

Project	Insurance Contracts
Topic	Recent board decisions

1. This paper provides extracts from IASB *Update* to describe recent board decisions that relate to the papers for this meeting.

4 May 2011

Unbundling non-insurance goods and services

2. The boards discussed whether non-insurance goods and services should be unbundled from an insurance contract in accordance with the principles for identifying separate performance obligations in the revenue recognition project, ie that:
 - (a) An entity should account for a bundle of promised good or services as one performance obligation if the entity integrates those goods or services into a single item that the entity provides to the customer. (If this criterion is satisfied, the entity need not consider the criteria in b.).
 - (b) An entity should account for a promised good or service as a separate performance obligation if:
 - (i) 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
 - (ii) the good or service has a distinct function.
 - (c) A good or service has a distinct function if either:
 - (i) the entity regularly sells the good or service separately, or

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

The meeting at which this paper is discussed is a public meeting but it is not a decision-making meeting of the IASB.

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- (ii) the customer can use the good or service either on its own or together with resources that are readily available to the customer.
3. The boards indicated their intention to be consistent with the approach in the revenue recognition project, subject to considering whether the pattern of transfer criterion is needed in this context and to future decisions on allocation. The boards will consult the Insurance Working Group on the practicality of implementing the approach being developed.

Unbundling an investment component

4. The boards tentatively decided that an insurer should unbundle explicit account balances that are credited with an explicit return that is based on the account balance.
5. The boards indicated that such an explicit account balance should be separated from an 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.
6. The boards will consider further whether an explicit account balance exists only when the policyholder can withdraw the account balance without loss of insurance coverage.
7. All IASB members and a majority of FASB members supported these decisions.
8. In addition, the IASB tentatively decided that an insurer would account for an unbundled explicit account balance in accordance with the relevant requirements for financial instruments in IFRS, subject to future decisions on allocation. All IASB members supported this decision. The FASB did not vote on this question. The boards requested the staff to consider how the decisions would apply to typical types of insurance contracts with account balances.

11 May 2011

Measurement of policyholder participation

9. The boards considered 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.
10. The IASB tentatively decided:
 - (a) 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. The staff will consider whether this approach creates a need for any specific disclosures.
 - (b) an insurer should reflect using a current measurement basis any asymmetric risk-sharing between insurer and policyholder in the contractually linked items arising from a minimum guarantee.
 - (c) an insurer should present changes in the insurance contract liability in the statement of comprehensive income consistent with the presentation of changes in the linked items (ie profit or loss, or in other comprehensive income).
 - (d) the same measurement approach should apply to both unit-linked and participating contracts.
11. The IASB will consider related disclosures at a future meeting.
12. 9 members of the IASB voted in favour of this decision, 4 voted against and one abstained. One IASB member was not present.
13. In addition, the IASB tentatively decided to proceed with the proposals in the IASB's exposure draft (ED) for consequential amendments relating to the following items held in unit-linked funds: financial instruments issued by the insurer (eg treasury shares) and owner-occupied property. The majority of the IASB members present supported the decision (one voted against).

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14. The FASB tentatively decided that the 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. The majority of FASB members supported this decision. The FASB plans to consider at a future date whether to address accounting mismatches through the measurement of the items that a policyholder participates in.

12 May 2011 (IASB meeting)

Other comprehensive income

15. The IASB continued its discussion on insurance contracts by considering whether to present in other comprehensive income changes in the carrying amount of insurance contract liabilities arising from the difference between the current discount rate and the discount rate at inception. The discussion was held separately from the FASB because of differences in underlying financial statement presentation between IFRSs and US GAAP and in the presentation requirements for gains and losses on the assets backing insurance contracts.
16. The board was not asked to make any decisions.

Assets backing insurance liabilities

17. The board tentatively decided not to change the requirements for presenting gains and losses on assets held to back insurance contract liabilities. In making its decision the board noted that this was on the assumption that changes in the carrying amount of the insurance contract liability are not presented in other comprehensive income. If that changed, the treatment of assets backing insurance contract liabilities may need to be revisited. All IASB members present supported this decision.