the expected cash flows</li> <li>c) reflect the time value of money</li> <li>d) include an explicit margin</li> </ul>	<p>The FASB discussed the potential components of a fulfilment value but did not come to any conclusions.</p>
Measurement objective	<p>The IASB discussed whether a measurement approach for insurance contracts should be based on an exit notion or a fulfilment notion. Views diverged and no clear consensus emerged.</p>	<p>The FASB agreed to explore an approach where an insurance contract is measured at a current fulfilment value rather than fair value as defined in FASB Statement No. 157, <i>Fair Value Measurements</i> (an exit value). The fulfilment value is currently not a defined measurement approach but would be based on entity-specific inputs that generally would not require consideration of market participant views.</p>
Measurement of the margin at inception	<p>The IASB tentatively decided that the margin at inception should be measured by reference to the premium and that therefore no day one gains should be recognised in profit or loss. The IASB will discuss at a future meeting how to treat acquisition costs and the part of the premium that recovers those costs.</p>	<p>The FASB agreed that in principle the initial recognition of an insurance contract should not result in the recognition of an accounting profit. However, some FASB members acknowledged that future deliberations and decisions (such as the accounting for acquisition costs) may necessitate revisiting whether an accounting profit should be recognized at inception of an insurance contract.</p>
Candidate measurement approaches	<p>The IASB noted the arguments for and against an approach that uses an estimate of future cash flows with no margins and no discounting. The IASB considered whether to use such an approach for non-life claims liabilities and tentatively</p>	<p>The FASB will consider at a future meeting whether an approach for measuring insurance contracts would include using future cash flows with no margins and no discounting in certain instances.</p>

	<p>decided not to add it to the list of candidates. The candidates to be considered at a future meeting include an unearned premium approach for short-duration pre-claims liabilities.</p> <p>The IASB discussed whether to add to the list of measurement candidates presented by the staff and asked the staff to analyse further whether to apply measurement approaches used in other existing and future standards, notably those on revenue recognition, financial instruments and non-financial liabilities.</p>	
--	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--

### Next steps

- 4 In the February board meetings, we noted issues to be discussed at future meetings<sup>1</sup>. During those meetings we will bring back those issues to further work out the details of the measurement approach.
- 5 In April 2009, we intend to start discussing policyholder behaviour and policyholder participation, with at the centre of the debate the question whether an insurer should account for individual rights and obligations under the contract or account for the whole contract (unit of account).
- 6 An updated project timetable is attached to this paper. We included a meeting in July 2009 for follow-up on the measurement approach when we intend to ask the boards to reach a conclusion on the measurement approach.

---

<sup>1</sup> February 2009, Agenda Paper 10A / FASB Memorandum No. 7

## Appendix

### Timetable for Board discussions and Working group meetings

<p><b>Educational session on the contract approach</b></p> <ul style="list-style-type: none"><li>• Is the unit of recognition the whole contract, or individual rights and obligations?</li><li>• If the unit of recognition is individual rights and obligations: is the guaranteed insurability test appropriate?</li><li>• If the unit of recognition is the whole contract: where is the boundary between existing contracts and new contracts?</li></ul> <p>Other relevant projects: revenue recognition, financial instruments, leases, concepts (elements, recognition)</p>	April 2009
<p><b>Other issues on the measurement approach</b></p> <ul style="list-style-type: none"><li>• Margins, including subsequent measurement</li><li>• Acquisition costs</li></ul> <p>Other relevant projects: revenue recognition, fair value measurements, non-financial liabilities (IAS 37)</p>	April 2009
<p><b>Contract approach</b></p> <p>We will ask the boards to discuss and reach a conclusion on the contract approach (follow-up on March 2009 Educational Board Session)</p>	May 2009
<p><b>Other issues on the measurement approach (continued)</b></p> <ul style="list-style-type: none"><li>• Use of the unearned premium (candidate 5) for short-duration contracts</li><li>• Should other comprehensive income be used for some changes in insurance liabilities?</li><li>• Non-performance risk</li></ul> <p>Other relevant projects: revenue recognition, fair value measurements, employee benefits</p>	May 2009
<p><b>Discount rates</b></p> <ul style="list-style-type: none"><li>• guidance on discount rates</li></ul> <p>Other relevant projects: revenue recognition, fair value measurements, non-financial liabilities (IAS 37)</p>	May 2009
<p><b>Policyholder participation - classification</b></p> <ul style="list-style-type: none"><li>• If the unit of recognition is individual rights and obligations: when</li></ul>	June 2009

<p>should participation features be classified as equity and when should they be classified as liabilities? How should participation features be reported in the statements of financial position, financial performance and cash flows?</p> <ul style="list-style-type: none"> <li>• Are there any specific issues for mutuals?</li> </ul> <p>Other relevant projects: concepts (elements, recognition), financial instruments with characteristics of equity</p>	
<p><b>Inconsistencies with IAS 39 and IAS 18</b></p> <ul style="list-style-type: none"> <li>○ For some or all financial liabilities and investment management contracts, should the Board eliminate some or all inconsistencies between the insurance contracts model and the models in IAS 39 and IAS 18?</li> <li>○ Should an insurance contract be unbundled if the contract contains more than one component?</li> <li>○ Should any changes be made to the measurement attribute of assets held to back insurance contracts? (see also separate discussion for participating, unit-linked and index-linked contracts).</li> </ul> <p>Other relevant projects: revenue recognition, financial instruments</p>	June 2009
<p><b>Policyholder accounting – initial review</b></p> <ul style="list-style-type: none"> <li>• Initial review of whether the same measurement attribute is appropriate for policyholders as insurers.</li> <li>• If the same measurement attribute is appropriate, consider whether practical shortcuts are needed.</li> </ul> <p>Other relevant projects: concepts (measurement, unit of account), fair value measurements, non-financial liabilities (IAS 37)</p>	June 2009
<p><b>Policyholder participation - measurement</b></p> <ul style="list-style-type: none"> <li>• Consider specific measurement issues for participation features.</li> <li>• Do we need to amend the IFRS 4 definition of a discretionary participation feature (DPF)?</li> <li>• Should investment contracts with a DPF be in the scope of the insurance standard or financial instruments standards?</li> <li>• Are there any specific issues for mutuals?</li> </ul>	June 2009

Other relevant projects: concepts (measurement), fair value measurements, financial instruments, financial instruments with characteristics of equity	
<b>Meeting of Insurance Working Group</b> (tentative, timing will be reconsidered after March Board meetings)	June 2009
<b>Measurement approach</b> We will ask the boards to discuss and reach a conclusion on the measurement approach (follow-up on February 2009 on the measurement approach)	July 2009
<b>Participating, unit-linked and index-linked insurance contracts and investment contracts and universal life contracts</b> <ul style="list-style-type: none"> <li>○ Should accounting mismatches be eliminated? If so, how?</li> <li>○ If assets are held in separate funds, are they part of the reporting entity?</li> <li>○ If policyholders bear part or all of the investment risk, how should this affect presentation and disclosure?</li> </ul> Other relevant projects: concepts (unit of account), financial instruments, consolidation, concepts (reporting entity)	July 2009
<b>Recognition and derecognition</b> <ul style="list-style-type: none"> <li>○ When should an insurer recognise an insurance liability?</li> <li>○ When should a cedant recognise reinsurance assets, especially if the underlying direct contracts have a different coverage period?</li> <li>○ When should an insurer derecognise insurance liabilities and reinsurance assets?</li> </ul> Other relevant projects: concepts (recognition and derecognition), derecognition, revenue recognition	July 2009
<b>Definition and scope</b> <ul style="list-style-type: none"> <li>● Should the IFRS 4 definition of an insurance contract change?</li> <li>● Financial guarantee contracts</li> <li>● Should existing scope exclusions continue? Should new scope exclusions be added?</li> <li>● Catastrophe bonds and alternative risk transfer</li> </ul> Other relevant projects: financial instruments, revenue recognition, pensions	July 2009

<p><b>Disclosure</b></p> <ul style="list-style-type: none"> <li>• What disclosures should be required?</li> </ul> <p>Other relevant projects: presentation of financial statements</p>	September 2009
<p><b>Other issues on the building blocks</b></p> <ul style="list-style-type: none"> <li>• Guarantee fund assessments</li> <li>• Tax issues</li> <li>• Salvage and subrogation</li> </ul> <p>Other relevant projects: non-financial liabilities (IAS 37), income taxes, fair value measurements</p>	September 2009
<p><b>Minor issues</b></p> <ul style="list-style-type: none"> <li>• Insurance contracts acquired in business combinations and portfolio transfers</li> <li>• Should some income taxes be reported as taxes on policyholders, rather than as taxes on the insurer?</li> <li>• Interim reporting</li> <li>• Transition, including transition for assets backing insurance contracts.</li> <li>• Consequential amendments</li> </ul> <p>Other relevant projects: presentation of financial statements</p>	September 2009
<p><b>Policyholder accounting – follow up</b></p> <ul style="list-style-type: none"> <li>• Review initial conclusions on policyholder accounting</li> </ul> <p>Other relevant projects: non-financial liabilities (IAS 37)</p>	September 2009
<p><b>Pre balloting</b></p>	September/ October 2009
<p><b>Sweep issues</b></p>	November 2009
<p><b>Publication of Exposure Draft</b></p>	December 2009
<p><b>Comments due</b></p>	April 2010
<p><b>Summary of comments</b></p>	May 2010

<p><b>Discussion of Issues from comment letters</b></p> <ul style="list-style-type: none"> <li>• The issues, both the content and the total number, cannot be estimated at this stage</li> <li>• But we probably need to bring something to the Board every 1-2 months</li> </ul>	<p>June 2010 – January 2011</p>
<p><b>Pre balloting</b></p>	<p>February/Marc h 2011</p>
<p><b>Sweep</b></p>	<p>April 2011</p>
<p><b>Publication of final standard</b></p>	<p>May 2011</p>

Timing to be determined: consider the extent (if any) of field testing, planning for any field testing, reporting back on any field testing.