Staff Paper

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| Project | **Insurance contracts** |
| Topic | **Disclosure—application of cross-cutting analysis** |

## What is this paper about?

1. This paper builds on the framework provided in the cross-cutting disclosure discussion from the joint meeting in the week of 21 March 2011. The discussion focused on observations and recommendations for the project teams on revenue recognition, leases and insurance contracts as they finalise their disclosure requirements. The boards also:

   (a) agreed to align the wording of the disclosure objectives of each project. Agenda paper 8 for the meeting in the week of 21 March 2011 recommended that this be done by aligning the disclosure objective in the insurance contracts project with the objective in paragraph 69(b) of the revenue recognition ED.

   (b) decided that an entity should present in tabular format any roll forward retained by or added to any of the disclosure requirements of the three projects.

2. At their meeting in the week of 21 March 2011, the boards indicated general support for the observations in agenda paper 8, which we have tabulated below with the aim of applying them for the insurance contracts project. This paper does not reproduce the analysis from Agenda paper 8 and considers only the issues identified in that paper.

3. This paper also considers the level of aggregation and the reconciliation of contract balances that were identified in the cross-cutting paper as issues that should be dealt with in the individual projects.

4. The appendix sets out the proposals in the ED[1], together with the amendments proposed in this paper.

5. We plan to consider other issues relating to the detailed disclosures that were raised in the comment letters and those that relate to specific topics in the ED in future meetings. We also note that the cross-cutting team plan to examine the following issues after the boards have deliberated the disclosures for each project:

   (a) interim reporting

   (b) transitional disclosures

   (c) possible exemptions from early application by first time adopters (IASB only).

[1] The DP set out similar objectives to the ED and stated "For specific guidance and further detail on the proposed disclosure requirements, see paragraphs 79-97 of the IASB's Exposure Draft…. The majority of the Board tentatively agrees with the disclosure requirements proposed by the IASB." Accordingly, this paper refers only to the IASB's ED.

## Application of the observations in AP 8 for the meeting in the week of 21 March

| **Observation in AP8** | **Staff comments and recommendations** |
|---|---|
| **6. Disclosure overload** | |
| **Observation**<br><br>The guidance [in paragraph 81 of the Insurance ED] in addition to IAS 1 paragraph 31 and ASC paragraph 105-10-05-6 serve as a principle to prevent disclosure overload due to a large amount of insignificant detail or information that is not material. Furthermore, we do not think that adding flexibility to choose whether to make a disclosure is a viable alternative.<br><br>**Other comments**<br><br>IAS 1 paragraph 31 defines material as follows:<br><br>"Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor."<br><br>Paragraph 105-10-05-6 in the *FASB Accounting Standards Codification*® contains similar guidance that states: | In the meeting of 21 March, the boards modified the proposed guidance to refer to disclosure objectives, rather than disclosure requirements.<br><br>In the light of the analysis in the cross-cutting paper and the boards' discussion of that paper, the staff recommends that the boards modify paragraph 81 of the ED as follows:<br><br>"An entity shall consider the level of detail necessary to satisfy the disclosure ~~requirements~~ <u>objectives</u> and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large |

<table>
<tr><th>Observation in AP8</th><th>Staff comments and recommendations</th></tr>
<tr><td>“The provisions of the Codification need not be applied to immaterial amounts.”</td><td>amount of insignificant detail or the aggregation of items that have different characteristics.”</td></tr>
<tr><td colspan="2">7. Roll forward requirements – disclosure overload</td></tr>
<tr><td>Observation<br><br>We believe that the boards should assess the costs and benefits of the roll forwards in the context of the individual projects and not assess the roll forwards wholly as the result of a cross cutting concern.<br><br>Furthermore, we would not recommend additional guidance, similar to the guidance in [an extract from the FSP staff draft addressing how to disclosure analyses of changes between the beginning and ending balances of asset or liability line items that management regards as important], for judging the relative importance of presenting a roll forward be added to the individual project’s disclosure guidance.</td><td>We discuss the reconciliation of contract balances (‘roll forwards’) in paragraphs 17-22.</td></tr>
<tr><td colspan="2">8. Roll-forward requirements – differing guidance</td></tr>
<tr><td>Observation<br><br>We think any roll forward requirement retained or added as a result of redeliberations should be consistent with paragraphs 86-88 of the insurance contracts process document and paragraphs 75-76 of the revenue recognition process document.<br><br>We think any roll forward requirement retained or</td><td>In the light of the analysis in the cross-cutting paper and the boards’ discussion of that paper,  the staff recommends that the boards add a subparagraph (i) to paragraph 87 of the ED as follows:</td></tr>
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| Observation in AP8 | Staff comments and recommendations |
|---|---|
| added by the individual projects should include an additional requirement that an entity provide any additional line items that are important to understand the change in the balance of an asset or liability.<br><br>**Other comments**<br><br>Paragraph 42 of the March 2011 paper stated:<br><br>"If observation 3 is followed, the following modifications would be made to the individual [due] process documents:<br><br>...<br><br>(c) The roll forward guidance in all three projects would add a requirement that an entity should provide any additional line items that are important to understand the change in the balance of an asset or liability." | "(i) any additional line items necessary to understand the change in the contract balance." |
| **9. Roll forward requirements – tabular format** | |
| **Tentative decision**<br><br>At their meeting in the week of 21 March 2011, the boards tentatively decided that an entity would be required to present in tabular format any roll forward retained by or added to any of the disclosure requirements of the three projects. | We recommend that paragraph 86 of the ED is modified as follows.<br><br>"To comply with paragraph 85(a), an insurer shall disclose, in tabular format, a reconciliation from the opening to the closing balance of each of the following, if |

| Observation in AP8 | Staff comments and recommendations |
|---|---|
| | applicable.....” |
| **10. Disaggregation** | |
| **Observation**<br><br>Information is useful when disaggregated by segment based on work and outreach in other projects. We think this would apply to the disclosure of categories of revenues. However, we observe the challenges of disclosing that information in the context of this project. This issue could be better addressed as part of the boards other projects and activities (eg financial statement presentation and the post implementation review of IFRS 8) | We will consider the level of disaggregation, in particular with respect to the reconciliation of contract balances proposed paragraphs 86-89 of the ED below. |
| **Observation**<br><br>In the light of concerns over disclosure overload, our attention moved to insurance contracts’ requirement to disaggregate its disclosures by, at a minimum, the reportable segment, while revenue recognition and leases do not have the same requirement. We acknowledge varied levels of disaggregation of disclosures may be appropriate. However, we assert the level of disaggregation and the concerns over disclosure overload are linked. This linkage should be considered as the boards redeliberate the disclosures included in the insurance contracts project. | |

<table>
<tr><th>Observation in AP8</th><th>Staff comments and recommendations</th></tr>
<tr><td colspan="2">11. Judgements, assumptions, methods and inputs</td></tr>
<tr><td> Observation
We think the staff and boards should consider whether incorporating judgements and assumption into their disclosures about methods and inputs would better achieve the disclosure objectives in addition to add to consistency between the three projects.
We think any other differences and modifications are project specific and should not be addressed as part of a cross cutting issue discussion.
Other notes
Paragraphs 63 and 64 of Agenda paper 8 stated:
“63. Insurance contracts does not require judgements and assumptions that relate to the methods and inputs disclosed. We observe that there would probably be judgements made as part of applying the proposed standard, and therefore we would incorporate the requirement to disclosure those judgements. If assumptions are made as part of applying the standard, then these too should be disclosed.
64. We recommend that insurance contracts should incorporate judgements and assumptions into the requirements that currently include methods and inputs.” </td>
<td> See paragraph 1(a).
As noted in the meeting of the week of 22 March, the ED had avoided the use of the term ‘assumptions’ in favour of ‘estimates’ to encourage insurers to take more ownership of the inputs to the model. However, for consistency with the other projects, we recommend that subparagraph (c) is added to paragraph 79 of the exposure draft as follows:
“[An insurer shall disclose] …the <u>significant judgements and assumptions, and changes in judgements and assumptions, made in applying the [draft] IFRS to those contracts</u>.”
We will consider the overall structure together with the specific requirements and in drafting. </td></tr>
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<tr><td>Paragraph 67 of that paper also observed:<br><br>“Insurance contract does not currently incorporate judgements and assumptions into its disclosures, but if judgements and assumptions are added, the structure of this part of the standard may still differ from the structure of the requirements in revenue recognition and leases. This may be the case because the underlying standard is different and the volume of disclosures required is much greater.”</td><td></td></tr>
<tr><td colspan="2">12. Different guidance for maturity analysis</td></tr>
<tr><td>Observation<br><br>The disclosures of liquidity risk arising from leases and insurance contracts include different guidance on time bands for maturity analysis. Reflecting the feedback from comment letters the board should address this issue from cross cutting perspective when redeliberating the disclosure of maturity analysis. We noticed both projects have been discussed time bands in context of similar disclosures of current IFRS and US GAAP, not necessarily in context of other active projects.<br><br>For the maturity analysis of remaining performance obligation we think the boards would need to redeliberate whether they retains the prescriptive time bands or allow the entity to use judgment to</td><td>Based on the analysis in AP8 for the meeting in the week commencing 21 March 2011, and in particular the recommendation in paragraph 89 of that paper, we do not propose to revise the proposals on time bands for the maturity analysis of insurance contracts in paragraphs 95 of the ED.</td></tr>
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| Observation in AP8 | Staff comments and recommendations |
|---|---|
| determine an appropriate number of time bands.<br>**Other notes**<br>Paragraph 89 of agenda paper 8 noted:<br>"The insurance contracts due process document aligns with the guidance in IFRS 7. Because insurance contracts disaggregates all of its disclosures by segment and possibly further (for example types of contract within the segment) those disclosures may be best made using different time bands. Therefore we think it is appropriate to retain the proposals on time bands for the maturity analysis of leases and insurance contracts." | |

## Level of aggregation

13. Agenda paper 8 for the meeting in the week of 21 March noted a potential inconsistency that:

    (a) paragraph 81 of the ED states that 'the insurer shall aggregate or disaggregate information so that information that is useful is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics'.

    (b) Paragraph 83 precludes the insurer from aggregating amounts across reportable segments, in stating "the disclosure required in this [draft] IFRS shall not aggregate information relating to different reportable segments, as defined in IFRS 8 *Operating Segments*".

14. Paragraph BC242 of the ED states that "By specifying an objective [for disclosures], the Board **eliminates the need for detailed and prescriptive**

**disclosure requirements** [emphasis added] to meet the specific information needs for the various types of insurance contracts…". In the staff's view, paragraph 83 is inconsistent with this reasoning. Although we believe that in most cases, the level of detail necessary to satisfy the disclosure principle would disaggregate to at least the reportable segment level, as defined in IFRS 8, we do not think that this should be specifically required.

15. Some questioned the level of detail implied by paragraph 84 of the exposure draft, which indicates that appropriate aggregation levels might be type of contract or geography. Some respondents interpret the reference to "type of contract" to mean operating segment level, portfolio level, or a lower level than a portfolio level. We think that these questions indicated the need for the type of guidance that is provided by paragraph 84 and recommend that the paragraph is retained, and expanded to indicate that different levels of aggregation might be appropriate in different circumstances. This would be consistent with the level of detail provided in the revenue recognition ED.

16. Accordingly, we recommend that paragraph 83 of the ED is deleted and paragraph 84 is moved after paragraph 81 and amended as follows:

> ~~83 The disclosures required in this [draft] IFRS shall not aggregate information relating to different reportable segments, as defined in IFRS 8 *Operating Segments*.~~
>
> 81A~~84~~ Examples of aggregation levels that might be appropriate are:
>
> (a) type of contract (eg major product lines).
>
> (b) portfolio of contracts.
>
> (c~~b~~) geography (eg country or region).
>
> (d) reportable segments, as defined in IFRS 8 *Operating Segments.*

***Application to the reconciliation of contract balances***

17. Most respondents expressed concerns that disaggregated disclosure about the proposed reconciliation of contract balances would be too voluminous. Paragraph 86 of the ED requires a roll-forward of 7 items and paragraphs 81-84 require those items to be further disaggregated in some way, eg by segment. These requirements could easily result in 20 or 30 roll forwards, which many think would be excessive.

18. Respondents made the following observations about the various levels of aggregation as applied to the reconciliation of contract balances:

    (a) Most respondents agree that roll forward information can provide meaningful information at the entity level.

    (b) Most also agree that roll forward information should not aggregate information relating to different reportable segments, as defined in IFRS 8 *Operating Segments*.

    (c) Most believe that disclosure of roll-forward information at the portfolio (or lower) level would result in unreasonable cost to preparers and would not provide benefits commensurate with those costs. In addition, many believe that the resulting volume of disclosure would obscure important financial information. However some, including some users, supported a portfolio level of aggregation.

19. The staff believes that in a principles-based approach to disclosure, insurers should determine the level of aggregation of the reconciliation of contract balances that is appropriate to their circumstances. This is consistent with the approach in other projects and requires the insurer to choose the most useful disaggregation to satisfy the disclosure principle, in a way that it believes would meet the need of its users. Furthermore, we believe that the level of aggregation would differ depending on the characteristics of the insurer and the products it has. This is already stated in the ED in paragraph 81, as follows:

"An insurer shall aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics."

20. Some questioned the need to reconcile all elements of the contract liability balances, suggesting that insurer should instead provide summarised information that highlights only those reconciliations that are of real value to users. However, we believe that this would already be possible under the aggregation of items in accordance with the principle in paragraph 81 of the ED.

21. We observe that respondents did not generally disagree with the contract balances identified as needing reconciliation in paragraph 86 of the ED, nor on the reconciling items proposed in paragraphs 87 and 88 (which in any case would be provided only if applicable). However, we propose that the introduction to paragraph 87 is amended as follows:

"87 For each reconciliation required by paragraph 86, an insurer shall <u>disclose</u> ~~show, at a minimum,~~ each of the following, if applicable:…..".

22. We propose that the boards confirm the other proposals in paragraphs 85-89 of the ED, subject to any changes that might be needed to conform the detail to future board decisions on the measurement and presentation model.

## Appendix: Proposed amendments to disclosures

This appendix sets out the disclosures proposed in the ED that are addressed in this paper, marked up to show how the staff recommendations in this paper would amend them.

| Proposed requirement | Paragraph reference in paper |
|---|---|
| **79 To help users of financial statements understand the amount, timing and uncertainty of ~~future~~[2] cash flows arising from insurance contracts, an insurer shall disclose qualitative and quantitative information about:** | |
| **(a) the amounts recognised in its financial statements arising from insurance contracts (see paragraphs 85–90); and** | |
| **(b) nature and extent of risks arising from insurance contracts (see paragraphs 91–97).** | See paragraph 1(a) |
| **(c) the significant judgements, and changes in judgements, made in applying the [draft] IFRS to those contracts** | |
| 80 If the disclosures required by this [draft] IFRS and other IFRSs do not meet that objective in a particular situation, an insurer shall disclose whatever additional information is necessary to meet that objective. | |
| 81 An insurer shall consider the level of detail necessary to satisfy the disclosure ~~requirements~~ <u>objectives</u> and how much emphasis to place on each of the various requirements. An insurer shall aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. | See paragraph 6 |
| <u>81A</u>~~84~~ Examples of aggregation levels that might be | See paragraph 16 |

[2] The boards also discussed the need to indicate that cash flows are in the future. The boards acknowledged that this term is not used consistently, but noted that “future” is already implied in “timing”.

appropriate are:

(a) type of contract (eg major product lines).

(b) portfolio of contracts.

(c~~b~~) geography (eg country or region).

(d) reportable segment, as defined in IFRS 8 *Operating Segments.*

82 An insurer shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

~~83 The disclosures required in this [draft] IFRS shall not aggregate information relating to different reportable segments, as defined in IFRS 8 Operating Segments.~~ See paragraph 16

**Explanation of recognised amounts**

85 An insurer shall disclose information about the amounts recognised in its financial statements in sufficient detail to help users of its financial statements evaluate the timing, amount and uncertainty of future cash flows arising from insurance contracts, including:

(a) reconciliation from the opening to the closing aggregate contract balances (see paragraphs 86–89).

(b) the methods and inputs used to develop the measurements
(see paragraph 90).

**Reconciliation of contract balances**

86 To comply with paragraph 85(a), an insurer shall disclose, in tabular format, a reconciliation from the opening to the closing balance of each of the following, if applicable: See paragraph 9

(a) insurance contract liabilities and, separately, insurance contract assets.

(b) risk adjustments included in (a).

(c) residual margins included in (a).

(d) reinsurance assets arising from reinsurance contracts held by the insurer as cedant.

(e) risk adjustments included in (d).

(f) residual margins included in (d).

(g) impairment losses on reinsurance assets.

87 For each reconciliation required by paragraph 86, an insurer shall disclose ~~show, at a minimum,~~ each of the following, if applicable: See paragraph 21

(a) the carrying amounts at the beginning and end of the period.

(b) new contracts recognised during the period.

(c) premiums received.

(d) payments, with separate disclosure of:

(i) claims and benefits.

(ii) expenses.

(iii) incremental acquisition costs.

(e) other cash paid and, separately, other cash received.

(f) income and expense, reconciled to the amounts disclosed to comply with paragraphs 72 and 75.

(g) amounts relating to contracts acquired from, or transferred to, other insurers in portfolio transfers or business combinations.

(h) net exchange differences arising on the translation of foreign currency amounts into the presentation currency.

(i) any additional line items needed to understand the change in the contract balance. See paragraph 8

88 For short-duration contracts measured using the measurement described in paragraphs 54–60, an insurer shall disclose the reconciliation required by paragraph 86 separately for:

(a) pre-claims liabilities.

(b) additional liabilities for onerous insurance contracts.

(c) claims liabilities.

23. We do not discuss the disclosures proposed in paragraphs 89-97 in this paper, except to note that paragraph 95(a) would be confirmed (subject to drafting) as follows:

> 95 With regard to liquidity risk, an insurer shall disclose:
>
> (a) either a maturity analysis that shows the remaining contractual maturities or information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.
>
> (b) ….