Contact(s)	Hans van der Veen	hvanderveen@iasb.org	+44 (0)20 7246 6464
	Mark Trench	metrench@fasb.org	+1 (0)203 956 3455
	Jeffrey Cropsey	jdcropsey@fasb.org	+1 (0)203 956 5305

Project **Insurance Contracts**

Topic **Cover note**

Agenda papers for this meeting

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

Agenda Paper No.	Title	Objective
13	Cover note	Outlines objectives for the meetings and next steps.
13A	Resolution of significant tentative decisions	Discusses resolution of significant tentative decisions.
13B	Presentation of the performance statement	Reissues a paper that provided material for the preliminary discussion on presentation of the performance statement

Objective of the October joint meeting

2. Agenda paper 13A (FASB memorandum 30A) discusses the significant areas where the Boards have reached different decisions: the measurement approach and acquisition costs. The purpose of this discussion is to see whether the Boards can resolve these differences. Staff notes that resolution of those (and

any other) differences is integral to the timely completion of deliberations and subsequent issuance of an exposure draft.

3. In addition, agenda paper 13A discusses whether the exposure draft should address accounting by the policyholder.

4. Agenda paper 13B (FASB Memorandum 30B) provides material for a preliminary discussion on the presentation of the statement of comprehensive income (performance statement). This paper reissues agenda paper 4B of the October 2009 IASB meeting.

5. An overview of the topics that were addressed in previous meetings, including the tentative decisions reached, is included in the appendix to this paper.

Appendix: Overview of topics discussed at previous meetings

Topic	**IASB**	**FASB**
Candidate measurement approaches	The IASB tentatively selected the approach being developed in the project to amend IAS 37, modified to exclude day one gains. Nevertheless, a significant minority of Board members supported the approach based on current fulfilment value. Therefore, the exposure draft will explain both approaches.	The FASB tentatively selected a current fulfilment approach with a composite margin. 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.
Features of a measurement approach	A measurement approach for insurance contracts conceptually should: (a) use current 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.	A measurement of the fulfilment value of an insurance contract should use expected cash flows rather than a best estimate of cash flows. Those expected cash flows should be updated each period. 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 measurement of cash flows should be discounted and the discount rate should be updated each reporting period. The FASB will continue to discuss at a future meeting what discount rate should be used.

Topic	IASB	FASB
Unearned Premium	The IASB decided tentatively that: (a) an unearned premium approach would provide decision-useful information about pre-claims liabilities of short-duration insurance contracts. (b) to require rather than permit the use of an unearned premium approach for those liabilities.	The FASB will discuss an unearned premium approach at a future meeting.
Measurement of margins at inception	The margin at inception should be measured by reference to the premium. Therefore no day one gains should be recognised in profit or loss (except for premium to cover acquisition costs, as discussed in more detail below). 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.	In principle the initial recognition of an insurance contract should not result in the recognition of an accounting profit. The FASB will continue to discuss this issue (day-one loss) at a future meeting.

Topic	**IASB**	**FASB**
Subsequent treatment of margins	On the residual margin, the IASB decided tentatively that: a) the driver selected for releasing the residual margins should result in recognising those margins in income in a systematic way that best depicts the insurer's performance under the contract. b) that the residual margin should be released over the period during which the insurer is standing ready to accept valid claims (the coverage period). c) that the insurer should not adjust the residual margin in subsequent reporting periods for changes in estimates.	The FASB will discuss the subsequent treatment of margins at a future meeting.
Discount rates	The IASB decided tentatively that: a) the discount rate for insurance liabilities should conceptually adjust estimated future cash flows for the time value of money in a way that captures the characteristics of that liability rather than using a discount rate based on expected returns on actual assets backing those liabilities b) the standard should not give detailed guidance on how to determine the discount rate	The FASB will discuss this issue further at a future meeting.

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 premium to cover 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.	An entity: • should expense all acquisition costs when incurred. • should not recognize any revenue (or income) to offset those costs incurred.
Policyholder behaviour and contract boundaries	The measurement should include the expected (ie probability-weighted) cash flows (future premiums and other cash flows resulting from those premiums, eg benefits and claims) resulting from those contracts, including those cash flows whose amount or timing depends on whether policyholders exercise options in the contracts. To identify the boundary between existing contracts and new contracts, the starting point would be to consider whether the insurer can cancel the contract or change the pricing or other terms. The staff will develop more specific proposals for identifying the boundary.	The FASB will discuss this issue further at a future meeting.

Topic	IASB	FASB
Policyholder accounting	The IASB decided tentatively not to address policyholder accounting in the exposure draft, but clarified that the exposure draft should address how both parties - the cedant and the reinsurer - should account for reinsurance contracts.	The FASB will discuss this issue at a future meeting.