

STAFF PAPER

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Project	Insurance contracts		
Paper topic	Cover note		
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1. This paper:
 - a. Summarises the boards' progress in the insurance contracts project (paragraphs 3-16).
 - b. Provides an overview of the paper for the December meeting, together with a summary of the staff recommendations (paragraphs 17 –26).
 - c. Describes next steps towards issuing a new IFRS (paragraphs 27-28).
2. The Appendix provides a summary of previous decisions taken by the boards and describes what is still to come.

Progress report

A reminder: why develop a building block approach?

3. The boards have been developing a standard that provides a coherent framework for all types of insurance contracts, based on the measurement of the insurance contracts liability. In measuring the insurance contract liability, the boards have tentatively decided that an insurer should incorporate a current, unbiased estimate of the cash flows expected to fulfill the liability, reflect the

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time value of money (and, for the IASB, to reflect the effect of risk and uncertainty) and that this should be calibrated at inception to the premium.

4. The use of a current value measurement model has two important consequences:
 - a. It results in transparent reporting of changes in the insurance contract liability; and
 - b. It results in transparent reporting of the economic value of options and guarantees embedded in insurance contracts.
5. The building block approach is also useful to reflect the many different ways in which insurers make money. Insurers make money:
 - a. From asset management – dependent on fees, amount of assets held
 - b. From investment return and managing spreads – dependent on yields relative to crediting/guarantee rates, default risk, duration mismatch
 - c. From assuming risk, ie from pricing insured events and providing lifetime guarantees and death benefits – dependent on the insurer’s accuracy in estimating the occurrence of insured events, underwriting, mortality and lapse experience, and claims development.
6. Some insurance contracts are predominantly focused on one type of activity. For example, many non-life contracts are focused on providing risk protection. However, most insurance contracts blend different activities in different proportions and sometimes the importance of those activities varies over the life of a contract. For example, consider an account-driven contract with a guaranteed minimum death benefit. In the early stages of the contract, the risk undertaken in providing the death benefit is most significant. However, as the account balance builds up, the death benefit becomes less significant and the investment return and asset spreads become more relevant.
7. An advantage of a comprehensive, coherent model for all insurance contracts is that, depending on what features are significant to any given contract at any given time, the measurement of the liability reflects those features as

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appropriate, without creating the cliff effects that would occur if different models were used to reflect the different features. Thus:

- a. For short duration contracts, the main driver of the insurance contract liability is the cash flows (and risk associated with those cash flows). If the building block approach is applied to short duration contracts, the residual margin would exist only during the coverage period, and it is unlikely that the initial estimate of the liability will change significantly during that period.
 - (i) For short-tail contracts, discounting and risk adjustment would be less significant, and may be immaterial.
 - (ii) For long-tail contracts, discounting and risk-adjustment would be more significant.
 - b. Longer duration contracts generally mix investment and risk to a greater extent.
 - (i) For annuity contracts and term life contracts, initial expectations of the risk in a portfolio of contracts may not vary significantly over the life of the contract. Thus, changes in the risk adjustment would be less significant (although it may be a significant component at inception) and discounting and estimates of cash flows would be significant.
 - (ii) For participating contracts, the risks in the investment components and perhaps also the insurance components are passed to the policyholder to some extent. However, the estimates of cash flows arising from guarantees and the discounting of those cash flows remain significant.
8. In the past, accounting models have evolved to address the specific needs of the contract being considered. However, this creates problems when insurance contracts combine elements typically found in some type of contracts. For example, some property-casualty contracts may specify the payment of annuity payments, rather than a single lump sum. Such contracts combine underwriting

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risk (ie whether the insured event will occur) and investment risk (after the insured event occurs). If different accounting models are applied to underwriting risk and investment risk, it would not be clear which model to apply to such a contract. A comprehensive framework for insurance contracts avoids that problem.

Where we are in the project

9. We have substantially completed the tentative decisions relating to the measurement of the insurance contract liability (although we still have details to complete on unlocking the residual margin and participating contracts).
10. In reaching these decisions, the boards have converged decisions in many key areas, notably that:
 - a. an insurer should measure insurance contracts on the basis of all the cash flows expected to arise as the insurer fulfils the contract.
 - b. those cash flows should be discounted using a rate that reflects only the characteristics of the liability.
 - c. the measurement of insurance contracts should use updated estimates and assumptions and market-consistent estimates where available.
 - d. there should be no gain at inception.
 - e. the presentation of financial statements should show information about key drivers of profitability, including volume information.
11. The IASB and FASB have to come to different conclusions in some areas, notably on whether the measurement of an insurance contract liability should:
 - a. include an explicit, updated risk adjustment (IASB), or reflect risk implicitly through a single margin (FASB).
 - b. include in the fulfilment cash flows acquisition costs for both successful and unsuccessful efforts (IASB) or for successful efforts only (FASB).

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12. The IASB and FASB previously had different decisions on how to reflect any contractual linkage between the contract and the underlying assets. However, as discussed in agenda paper 7E/77E *Measurement of Contracts with Policyholder Participation: the Story so Far*, the boards have now reached common decisions.
13. In addition, the IASB and FASB have differing conclusions on how to account for the financial assets that insurers hold to back insurance contract liabilities. In November 2011, the IASB decided to consider making limited improvements to IFRS 9 and, in particular, to consider the interaction with the insurance contracts project. This will also enable the IASB to consider the FASB's classification and measurement model. The IASB also decided to make any changes as soon as possible and to limit the scope of the project to minimise potential disruption to those who have already applied, or who are close to applying, IFRS 9, and to assist in timely completion of the project.
14. The diagram on the following page summarises where the boards are, and the main changes from the ED. Further details of the boards' tentative decisions are given in the Appendix.

Where we are

	What the standard applies to	How the standard measures the contract	Special applications	Presentation and disclosure
Main changes from ED	<ul style="list-style-type: none"> • Definition of insurance contract • Scope exemptions • Unbundling • Recognition and contract boundary 	<ul style="list-style-type: none"> • Cash flows • Discounting • Risk adjustment (IASB only) • Residual/single margin 	<ul style="list-style-type: none"> • Short duration contracts (not addressed in FASB DP) • Participating contracts • Reinsurance assets 	<ul style="list-style-type: none"> • Statement of comprehensive income • Statement of financial position • Note disclosures (not addressed in FASB DP)
Still to conclude	<ul style="list-style-type: none"> • Financial guarantee contracts • More unbundling • Recognition when coverage period begins • Contract boundary determined at portfolio level for some contracts 	<ul style="list-style-type: none"> • Application guidance for discount rate • No restriction of risk adjustment techniques • Unlocked residual margin • Single margin allocated in line with release from risk 	<ul style="list-style-type: none"> • Introduction of mirroring approach for par contracts • Gains and losses on insurance recognised over contract term 	<ul style="list-style-type: none"> • Presentation of premiums, claims and expenses on statement of comprehensive income
	<ul style="list-style-type: none"> • Investment contracts with discretionary participation features • Unbundling deposit components 	<ul style="list-style-type: none"> • Unlocking residual margin details • Diversification benefits 	<ul style="list-style-type: none"> • Eligibility criteria for short duration contracts • mechanics 	<ul style="list-style-type: none"> • How to define premiums in statement of comprehensive income • Use of other comprehensive income

What changes

15. Because different accounting models have evolved in different jurisdictions and at different times to address the products most prevalent in their jurisdictions, the proposed model would affect different jurisdictions in different ways. However, in the main, there will be relatively little change for many non-life contracts. The main changes for non-life are:
- a. The introduction of discounting (and risk adjustment for IASB) in measurement of the liability for incurred claims.
 - b. More information about claims liabilities, changes in risk and effects of discounting in the audited financial statements
16. For life contracts, there is more significant divergence and more significant changes would result from the standard. The main changes are:
- a. Updated assumptions rather than locked-in assumptions
 - b. Recognition of guarantees and options previously not recognised (or recognised using a smoothing model) using expected present value of cash flows
 - c. More information about assumptions and effects of assumptions including risk and effects of discounting.
 - d. More transparent information about how changes in estimates affect the measurement of the insurance contract liability.
 - e. One accounting model for all life insurance contracts, rather than different accounting models based on product type.

Overview of papers

17. At this meeting, we plan to discuss the following topics with the boards, and summarise the recommendations below:
- a. Topics related to the unit of account

- b. onerous contracts,
- c. topics related to participating contracts, and
- d. discounting in the liability for incurred claims.

18. We summarise the staff recommendations below.

Topics related to the unit of account

19. Agenda paper 7A/77A *Definition of portfolio* recommends that:

- a. the standard defines a portfolio of insurance contracts as:

Insurance contracts that:

- (i) are subject to similar risks;
- (ii) have similar expectations of profitability; and
- (iii) are managed together as a single pool.

- b. It also recommends that the boards add application guidance to help insurers interpret the terms ‘similar risks’, ‘similar expectations of profitability’ and ‘managed together’.

20. Agenda paper 7B/77B *Unit of account – Residual/single margin and onerous contracts* recommends that:

- a. the residual/single margin at initial recognition should be determined at the portfolio level.
- b. the residual margin subsequent to initial recognition should be determined at the portfolio level [IASB only].
- c. in allocating the residual/single margin to profit or loss of particular periods an entity should group contracts within a portfolio that have similar:
 - (i) inception dates;
 - (ii) expected end dates; and

- (iii) expected patterns of release of the residual/single margin.
 - d. the onerous contract test should be performed at the portfolio level both (i) during the pre-coverage period and (ii) under the premium allocation approach.
21. Agenda paper 7C/77C *Unit of account – risk adjustment* recommends that the unit of account to be used when calculating the risk adjustment should **not** be prescribed as long as the manner in which the risk adjustment is calculated achieves the overall objective of the risk adjustment.

Onerous contracts

22. Agenda paper 7D/77D *Onerous contracts* recommends the following:
- a. An insurance contract is onerous if the expected present value of the future cash outflows [plus the risk adjustment for the IASB] exceeds:
 - (i) the expected present value of the future cash inflows (for the pre-coverage period).
 - (ii) the carrying amount of the liability for remaining coverage (for the premium allocation approach).
 - b. Insurers should perform an onerous contract test when facts and circumstances indicate that the contract might be onerous.
 - c. The measurement of an identified onerous contracts liability should be updated at each reporting period.
 - d. Onerous contracts identified in the pre-coverage period should be measured on a basis consistent with the measurement of the liability recognised at the start of the coverage period. Similarly, onerous contracts identified under the premium allocation approach should be measured on a basis consistent with the measurement of the liability for incurred claims.

- e. [IASB only] The risk adjustment should be considered when identifying onerous contracts, and the measurement of an onerous contract liability should include a risk adjustment.

Topics related to participating contracts

23. Agenda paper 7E/77E *Measurement of Contracts with Policyholder Participation: the Story so Far* provides background on the measurement of insurance contracts where the cash flows depend wholly or partly on the performance of other assets or liabilities of the insurer (or the performance of the insurer itself) using the decisions taken by both the IASB and the FASB so far.
24. Agenda paper 7F/77F *Options and guarantees embedded in Insurance Contracts* recommends that the boards confirm that options and guarantees embedded in insurance contracts that are not separately accounted for as a derivative instrument under the financial instrument requirements should be measured using a current, market-consistent, expected value approach.
25. Agenda paper 7G/77G *Cash flows that existing contracts require to be paid to future policyholders* recommends that when an insurer measures an obligation created by a contract that depends wholly or partly on the performance of assets and liabilities of the insurer, an insurer should include in the measurement of the insurance contract liability all such payments that result from that contract, whether paid to current or future policyholders.

Discounting the liability for incurred claims

26. Agenda paper 7H/77H *Discounting the liability for incurred claims* recommends the board:
 - a. confirm their earlier decision to require the discounting of the liability for incurred claims when the effects of discounting would be material.
 - b. do not provide additional guidance on determining when the effect of discounting of the liability for incurred claims would be immaterial.

- c. for contracts to which the insurer applies the premium allocation approach, not to require discounting of incurred claims that are expected to be paid within 12 months of the claim occurrence date. However, insurers should discount incurred claims that are expected to be paid out after twelve months of the claim occurrence date if the effect is material.

Next steps

- 27. In the coming months we plan to complete the remaining topics (ie unlocking the residual margin, presentation, participating contracts, short duration contracts and transition).
- 28. We then plan to assess whether any differences between the boards can be reconciled and to assess whether the IASB will issue a review draft or re-expose. The FASB intends to issue an exposure draft early in 2012.

Appendix: Progress report

The following table summarises the progress the boards have made and describes what is still to come.

Topic	Tentative decisions	Open points
<i>Building block 1 – Which cash flows?</i>		
Recognition point	<ul style="list-style-type: none"> • Recognise insurance contract assets and liabilities when the coverage period begins. • Onerous contract liability to be recognised in the pre-coverage period if management becomes aware of onerous contracts in the pre-coverage period. • A cedant should recognize a reinsurance asset: <ul style="list-style-type: none"> ○ when the reinsurance contract coverage period begins, if the reinsurance coverage is based on aggregate losses of the portfolio of underlying contracts covered by the reinsurance contract. ○ when the underlying contract is recognized, in all other cases. 	<ul style="list-style-type: none"> • How to apply onerous contract test in pre-coverage period (to be discussed in agenda paper 7D/77D <i>Onerous contracts</i>). • Treatment of acquisition costs in the pre-coverage period
Contract boundary	<ul style="list-style-type: none"> • Contract renewals should be treated as a new contract: <ul style="list-style-type: none"> ○ when the insurer is no longer required to provide coverage; or ○ when the existing contract does not confer any substantive rights on the policyholder. • A contract does not confer on the policyholder any substantive rights when the insurer has the right or the practical ability to reassess the risk of the particular policyholder and, as a result, 	Consider whether there are unintended consequences.

Topic	Tentative decisions	Open points
	<p>can set a price that fully reflects that risk.</p> <ul style="list-style-type: none"> • In addition, for contracts for which the pricing of the premiums does not include risks relating to future periods, a contract does not confer on the policyholder any substantive rights when the insurer has the right or the practical ability to reassess the risk of the portfolio the contract belongs to and, as a result, can set a price that fully reflects the risk of that portfolio. • All renewal rights should be considered in determining the contract boundary whether arising from a contract, from law or from regulation. 	
Fulfilment cash flows – objective	<p>Expected value, with guidance that:</p> <ul style="list-style-type: none"> • expected value refers to the mean that considers all relevant information; and • not all possible scenarios need to be identified and quantified, provided that the estimate is consistent with the measurement objective of determining the mean. 	
Fulfilment cash flows – which cash flows	<ul style="list-style-type: none"> • Include all costs that the insurer will incur directly in fulfilling the contracts in that portfolio, ie: <ul style="list-style-type: none"> ○ costs that relate directly to the fulfilment of the contracts in the portfolio; ○ costs that are directly attributable to contract activity as part of fulfilling that portfolio of contracts and that can be allocated to those portfolios; and ○ such other costs as are specifically chargeable to the policyholder under the terms of the contract. • Exclude costs that do not relate directly to the insurance 	<ul style="list-style-type: none"> • Treatment of taxes paid on behalf of policyholders • Agenda paper 7G/77G discusses whether cash flows that existing contracts require to be paid to future policyholders should be included in the measurement of the insurance contract liability.

Topic	Tentative decisions	Open points
	contracts or contract activities, which should be recognised as expenses in the period in which they are incurred.	
Acquisition costs	<p>Include in fulfillment cash flows all the direct costs that the insurer will incur in acquiring the contracts in the portfolio, and exclude indirect costs such as:</p> <ul style="list-style-type: none"> • software dedicated to contract acquisition • equipment maintenance and depreciation • agent and sales staff recruiting and training • administration • rent and occupancy • utilities • other general overhead • advertising. <p>FASB: additionally limit the costs to those related to successful acquisition efforts.</p>	
<i>Building block 2 – Time value of money</i>		
Discounting	<ul style="list-style-type: none"> • Objective is to adjust the future cash flows for the time value of money and to reflect the characteristics of the insurance contract liability • Current rate that is updated each reporting period • Not required when the effect of discounting would be immaterial. 	Additional guidance on when discounting would be immaterial (to be discussed in agenda paper 7H/77H <i>Discounting liability for incurred claims</i>) .
Discount rate	<ul style="list-style-type: none"> • No prescribed method to determining the discount rate, but rate should: <ul style="list-style-type: none"> ○ be consistent with observable current market prices for instruments with cash flows whose characteristics reflect 	

Topic	Tentative decisions	Open points
	<p>those of the insurance contract liability, including timing, currency and liquidity, but excluding the effect of the insurer's non-performance risk;</p> <ul style="list-style-type: none"> ○ exclude any factors that influence the observed rates but that are not relevant to the insurance contract liability (eg risks not present in the liability but present in the instrument for which the market prices are observed, such as any investment risk taken by the insurer that cannot be passed to the policyholder); and ○ reflect only the effect of risks and uncertainties that are not reflected elsewhere in the measurement of the insurance contract liability. <ul style="list-style-type: none"> ● To the extent that the amount, timing or uncertainty of the cash flows arising from an insurance contract depend wholly or partly on the performance of specific assets (ie for participating contracts), the insurer should adjust those cash flows using a discount rate that reflects that dependence. <p>In some cases, the insurer determines the yield curve for the insurance contract liability based on a yield curve that reflects current market returns for either the actual portfolio of assets the insurer holds, or for a reference portfolio of assets with characteristics similar to those of the insurance contract liability. In doing so, the insurer excludes from those rates factors that are not relevant to the insurance contract liability (a 'top-down' approach). In a 'top down' approach:</p> <ul style="list-style-type: none"> ● An insurer shall determine an appropriate yield curve based on current market information. The insurer may base its 	

Topic	Tentative decisions	Open points
	<p>determination of the yield curve for the insurance contract liability on a yield curve that reflects current market returns for the actual portfolio of assets the insurer holds or for a reference portfolio of assets with characteristics similar to those of the insurance contract liability.</p> <ul style="list-style-type: none"> • If there are no observable market prices for some points on that yield curve, the insurer shall use an estimate that is consistent with the boards' guidance on fair value measurement, in particular for Level 3 fair value measurement. • to determine the yield curve, the cash flows of the instruments shall be adjusted so that they reflect the characteristics of the cash flows of the insurance contract liability. In adjusting the cash flows, the insurer shall make both of the following adjustments: <ul style="list-style-type: none"> ○ Type I, which adjust for differences between the timing of the cash flows to ensure that the durations of the assets in the portfolio (actual or reference) selected as a starting point are matched with the duration of the liability cash flows. ○ Type II, which adjust for risks inherent in the assets that are not inherent in the liability. In the absence of an observable market risk premium for those risks, the entity uses an appropriate technique to determine that market risk premium, consistent with the objective for the discount rate, as stated above. • an insurer using a 'top-down' approach need not make adjustments for remaining differences between the liquidity 	

Topic	Tentative decisions	Open points
	inherent in the liability cash flows and the liquidity inherent in the asset cash flows.	
<i>Building block 3 – Risk adjustment</i>		
Risk adjustment	<p>IASB:</p> <ul style="list-style-type: none"> • Measurement of an insurance contract should include an explicit adjustment for risk that is determined independently from the premium and re-measured in each reporting period. • The objective of risk adjustment should be the ‘compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the insurance contract’ • No limit on the range of available techniques to determine the risk adjustment. • Application guidance: <ul style="list-style-type: none"> ○ the risk adjustment measures the compensation that the insurer would require to make it indifferent between (1) fulfilling an insurance contract liability which would have a range of possible outcomes or (2) fulfilling a fixed liability that has the same expected present value of cash flows as the insurance contract. For example, the risk adjustment would measure the compensation that the insurer would require to make it indifferent between (1) fulfilling a liability that has a 50% probability of being 90 and a 50% probability of being 110 or (2) fulfilling a liability of 100. ○ in estimating the risk adjustment, the insurer should consider both favourable and unfavourable outcomes in a 	Extent of diversification benefits to be included in risk adjustment (to be discussed in agenda papers 7C/77C <i>Unit of account – risk adjustment</i>)

Topic	Tentative decisions	Open points
	<p>way that reflects its degree of risk aversion. The boards noted that a risk averse insurer would place more weight on unfavourable outcomes than on favourable ones.</p> <ul style="list-style-type: none"> ○ Retain the list of characteristics, proposed in paragraph of B72 of the ED, that a risk adjustment technique should exhibit if that technique is to meet the objective of the risk adjustment ○ Retain as examples the three techniques proposed in the ED (confidence levels, conditional tail expectation and cost of capital), together with the related application guidance <ul style="list-style-type: none"> ● Confirmed the confidence level equivalent disclosure that had been proposed in paragraph 90(b)(i) of the ED. <p>FASB</p> <ul style="list-style-type: none"> ● Measurement of an insurance contract should use a single margin approach that recognises profit as the insurer satisfies its performance obligation to stand ready to compensate the policyholder in the event of an occurrence of a specified uncertain future event that adversely affects that policyholder. 	
<i>Building block 4 – residual margin</i>		
Residual / single margin	<ul style="list-style-type: none"> ● No gain at inception of an insurance contract. ● Any loss on day one recognised immediately when it occurs, in profit or loss (net income). <p><i>For residual margin (IASB only)</i></p> <ul style="list-style-type: none"> ● Unlocked (prospectively) for changes in estimates of future cash flows 	<p><i>(IASB only)</i></p> <ul style="list-style-type: none"> ● Whether to unlock the residual margin for changes in discount rate ● Level of aggregation (to be discussed in agenda paper 7B/77B Unit of account – Residual/single margin and onerous contracts)

Topic	Tentative decisions	Open points
	<ul style="list-style-type: none"> • Changes in risk adjustment recognised in profit or loss in the period of the change • Residual margin allocated over the coverage period on a systematic basis that is consistent with the pattern of transfer of services provided under the contract <p><i>For single margin (FASB only):</i></p> <ul style="list-style-type: none"> • The single margin should be recognised as profit as the insurer satisfies its performance obligation to stand ready to compensate the policyholder in the event of an occurrence of a specified uncertain future event that adversely affects that policyholder. • An insurer satisfies its performance obligation as it is released from exposure to risk as evidenced by a reduction in the variability of cash outflows. • An insurer is released from risk on the basis of reduced uncertainty in the timing of the insured event and/or as variability in the cash flows is reduced as information about expected cash flows becomes more known throughout the life cycle of the contract. • An insurer should not remeasure or recalibrate the single margin to recapture previously recognised margin. 	
<i>Application guidance for building blocks</i>		
Participating features	<ul style="list-style-type: none"> • Objective of the discount rate used to measure participating insurance contracts should be consistent with the objective for the discount rate used to measure non-participating insurance contracts. 	<ul style="list-style-type: none"> • Clarification of issues relating to previous decisions • Whether proposed measurement creates a need for any specific disclosures • FASB: treatment of options and guarantees in

Topic	Tentative decisions	Open points
	<ul style="list-style-type: none"> • Provide guidance that to the extent that the amount, timing or uncertainty of the cash flows arising from an insurance contract depends wholly or partly on the performance of specific assets, the insurer should discount those cash flows using a discount rate that reflects that dependence. • IASB: <ul style="list-style-type: none"> • The measurement of the fulfilment cash flows relating to the policyholder's participation should be based on the measurement in the IFRS financial statements of the underlying items in which the policyholder participates. Such items could be assets and liabilities, the performance of an underlying pool of insurance contracts or the performance of the entity. • An insurer should reflect, using a current measurement basis, any asymmetric risk-sharing between insurer and policyholder in the contractually linked items arising from, for example, a minimum guarantee. • An insurer should present changes in the insurance contract liability in the statement of comprehensive income consistently with the presentation of changes in the linked items (ie in profit or loss, or in other comprehensive income). • The same measurement approach should apply to both unit-linked and participating contracts. • The insurer may recognise and measure treasury shares and owner – occupied property at fair value through profit or 	<p>participating contracts (to be discussed in agenda paper 7F/77F <i>Options and guarantees embedded in Insurance Contracts</i>)</p>

Topic	Tentative decisions	Open points
	<p>loss.</p> <ul style="list-style-type: none"> • FASB: As it relates to the measurement of insurance contract fulfilment cash flows, the measurement of the obligation from any non-discretionary performance-linked participating features that both contractually depend wholly or partly on the performance of other assets or liabilities recognized on the insurer's statement of financial position, or the performance of the insurer itself, and are a component of an insurance contract's obligations: <ol style="list-style-type: none"> a. The obligation due to the performance-linked participating features should be measured based on an insurer's current liability (i.e., the contractual obligation incurred to date) adjusted to eliminate accounting mismatches that reflect timing differences between the current liability and the measurement of the underlying items in the U.S. GAAP/IFRS statement of financial position that are expected to reverse within the boundary of the insurance contract. An underlying item is defined as the asset or liability on which the cash flows resulting from the participation feature depend. b. Any changes in the liability for the performance-linked participating feature should be presented in the same way within the statement of comprehensive income (i.e., consistently in net income and / or other comprehensive income) as the changes in the underlying item. c. No further adjustments beyond those described in (a) should be made to the performance-linked participating 	

Topic	Tentative decisions	Open points
	feature liability measurement for the purposes of reflecting expected cash flows.	
Short duration contracts	<ul style="list-style-type: none"> • [IASB only] An insurer should deduct from the pre-claims obligation measurement the acquisition costs that the IASB would include in the measurement of the insurance contract liability under the building block approach. • The insurer shall reduce the measurement of the pre-claims obligations over the coverage period as follows: <ul style="list-style-type: none"> ○ On the basis of time, but ○ On the basis of the expected timing of incurred claims and benefits if that pattern differs significantly from the passage of time. • An insurer should perform an onerous contract test if facts and circumstances indicate that the contract has become onerous in the pre-claims period. 	<ul style="list-style-type: none"> • Criteria for eligibility • Simplifications or exceptions in a premium allocation approach • Whether the premium allocation approach should be permitted or required • Whether to provide guidance on when the effect of the time value would be immaterial for a short-tail claim (to be discussed in agenda paper 7H/77H <i>Discounting the liability for incurred claims</i>) • How to apply onerous contract test (to be discussed in agenda paper 7D/77D <i>Onerous contracts</i>)
Reinsurance	<ul style="list-style-type: none"> • [IASB only] The ceded portion of the risk adjustment should represent the risk being removed through the use of reinsurance. • If the present value of the fulfillment cash flows (including the risk adjustment for the IASB) for the reinsurance contract is: <ul style="list-style-type: none"> ○ Less than zero and the coverage provided by the reinsurance contract is for future events, the cedant should establish that amount as part of the reinsurance recoverable, representing a prepaid reinsurance premium and should recognise the cost over the coverage period of the underlying insurance contracts. 	<ul style="list-style-type: none"> • Presentation • Interaction with requirements for short-duration contracts • Interaction with other requirements in standard

Topic	Tentative decisions	Open points
	<ul style="list-style-type: none"> ○ Less than zero and the coverage provided by the reinsurance contract is for past events, the cedant should recognise the loss immediately. ○ Greater than zero, the cedant should recognise a reinsurance residual margin [IASB] / composite margin [FASB]. ● The cedant should estimate the present value of the fulfillment cash flow for the reinsurance contract, including the ceded premium and without reference to the residual/composite margin on the underlying contracts, in the same manner as the corresponding part of the present value of the fulfillment cash flows for the underlying insurance contract or contracts, after remeasuring the underlying insurance contracts on initial recognition of the reinsurance contract. ● When considering non-performance by the reinsurer: <ul style="list-style-type: none"> ○ The cedant shall apply the impairment model for financial instruments when determining the recoverability of the reinsurance asset. ○ The assessment of risk of non-performance by the reinsurer should consider all facts and circumstances, including collateral. ○ Losses from disputes should be reflected in the measurement of the recoverable when there is an indication that current information and events suggest the cedant may be unable to collect amounts due according to the contractual terms of the reinsurance contract. 	

Topic	Tentative decisions	Open points
<i>Definitions, scope and unbundling</i>		
Definition	<ul style="list-style-type: none"> • Confirm proposed definition in the ED and DP, together with the guidance that: <ul style="list-style-type: none"> ○ an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant. ○ a contract does not transfer significant insurance risk if there is no scenario that has commercial substance in which the insurer can suffer a loss, with loss defined as an excess of the present value of net cash outflows over the present value of the premiums. • If a reinsurance contract does not transfer significant insurance risk because the assuming company is not exposed to a loss, the reinsurance contract is nevertheless deemed to transfer significant insurance risk if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts is assumed by the reinsurer. • An insurer should assess the significance of insurance risk at the individual contract level. Contracts entered into simultaneously with a single counterparty for the same risk, or contracts that are otherwise interdependent should be considered a single contract for the purpose of determining risk transfer. 	<p>Agenda paper7A/77A discusses the definition of portfolio.</p>
Scope	<ul style="list-style-type: none"> • Exclude from the scope of the insurance contracts standard fixed-fee service contracts that provide service as their primary purpose and that meet all of the following criteria: <ul style="list-style-type: none"> ○ The contracts are not priced based on an assessment of 	<ul style="list-style-type: none"> • Investment contracts with discretionary participation features • FASB: which financial guarantee arrangements, if

Topic	Tentative decisions	Open points
	<p>the risk associated with an individual customer,</p> <ul style="list-style-type: none"> ○ The contracts compensate customers by providing a service, rather than cash payment, and, ○ The type of risk transferred by the contracts are primarily related to the utilization (or frequency) of services relative to the overall risk transferred <ul style="list-style-type: none"> ● IASB: Financial guarantee contracts (as defined in IFRSs) would not be in the scope of the insurance contracts standard as proposed in the ED. Instead: <ul style="list-style-type: none"> ○ an issuer of a financial guarantee contract (as defined in IFRSs) is permitted to account for the contract as an insurance contract if the issuer had previously asserted that it regards such contracts as insurance contracts; and ○ an issuer of a financial guarantee contract (as defined in IFRSs) is required to apply the financial instruments standards to these contracts in all other cases. ● Confirmed all the other scope exceptions proposed in the ED 	<p>any, should be within the scope of the insurance contracts standard.</p>
Unbundling	<ul style="list-style-type: none"> ● An insurer should account separately for embedded derivatives contained in a host insurance contract that is not closely related to the embedded derivative. ● An entity should account for a good or service and insurance coverage bundled in an insurance contract as a single performance obligation if the entity integrates that good or service with the insurance coverage into a single item that the entity provides to the customer. (If this criterion is satisfied, the entity need not consider the further criteria set out below). ● When a good or service is bundled with insurance coverage in 	<ul style="list-style-type: none"> ● Whether there are account balances in addition to explicit account balances that should be separated from the insurance contract liability ● How income and expense items related to the explicit account balance should be recognised in the statement of comprehensive income ● Whether to measure separated account balances: <ul style="list-style-type: none"> ○ Using requirements other than those being developed in the insurance contract project ○ As part of the insurance contract liability but

Topic	Tentative decisions	Open points
	<p>an insurance contract and the entity does not integrate that good or service with the insurance coverage into a single item the entity provides to the customer, the entity should account for the promised good or service as a separate performance obligation if:</p> <ul style="list-style-type: none"> ○ the pattern of transfer of the good or service is different from the pattern of transfer of other promised goods or services in the contract, and ○ the good or service has a distinct function. <ul style="list-style-type: none"> ● A good or service has a distinct function if either: <ul style="list-style-type: none"> ○ the entity regularly sells the good or service separately, or ○ the customer can use the good or service either on its own or together with resources that are readily available to the customer. <p>[FASB only:] An insurer should separate explicit account balances from the insurance contract liability. Explicit account balances are account balances within a contract that meet both the following criteria:</p> <ul style="list-style-type: none"> ● the balance is an accumulation of the monetary amount of transactions between the policyholder and an insurer. ● The balance is credited with an explicit return. A return is explicit if it is determined by applying either of the following to the balance: <ul style="list-style-type: none"> ○ A contractual formula in which the insurer may have the ability to reset the return rate during the life of the contract ○ An allocation determined directly by the performance 	<p>disaggregated for presentation or disclosure</p> <ul style="list-style-type: none"> ● Issues related to contract riders ● Allocation of expenses to unbundled components ● Whether to permit unbundling where not required ● Whether to combine separate contracts in some circumstances

Topic	Tentative decisions	Open points
	of the specified assets.	
<i>Presentation and disclosures</i>		
Presentation	<p><i>Presentation of the Statement of Financial Position</i></p> <p>a. An insurer should disaggregate the following components, either in the statement of financial position or in the notes, in a way that reconciles to the amounts included in the statement of financial position:</p> <p>(a) Expected future cash flows</p> <p>(b) Risk adjustment (for the IASB),</p> <p>(c) Residual margin (for the IASB),</p> <p>(d) The single margin, where relevant (for the FASB), and</p> <p>(e) The effect of discounting.</p> <p>b. For those contracts measured using the premium allocation approach, the liability for remaining coverage should be presented separately from the liability for incurred claims in the statement of financial position.</p> <p>c. For those contracts measured using the building block approach, any unconditional right to any premiums or other consideration should be presented in the statement of financial position as a receivable separately from the insurance contract asset or liability and accounted for in accordance with existing guidance for receivables. The remaining insurance contracts rights and obligations should be presented on a net basis in the statement of financial position.</p>	<ul style="list-style-type: none"> • Whether the cash flows relating to the recovery of acquisition costs should be separately disaggregated. • Whether an insurer should present separately on the face of the primary statements information about contracts accounted for using the premium allocation approach separately from those accounted for using the building block approach • Presentation of reinsurance assets, policyholder participation and short duration contracts • Whether some changes in the insurance liability should be presented in other comprehensive income.

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	<p>d. For those contracts measured using the premium allocation approach, all insurance contract rights and obligations should be presented on a gross basis in the statement of financial position.</p> <p>e. Liabilities (or assets) for insurance contracts should be presented separately for those measured using the building block approach and those measured using the premium allocation approach.</p> <p>f. Portfolios that are in an asset position should not be aggregated with portfolios that are in a liability position in the statement of financial position.</p> <p><i>Presentation of the Statement of Comprehensive Income</i> An insurer should present premiums, claims, benefits, and the gross underwriting margin in the statement of comprehensive income. The Boards will consider at a future meeting whether these items should be presented in the statement of comprehensive income separately for contracts measured using the building block approach and the premium allocation approach..</p>	
Disclosures	<p>Confirm the disclosures proposed in paragraphs 90-97 of the IASB's exposure draft <i>Insurance contracts</i> (ED), with changes as follows:</p> <ul style="list-style-type: none"> to delete the requirement that an insurer shall not aggregate information relating to different reportable segments (ie paragraph 83 of the ED) to avoid a conflict with the principle 	<ul style="list-style-type: none"> Level of disaggregation and reconciliation of contract balances Whether to add any additional disclosures

Topic	Tentative decisions	Open points
	<p>for the aggregation level of disclosures. Thus the level of aggregation could vary for different types of qualitative and quantitative disclosures. However, the standard would add to the examples listed in paragraph 84 of the ED by stating that one appropriate aggregation level might be reportable segments.</p> <ul style="list-style-type: none"> • to require the insurer to disclose separately the effect of each change in inputs and methods, together with an explanation of the reason for the change, including the type of the contracts affected. • for contracts in which the cash flows do not depend on the performance of specified assets (ie non-participating contracts), to require disclosure of the yield curve (or range of yield curves) used. • <i>[IASB only]</i> to require the maturity analysis of net cash outflows resulting from recognised insurance liabilities proposed in paragraph 95(a) of the ED to be based on expected maturities and remove the option to base maturity analysis on remaining contractual maturities. Furthermore, within the context of time bands, to require the insurer to disclose, at a minimum, the expected maturities on an annual basis for the first five years and in aggregate for maturities beyond five years. • In place of this disclosure, the FASB would rely on its tentative decisions relating to risk disclosures for financial institutions reached in its project on financial instruments at the FASB 	

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	<p>board meeting held on 7 September 2011. Those disclosures would apply to insurance entities.</p> <p>In addition, the IASB tentatively decided to delete the proposed requirement in paragraph 90(d) of the ED to disclose a measurement uncertainty analysis and to consider (in due course) whether to develop disclosure about measurement uncertainty part of a possible follow up to IFRS 13 <i>Fair Value Measurement</i>. The FASB tentatively decided to retain this disclosure.</p>	
<i>Other</i>		
Business combination issues		<ul style="list-style-type: none"> • To scope and consider issues to be discussed.
Transition and effective date		<ul style="list-style-type: none"> • Consider how to approximate residual /composite margin on transition • Consider redesignation of financial assets • Determine effective date