IASB/FASB Meeting
Week commencing 18 July 2011

IASB Agenda reference **8**

Staff Paper

Paper also discussed at FASB Education Session on July 14, 2011

FASB Agenda reference **71**

Project	**Insurance contracts**
Topic	**Cover note**

14 July update. Please note that papers 8D-8G (FASB memos 71D-G) have been deferred to a future meeting and will no longer be discussed during the week of 18 July 2011.

What is this paper about?

1. This paper:
   (a) summarises the progress the boards have made (paragraphs 3-12)
   (b) provides an overview of the papers for the meeting on week commencing 17 July, together with a summary of the staff recommendation for the papers (paragraphs 13-23)
   (c) describes next steps towards issuing a new IFRS (paragraph 24-26)
2. The Appendix provides a more detailed summary of previous decisions taken by the boards and describes what is still to come.

Progress report

Summary of progress to date

3. Since the beginning of 2011, the boards have been developing a standard that provides information about:
   (a) the liability that arises from insurance contracts an insurer issues;
   (b) what drives performance related to those contracts; and

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The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

Comments made in relation to the application of U.S. GAAP or IFRSs do not purport to be acceptable or unacceptable application of U.S. GAAP or IFRSs.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

(c) the risk and uncertainty resulting from issuing insurance contracts.

4. We have substantially completed the tentative decisions relating to the measurement of the insurance contract liability (although we still have details to complete on risk adjustment, unlocking the residual margin and participating contracts). Those decisions would require an insurer to measure the insurance contract liability in a way that reflects:

   (a) updated estimates and assumptions, using market consistent estimates where available;

   (b) current measurement of risk (IASB only);

   (c) the time value of money; and

   (d) any contractual linkage between the contract and the assets that an insurer holds (IASB only).

5. At the June meeting, the boards indicated that information about drivers of performance should include information about premiums, claims and expenses. We will continue with discussion on reporting performance from insurance contracts in September.

6. We also plan to consider in September, the disclosure package required to provide information about risk and uncertainty resulting from insurance contracts.

7. Further details of the boards' tentative decisions and the remaining items for discussion are given in the Appendix.

Comment on volatility

8. A critical issue in the response to the ED/DP was the volatility that would arise under the proposed model.

9. We believe that a current measure of the insurance contracts liability is essential to providing complete information about changes in estimates. Failure to provide such information would make the accounting for insurance contracts more complex and less understandable.

10. Volatility is an inevitable consequence of a current measurement model. Volatility arises:

    (a) if the values of, or cash flows from, assets and liabilities respond differently to changes in economic conditions. Such **economic** mismatches may result in reported volatility which we believe faithfully represents the underlying economics.

    (b) if changes in economic conditions affect assets and liabilities to the same extent, but the carrying amounts of those assets and liabilities do not respond equally to those economic changes because they are measured on different bases. We seek to eliminate such **accounting mismatches.**

11. Throughout their discussions, the boards have considered whether any reported volatility is a faithful representation of the underlying economic phenomena. As a result:

    (a) We confirmed that both a top-down and a bottom-up approach could be used to determine the rate used to discount insurance contract liabilities, and that the insurer can decide which approach is best in its circumstances. We also clarified that, in a top-down approach, fluctuations in the overall asset spread, other than those arising from expected credit losses and an estimate of the market risk premium for bearing credit risk,[1] would be attributed to the illiquidity component of the asset yield. Hence those fluctuations would also be mirrored in the changes in the liability discount rate. This could be a significant proportion of the changes in the overall spread on bonds. This removes a portion of the volatility from the changes in bond yields, compared to the 'bottom-up' approach that most respondents interpreted the ED/DP to require.

    (b) For participating contracts, the IASB (but not the FASB) tentatively decided that the measurement of the cash flows relating to the policyholder's participation should be on the same measurement basis as

[1] We emphasise that 'credit spread' and similar terms often refer to an estimated spread covering both credit risk and liquidity factors. The top-down approach splits the 'credit spread' into a portion for credit risk and a portion for liquidity factors. The discount rate for the insurance contracts liability would exclude the portion for credit risk and includes the portion for liquidity. In the top-down approach, the insurer would estimate the portion for credit risk, determining the portion for liquidity as the remainder. The portion for credit risk would not typically be observable directly from market prices.

the underlying items the policyholder participates in. Such items could be assets and liabilities, the performance of an underlying pool of insurance contracts or the performance of the entity. This eliminates accounting mismatches when there is a contractual link between the assets and the liabilities. It also means that, when permitted by existing accounting treatments, insurers could use cost-based measurements for the items underlying the policyholder participation, without creating an accounting mismatch.

12. When an insurer has an economic mismatch, we believe that market fluctuations give rise to real economic effects. However, giving excessive prominence to those effects may not provide particularly relevant information to users of an insurer's financial statements because they may reverse over time without affecting the insurer's cash flows. However:

    (a) we provided clarification that in the absence of observable market inputs for determining the discount rate, 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. Thus an insurer is not required to use directly the closest market observable input. Because the estimates needed to determine unobservable inputs may often tend to put more weight on longer term assumptions than on short term fluctuations, this may mean that less volatility arises than some respondents had assumed.

    (b) we are continuing to explore ways to present such fluctuations in a way that does not obscure longer term performance.

Overview of papers

13. We have two topics for this meeting: simplifications for some types of insurance contracts and unbundling.

Short duration contracts

14. Agenda paper 8A/71A *Premium allocation approach: Overview* introduces the series of papers on simplifications that can be made to the building block approach for some types of contract. At the meeting in the week of 27 April

2011, differing views emerged on whether the premium allocation approach proposed in the ED/DP should be viewed as a simplification of the building block approach, or an alternative approach. We discuss the simplifications or exceptions and their possible scope in the context of those two viewpoints as follows:

(a) Agenda paper 8B/71B *Premium allocation approach: a simplification of the building block approach* proposes simplification to the proposals in the ED to address respondents' concerns that the approach proposed in the ED was too complicated, identifies criteria that would ensure that even with these simplifications, the premium allocation approach remains a reasonable proxy for the building block approach, and provides a basis for making such an approach optional rather than mandatory for contracts that meet the criteria.

(b) Agenda paper 8C/71C *Modified approach: a two model approach* discusses whether a separate and distinct model is needed for short duration contracts, the characteristics that model might have, the criteria that would apply in determining the contracts that apply that model and whether the boards should permit or require the use of the second model.

15. The IASB staff and FASB staff have different recommendations:

IASB staff recommendations

16. The staff recommend that, within the framework of a 'one model' standard, an insurer applying the premium allocation approach would:

(a) measure the liability for remaining coverage (referred to as the 'pre-claims liability' in the exposure draft) by allocating premiums over the coverage period of the contract, either based on the passage of time or on the basis of expected timing of incurred claims and benefits if that pattern differs significantly from the passage of time;

(b) not accrete interest on the liability for remaining coverage, or discount future premiums receivable for the time value of money. (This assumes that either (a) the period between receipt of the premium and provision of coverage is one year or less, or (b) the effect would be immaterial, based on the eligibility criteria in paragraph 17);

(c) recognise incremental acquisition costs as an asset, and amortise them over the coverage period, or, if the coverage period is one year or less, recognise all acquisition costs in the income statement when incurred. The incremental costs of obtaining a contract are the costs that the entity would not have incurred if the contract had not been obtained;

(d) perform an onerous contract test if and when the facts and circumstances indicate that contracts have become onerous during the coverage period; and

(e) measure onerous contract liabilities without the inclusion of a risk adjustment.

17. Regarding the eligibility criteria, the staff recommend that within the framework of a 'one model' standard:

(a) contracts should be eligible for the premium allocation approach described in paragraph 16 if that approach would produce measurements that are a reasonable approximation of those that would be produced by the building block approach.

(b) A contract should be deemed to meet the condition in (a) without further investigation if both of the following conditions apply:

i. the coverage period is approximately one year or less; and

ii. the contract does not contain embedded options or other derivatives that significantly affect the variability of cash flows, after unbundling any embedded derivatives.

(c) the boards should add guidance to avoid overly-restrictive interpretations of 'approximately one year'. This guidance could clarify that contracts could meet this definition even if they are several months longer than one year and even if there are a few longer-duration contracts within a portfolio of predominantly one-year contracts.

18. The staff recommend that within the framework of a 'one model' standard, an insurer should be permitted, but not required, to apply the premium allocation approach to eligible contracts.

FASB staff recommendation

19. The FASB staff recommend:

(a) A portfolio of insurance contracts are eligible for the premium allocation approach if all the following conditions are met:

  i. the compensation to the policyholder is based on the amount of the incurred insured loss which is typically variable up to the amount of the policy limit and not a specified amount (other than the limit) in any given contract;

  ii. the period of time between premium receipt and the date of loss is insignificant; and

  iii. the pricing of the premiums does not include risks relating to future renewal periods.

(b) An insurer should include in the measurement of the liability for remaining coverage at initial recognition the premium, if any, received at initial recognition, plus the undiscounted amount of expected future premiums, if any, that are within the boundary of the existing contract.

(c) The boards reconfirm the liability for remaining coverage should be measured net of acquisition costs.

(d) An insurer is permitted to expense particular internal direct acquisition costs that otherwise meet the criteria as set out in the most recent tentative decisions made by the IASB and the FASB.

(e) If the boards agree to permit an insurer to expense particular internal direct acquisition costs, an insurer should be required to disclose which acquisition costs are included in the liability for remaining coverage.

(f) An additional liability should be recognized if the present value of the expected cash outflows exceeds the carrying amount of the liability for remaining coverage.

(g) Permit vs. require the premium allocation

  (i) Some staff recommend permitting the premium allocation approach for those contracts that meet the eligibility criteria.

  (ii) Some staff recommend requiring the premium allocation approach for those contracts that meet the eligibility criteria.

Unbundling

20. Agenda paper 8D/71D *Unbundling: Cover note* provides an overview of the papers that continue the boards' discussion of unbundling.

21. Agenda paper 8E/71E *Unbundling: allocating the cash flows between the unbundled components of an insurance contract* recommends that the boards:

    (a) confirm the ED/DP proposal that the measurement of the insurance components should include only cash flows that relate to the insurance component.

    (b) confirm the ED/DP proposal that the explicit account balance should be treated on a stand-alone basis (ie the cash flows should not be adjusted for any cross-subsidies and discounts/supplements).

    (c) the insurer should allocate the consideration for the entire contract between the insurance component and goods or services component using the relative stand-alone consideration technique.

    (d) as a practical expedient, the insurer may use the residual consideration technique to allocate the consideration for the entire contract when one of the components is not readily determinable.

    (e) for cash outflows, the insurer should allocate acquisition and fulfilment costs that relate to the bundled contract to the insurance component (and where relevant to the other non-insurance components) on a rational and consistent basis.

    (f) those goods or services components that are unbundled from an insurance contract should be accounted for using the relevant IFRS or relevant requirements of US GAAP.

22. Agenda paper 8F/71F *Applying allocation techniques developed in revenue recognition to the unbundling of insurance contracts* provides background information necessary to understand how the proposals in agenda paper 8E/71E work. This paper considers how the techniques developed in the revenue recognition project could be modified to apply to the allocation of consideration between the unbundled components of an insurance contract.

23. Agenda paper 8G/71G *Potential unbundling of riders and policy loans* recommends:

(a) that policy loans should not be unbundled; and

(b) that riders that are effective at the inception of a contract should not be unbundled and should instead be accounted for in a manner similar to other contractual options or features of insurance contracts.

Next steps

24. The IASB's revised work plan as at 30 June 2011 indicates that the IASB expects to consider in Q4 2011 whether to re-expose any of its tentative decisions or to make available a review draft of the final IFRS. The work plan also indicated that the IASB intends to target an IFRS in H1 2012, assuming that re-exposure is not required.

25. The FASB are working towards an exposure draft by the end of 2011. The FASB will consider the feedback received on its exposure draft with a view to finalising a standard in 2012. The boards will then consider any differences that may have arisen and how to address them.

26. The boards expect to continue discussions in September and October, including disclosures and presentation. In addition, the IASB will continue discussions on the risk adjustment, residual margin and participating contracts and the FASB will continue to develop its single margin approach. Because the boards have not yet completed their deliberations, it is not feasible to assess whether the IASB will re-expose some or all of its tentative decisions.

Appendix: Progress report

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

r	Topic	Tentative decisions	Open points
Building block 1 – Which cash flows?	Recognition point	• 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: o 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. o when the underlying contract is recognized, in all other cases.	• How to apply onerous contract test in pre-coverage period
	Contract boundary	• Contract renewals should be treated as a new contract: (a) when the insurer is no longer required to provide coverage; or (b) 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, can set a price that fully reflects that risk. • In addition, for contracts for which the pricing of the premiums does not include risks relating to future periods, a contract does not	Follow up on contract boundary, including review of drafting in light of feedback received.

r	Topic	Tentative decisions	Open points
		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	Expected value, with guidance that: • 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	• Include all costs that the insurer will incur directly in fulfilling the contracts in that portfolio, ie: o costs that relate directly to the fulfilment of the contracts in the portfolio; o 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 o 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 contracts or contract activities, which should be recognised as expenses in the period in which they are incurred.	Treatment of taxes paid on behalf of policyholders

r	Topic	Tentative decisions	Open points
	Acquisition costs	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: • 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. FASB: additionally limit the costs to those related to successful acquisition efforts.	
Building block 2 – Time value of money	Discounting	• 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.	

	Discount rate	• No prescribed method to determining the discount rate, but rate should:
		  o be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the insurance contract liability, including timing, currency and liquidity, but excluding the effect of the insurer's non-performance risk;
		  o 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
			• Disclosures of yield curve

r	Topic	Tentative decisions	Open points
		which the market prices are observed, such as any investment risk taken by the insurer that cannot be passed to the policyholder); and o reflect only the effect of risks and uncertainties that are not reflected elsewhere in the measurement of the insurance contract liability. • 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. 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: • An insurer shall determine an appropriate yield curve based on current market information. The insurer may base its 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. • 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.	

r	Topic	Tentative decisions	Open points
		• 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: o 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. o 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 inherent in the liability cash flows and the liquidity inherent in the asset cash flows.	

r	Topic	Tentative decisions	Open points
Building block 3 – Risk adjustment	Risk adjustment	• IASB: measurement of an insurance contract should include an explicit adjustment for risk, which represents the compensation the insurer requires to bear the risk that the ultimate cash flows could exceed those expected. The adjustment would be determined independently from the premium and would be re-measured in each reporting period. • FASB: 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.	• Techniques • Disclosures • Level of aggregation (including diversification benefits) • FASB: inclusion of an onerous contract test. • Whether the two approaches could be made comparable through disclosures

r	Topic	Tentative decisions	Open points
Building block 4 – Residual margin	Residual / composite margin	• No gain at inception of an insurance contract. • Any loss on day one recognised immediately when it occurs, in profit or loss (net income). *For residual margin (IASB only)* • Unlocked (prospectively) for changes in estimates of future cash flows • 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 *For single margin (FASB only):* • 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 should not remeasure or recalibrate the single margin to recapture previously recognised margin.	*For residual margin (IASB only)* • Whether to unlock the residual margin for changes in discount rate • Level of aggregation *For single margin (FASB only):* • Whether and how to unlock the single margin • How the release from risk in a single margin approach is determined.
Special applications	Participating features	• 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. • Provide guidance that 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, the insurer should adjust those cash flows using a discount rate that reflects that dependence. • IASB: • The measurement of the fulfilment cash flows relating to the policyholder's participation should be based on the measurement	• Whether proposed measurement creates a need for any specific disclosures • FASB: whether to address accounting mismatches by adjusting the measurement of the items that a policyholder participates in

r	Topic	Tentative decisions	Open points
		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 loss. • FASB: measurement of the liability should reflect the expected present value of the cash flows, discounted at current rates, using the contractual measurement basis for the underlying items in which the policyholder participates.	
	Short duration contracts	• [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: o On the basis of time, but o On the basis of the expected timing of incurred claims and	*To be discussed at this meeting:* • Objective for specifying a premium allocation approach • Criteria for eligibility • Simplifications or exceptions in a premium

r	Topic	Tentative decisions	Open points
		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.	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 *At a future meeting:* • Presentation
	Reinsurance	• [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: a) 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. b) Less than zero and the coverage provided by the reinsurance contract is for past events, the cedant should recognise the loss immediately. c) Greater than zero, the cedant should recognise a reinsurance residual [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	• Presentation • Interaction with requirements for short-duration contracts • Interaction with other requirements in standard

r	Topic	Tentative decisions	Open points
		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: a) The cedant shall apply the impairment model for financial instruments when determining the recoverability of the reinsurance asset. b) The assessment of risk of non-performance by the reinsurer should consider all facts and circumstances, including collateral. c) 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.	
Definition and scope and unbundling	Definition	• Confirm proposed definition in the ED and DP, together with the guidance that: (a) an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant. (b) 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	

r	Topic	Tentative decisions	Open points
		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.	
	Scope	• Exclude from the scope of the insurance contracts standard some fixed–fee service contracts which have as their primary purpose the provision of services. • 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: (a) 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 (b) an issuer of a financial guarantee contract (as defined in IFRSs) is required in accordance with to apply the financial instruments standards to these contracts in all other cases. • Confirmed all the other scope exceptions proposed in the ED	• How to identify fixed-fee service contracts which have as their primary purpose the provision of services • Investment contracts with discretionary participation features • FASB: which financial guarantee arrangements, if any, should be within the scope of the insurance contracts standard.
	Unbundling	• 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	*To be discussed at this meeting:* • Issues related to contract riders

r	Topic	Tentative decisions	Open points
		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 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: (a) 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 (b) the good or service has a distinct function. • A good or service has a distinct function if either: i. the entity regularly sells the good or service separately, or ii. the customer can use the good or service either on its own or together with resources that are readily available to the customer. An insurer should unbundle **explicit account balances** that are credited with an explicit return applied to the account balance. Such an explicit account balance should be separated from the insurance contract using criteria based on those being developed in the revenue recognition project for identifying separate performance obligations. An insurer would not unbundle implicit account balances. [IASB only] An insurer would account for an unbundled explicit account balance in accordance with the relevant requirements for	• Allocation of expenses to unbundled components *At a future meeting:* • Whether to permit unbundling where not required • How the decisions would apply to typical types of insurance contracts with account balances. • Whether to combine separate contracts in some circumstances

r	Topic	Tentative decisions	Open points
		financial instruments in IFRS, subject to future decisions on allocation.	
Presentation and disclosure	Presentation	The boards indicated a preference for the model which presents the underwriting results of contracts measured under the building-block approach separately from contracts measured using the modified approach and includes volume information.	• Whether to require an insurer to present each of the line items in all cases on the statement of comprehensive income, rather than in the notes • Whether some changes in the insurance liability should be presented in other comprehensive income.
	Disclosures		• Address detailed issues raised
	Transition and effective date		• Consider how to approximate residual /composite margin on transition • Determine effective date