
Project	Insurance Contracts
Topic	Coming up

1. This paper provides an overview of the papers for the joint board meeting on 17-19 May.

Risk adjustment and composite margin series

2. This series of papers supports the question in Agenda paper 3H/68H *Risk adjustment or composite margin?*

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| <ol style="list-style-type: none">3. Should an insurer should include an explicit risk adjustment in the measurement of the insurance contract liability? |
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4. The papers are as follows:

Supporting the risk adjustment approach:

5. Agenda papers 3A/68A – 3D/68D set out the IASB staff view.
6. **Agenda paper 3A/68A *Risk adjustment: the story so far*** provides an overview of and background on the risk adjustment approach, including a discussion of previous discussions by the boards since the end of the exposure period.
7. **Agenda paper 3B/68B *Risk adjustment: useful financial information*** provides an analysis of how the risk adjustment meets the objectives of financial reporting and provides users of financial statements with useful information.
8. **Agenda paper 3C/68C *Risk adjustment: techniques to meet the objective*** discusses comparability as it applies to the risk adjustment and considers whether the boards should restrict the range of available techniques permitted for determining the risk adjustment.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB working group identified in the header of this paper.

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.

Official pronouncements of the IASB are published only after it has completed its full due processes, including appropriate public consultation and formal voting procedures.

9. **Agenda paper 3D/68D *Risk adjustment: comparability and verifiability through disclosures*** discusses the disclosures needed to achieve comparability and verifiability for a risk adjustment.

Supporting the composite margin approach

10. Agenda papers 3E/68E-3G-68G set out the FASB staff view.
11. **Agenda paper 3E/68E *Composite margin-overview*** provides an overview of and background material on the composite margin.
12. **Agenda paper 3F/68F *Composite margin – profit realisation*** discusses the way in which the composite margin should be recognised in profit or loss. It includes a recommendation for amending the formula for the run-off of the composite margin proposed in the FASB's discussion paper (DP) could be amended.
13. **Agenda paper 3G/68G *Composite margin – conceptual analysis*** provides a conceptual analysis of how the composite margin meets the objectives of financial reporting and provides users of financial statements with useful information.

Risk adjustment or composite margin? (Agenda paper 3H/68H)

14. Agenda papers 3B/68B-3G/68G, together with papers for previous meetings, show that both the risk adjustment approach and the composite margin approach would meet the objectives of financial reporting and provide users of financial statements with useful financial information, as defined in the boards' *Conceptual Framework for Financial Reporting* (the *Framework*). We note that the two approaches reflect different economic phenomena:
 - (a) In the IASB staff's analysis, the economic phenomenon is the risk inherent in the insurance contract.
 - (b) In the FASB staff's analysis, the economic phenomenon is potential profit at risk.
15. **Agenda paper 3H/68H *Risk adjustment or composite margin?*** puts together the different pieces of discussion around the risk adjustment and single margin to provide a comparative analysis between a risk adjustment approach and a single margin approach. This paper compares the two approaches and considers:

IASB Staff paper

- (a) which approach better satisfies the fundamental qualitative characteristics of useful information of relevance and faithful representation.
 - (b) which approach better satisfies the enhancing qualitative characteristics of useful information, ie comparability, verifiability, timeliness and understandability.
 - (c) how the cost constraint applies to the two approaches.
16. If the boards decide to include an explicit risk adjustment in the measurement of the liability, they will be asked to consider at a future meeting:
- (a) the level at which a risk adjustment shall be determined (eg contract or portfolio) and whether diversification benefits should be included in the measurement of this adjustment.
 - (b) how an insurer should account for changes in the valuation technique used to determine a risk adjustment.

Other issues

17. **Agenda paper 3H/68J *Reinsurance*** considers a number of issues relating to the application of the principles in the building block approach to reinsurance contracts.
18. **Agenda paper 3I/68I *Disclosures – Application of cross-cutting analysis*** builds on the framework provided in the cross-cutting disclosure discussion from the joint meeting in the week of 21 March 2011 and provides recommendations on disclosures relating to objectives, reconciliations, disaggregation and the judgements, assumptions, methods and inputs.