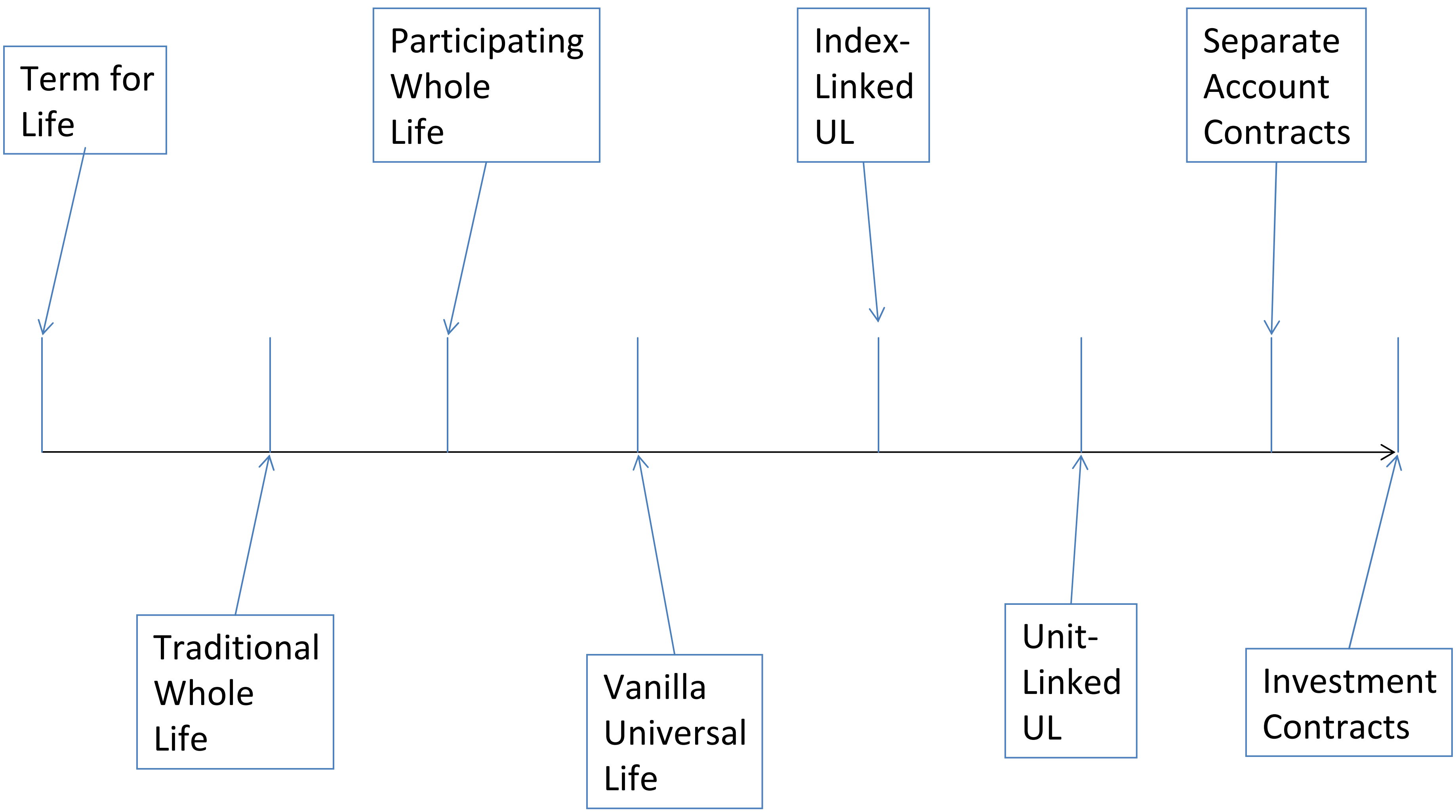
IASB/FASB Meeting February 18, 2010	IASB agenda reference FASB memo reference	**14-slides**

Project	**Insurance Contracts**
Topic	**Slides to accompany Agenda paper 14**

A Spectrum of Contracts
The usual view



But how to arrange the items and draw a line?

- Significance of the investment element to total cash outflows?
  - Clusters everything but term for life toward the right
- Insurer's discretion?
  - May move index and unit-linked to the left of vanilla UL and some participating contracts
- Significance of insurer's remaining mortality/morbidity risk?
  - Depends on contract design and relative size of investment element today

But how to arrange the items and draw a line (continued)

- Potential variability in outcomes?
  - May move participating to the right of vanilla UL
- Explicit account balance?
  - The Statement 97 approach, but some have argued that it obscures economic similarities to traditional and participating
- Interdependence among cash flows?
  - One staff proposal, but some say it puts the line too far to the right

COMPARISON OF THE TWO STAFF VIEWS ON UNBUNDLING

Issue	**View in AP 14C**	**Alternative View in AP 14D**	**Link with AP 14A (account-driven contracts) and AP 14B (variable and unit-linked contracts)**
When is unbundling of a component of an insurance contract **required** for **recognition and measurement**?	If a component is not interdependent with other components of the contract. [§29-38]	If components can function independently from each other. Interdependency should be applied only where the components cannot function independently (examples of contracts where the components **can** function independently are account-driven contracts). [§4-11]	The building block approach should be applied to the entire contract for account driven contracts, including variable and unit-linked contracts (fits in with AP 14C). [AP 14A §30-41, AP 14B §18-20]
Permit unbundling if it is not required?	No. [§34]	No. [§11]	No. [AP 14A §30-41, AP 14B §18-20]
Application to **embedded derivatives**	Interdependency should also apply for bifurcation of derivatives embedded in insurance contracts. [§39-43]	Use existing guidance for derivative instrument accounting and bifurcated when appropriate. [§12-13]	The insurer should not unbundle embedded derivatives that are interdependent (fits in with AP 14C). [AP 14A §30-41, AP 14B §18-20]
Unbundling for **presentation in the performance statement**	A (deposit) component is only unbundled for presentation if it is unbundled for recognition and measurement. [§44-47]	A (deposit) component is only unbundled for presentation if it is unbundled for recognition and measurement (but this is expected to take place more often than under the proposals in AP 14C). [§14-15]	The insurer should not unbundle the deposit component (fits in with AP 14C, AP 14D sees account-driven contracts as an example of contracts that will be unbundled). [AP 14A §30-41, AP 14B §18-20]
How to present the **insurance liability for variable and linked contracts**	N/A	The liability arising from the insurance component should be recognised as a general account insurance liability, separated from the separate account liability. [§16-18]	The liability should be of the total amount of the liability's elements using the building block approach. [AP 14B §33-34]