



Staff Paper

Project **Insurance contracts**

Topic **Cover note**

1. The papers for this meeting have been carried forward from the meeting on 4 May 2011. They are:

- (a) **Agenda paper 5A/67A *Participating features – Topic overview*** (previously 1A/66A) This paper is an introduction to a group of papers that discuss measurement of contracts containing discretionary participation features. Those papers will be discussed at this and future meetings. Agenda paper 5A/67A provides background information on the nature of these contracts and an overview of the proposals in the ED. No decisions are requested in this paper.
- (b) **Agenda paper 5B/67B *Measurement of policyholder participation*** (previously 1B/66B) This paper considers how to apply the principle that an insurance contract is measured using the expected present value of the fulfilment cash flows when those cash flows result from contractual participation features. In this paper, the staff recommends that:
 - (i) the fulfilment cash flows should include the cash flows expected to result from the policyholder participation on the same basis as the measurement of the underlying items the policyholder participates in. This could be assets and liabilities, the performance of

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- underlying pool of insurance contracts or the performance of the entity.
- (ii) the measurement of the participating contract should reflect the asymmetric risk sharing between insurer and policyholder in the contractually linked items that exists because of the minimum guarantee.
 - (iii) the presentation of the changes in the insurance contract liability in the statement of comprehensive income should be consistent with the presentation of the changes in the linked items (ie profit or loss, or in other comprehensive income)
 - (iv) the same measurement approach should apply to unit-linked and participating contracts. Consequently the boards should not proceed with the proposals in the IASB's exposure draft (ED) for consequential amendments relating to the following items held in unit-linked funds: treasury shares and owner occupied property.