Project **Insurance contracts**

Topic **Cover Note**

Agenda papers for this meeting

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

Agenda Paper No.	Title	Objective
16	Cover note	Outlines objectives for this meeting and next steps.
16A	Policyholder behaviour and contract boundaries	Provides staff analysis and recommendations on policyholder behaviour and contract boundaries.
16B	Policyholder behaviour	Reissues a paper that provided material for the preliminary discussion on future insurance contract premium receipts.

Objective of this meeting

2. In this meeting the boards will discuss future insurance contract premium receipts, ie policyholder behaviour and the related issue of contract boundaries.

3. Agenda paper 16A provides staff analysis and recommendations on this topic. It supplements the paper used for the preliminary discussion the IASB had in its April 2009 meeting and the FASB had at its May 6, 2009 meeting. Agenda paper 16B reissues that paper.

Tentative decisions to date

4. In previous meetings, the boards discussed a list of candidate measurement approaches for insurance liabilities. An overview of the topics that were addressed is included in the appendix to this paper.

Next steps

5. In June 2009, we intend to continue the discussion on measurement.

6. Based on the outcomes of previous meetings, staff is reassessing the project planning and will bring an updated timetable in the June 2009 papers.

Appendix: Overview of topics discussed at previous meetings

Topic	IASB	FASB
Features of a measurement approach	The IASB tentatively decided that a measurement approach for insurance contracts conceptually should: a) use estimates of financial market variables that are as consistent as possible with observable market prices b) use explicit current estimates of the expected cash flows c) reflect the time value of money d) include an explicit margin	The FASB agreed that a measurement of the fulfilment value of an insurance contract should use expected cash flows rather than a best estimate of cash flows. The FASB also agreed that those expected cash flows should be updated each period The FASB agreed that the measurement of cash flows should consider all available information that represents the fulfilment of the insurance contract. All available information includes, but is not limited to, industry data, historical data of an entity's costs, and market inputs when those inputs are relevant to the fulfilment of the contract. The FASB will discuss time value of money and margins at a future meeting.
Measurement objective	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.	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, *Fair Value Measurements* (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.
Measurement of the margin at inception	The IASB tentatively decided that the margin at inception should be measured by reference to the premium and that therefore no day one gains	The FASB agreed that in principle the initial recognition of an insurance contract should not result in the recognition of an accounting profit. However,

Topic	IASB	FASB
	should be recognised in profit or loss (except for the part of the premium that covers acquisition costs, as discussed in more detail below). The Board decided tentatively that if the initial measurement of an insurance contract results in a day-one loss, the insurer should recognise that day-one loss in profit or loss.	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 recognised at inception of an insurance contract. The FASB will discuss day-one losses in their Board meeting on May 18, 2009.
Margins	The IASB discussed some topics on margins. Views diverged and no clear consensus emerged. The Board will return to the topic of margins at a future meeting.	The FASB will discuss this on May 18, 2009.
Candidate measurement approaches	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 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. 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.	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.

Topic	IASB	FASB
Acquisition costs	The Board discussed an example in which two insurers issue identical insurance contracts but incurred different acquisition costs and, as a result, charged premiums that differ by the same amount. The Board decided tentatively that those contracts should have the same initial measurement. As a follow up, the Board decided tentatively that at inception an insurer should recognise as revenue the part of the premium that covers acquisition costs. For this purpose, acquisition costs should be limited to the incremental costs of issuing (ie selling, underwriting and initiating) an insurance contract and should not include other direct costs. Incremental costs are those costs that the insurer would not have incurred if it had not issued those contracts.	The FASB will discuss this on May 18, 2009.