IFRS™ FASB

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STAFF PAPER

REG IASB | FASB Meeting

16 November 2011

Project	**Insurance contracts**		
Paper topic	Cover note		
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1. This paper:

   a. Summarises the boards' progress in the insurance contracts project (paragraphs 5-6 -).

   b. Provides an overview of the paper for the meeting on 16 November, together with a summary of the staff recommendations (paragraphs 8 - 12).

   c. Provides a high level summary of the Insurance Working Group meeting held on Monday 24 October 2011 (paragraphs 12-19).

   d. Describes next steps towards issuing a new IFRS (paragraphs 20-21).

2. The Appendix provides a summary of previous decisions taken by the boards and describes what is still to come.

Progress report

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;

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

The Financial Accounting Standards Board (FASB), is the national standard-setter of the United States, responsible for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. For more information visit www.fasb.org

b. what drives performance related to those contracts; and

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 unlocking the residual margin and participating contracts).

5. In reaching these decisions, the boards have converged decisions in many key areas, notably that:

   a. an insurer should measure insurance contracts on the basis of all the cash flows expected to arise as the insurer fulfils the contract.

   b. those cash flows should be discounted using a rate that reflects only the characteristics of the liability.

   c. the measurement of insurance contracts should use updated estimates and assumptions and market-consistent estimates where available.

   d. there should be no gain at inception.

   e. the presentation of financial statements should show information about key drivers of profitability.

6. The IASB and FASB have to come to different conclusions in some areas, notably on whether the measurement of an insurance contract liability should:

   a. include an explicit, updated risk adjustment (IASB), or reflect risk implicitly through a single margin (FASB).

   b. reflect any contractual linkage between the contract and the underlying assets by measuring the linked cash flows consistently with the measurement basis for those assets (IASB) or independently of the measurement of the underlying assets (FASB).

   c. include in the fulfilment cash flows acquisition costs for both successful and unsuccessful efforts (IASB) or for successful efforts only (FASB).

7. Further details of the boards' tentative decisions are given in the Appendix.

Overview of papers

8. We have one paper for this meeting, dealing with the unbundling of deposit components. In addition, the IASB will have an education session on the accounting for the residual margin (the FASB's model includes a single margin, rather than a risk adjustment and residual margin).

Overview of AP 9A/75A Disaggregation of explicit account balances

9. At the joint meeting on 4 May 2011, the boards tentatively decided to pursue an approach to unbundling explicit account balances and goods/services that would rely on the criteria for separating performance obligations in the revenue recognition project. Agenda paper 9A/75A revisits this approach in response to questions raised by the boards and in light of the boards' subsequent decision to present information about premiums and claims on the face of the statement of comprehensive income and concerns that the deposit components in those premiums need to be separately identified.

10. The boards have previously tentatively decided that an insurer should unbundle embedded derivatives and some goods and services in an insurance contract. This paper does not revisit those decisions.

11. Agenda paper 9A/75A recommends:

    a. A contract has an explicit account balance if both of the following conditions are present:

        (i) The balance is an accumulation of the monetary amount of transactions between the policyholder and the insurer.

        (ii) The balance is credited with an explicit return. A return is explicit if it is determined by applying either of the following to the balance:

            1. A contractual formula in which the insurer may have the ability to reset the return rate during the life of the contract

2. An allocation determined directly by the performance of specified assets.

b. An insurer shall measure explicit account balances and services associated with explicit account balances (eg asset management services), if any, together with the other components in the insurance contracts. The insurer shall present the explicit account balances separately from the insurance contracts liability on the face of the statement of financial position (rather than in the notes to the financial statements) at an amount equal to the sum of:

   (i) the explicit account balance; and

   (ii) an accrual for all fees and returns through the reporting date.

   The measurement of the explicit account balance does not include expected future cash inflows or outflows whether contractual or based on policyholder behavior (eg surrender charges).

c. Premiums accumulated in the explicit account balance and claims paid or withdrawals from the explicit account balance shall not be recognised in the statement of comprehensive income.

d. The following (including any related accruals) shall be recognised in the statement of comprehensive income:

   (i) any fees deducted from the explicit account balance;

   (ii) investment returns on an insurer's assets regardless of whether or not the explicit account balance is linked to those assets; and

   (iii) interest credited to the explicit account balance.

Insurance Working Group Meeting

12. The 16th Insurance Working Group meeting was held in London on Monday 24 October 2011. The meeting was attended by 21 working group members or

their alternates, 5 official observers, 5 IASB members and 1 FASB member. We provide a high level summary of the discussion below.

General

13. The staff introduced the meeting papers and allowed an opportunity for comment on the IASB's work plan in general and the financial instruments and insurance contracts projects in particular. The staff indicated that we will continue deliberations into the early part of 2012 and that the next working group meeting is likely to be at the end of March.

Other comprehensive income

14. The meeting was dominated by a discussion of other comprehensive income (OCI). We had invited two representative preparer groups to present their proposals for OCI. Points noted:

    a. Some commented that the 'mirroring approach' to participating contracts was in fact very welcome and we had misunderstood their concerns at the last meeting.

    b. There is a need to have assets and liabilities measured on a consistent basis. This means either a current-current approach (ie current valuation of assets and current valuation of liabilities) or cost-cost approach.

    c. There was some support for cost-cost as providing more reliable information about the cash that will actually flow through to shareholders. However, a current measurement of the insurance liability was generally favoured provided we have a workable OCI solution that reduces volatility from accounting mismatches. This was because of the additional transparency that would result from a current measurement of the insurance liability, particularly if cost-type information is reflected in profit or loss so as to avoid profit or loss giving a misleading picture of volatility.

d. The key question is what goes into OCI and there appears to be a wide-spread view that the division between OCI and profit and loss should be based on some notion of sustainable long-term earnings, subject to a liability adequacy test. However, questions remain on:

    (i) When does a liability adequacy test need to be performed?
    (ii) How does the residual margin get consumed and/or built up? There was some support for using the residual margin as a shock absorber.
    (iii) How to establish consistency in determining which changes go to OCI and which go to profit and loss?

e. In spite of these questions, there is general support for using OCI to deal with volatility.

f. Participants also noted that while OCI might help for 'continental-style contracts' (where payments to policyholders based on realised gains) it would not help for 'UK-style with profits' contracts (where payments to policyholders are based on total return basis, ie based on realised and unrealised gains). While supportive of the proposals discussed, they suggested that the boards consider whether additional steps may be needed to address 'UK-style with profits' contracts.

Premium allocation approach

15. We reported back on the board's discussions last month and in addition presented a paper detailing possible simplifications. Points arising:

    a. There is a need to test any eligibility criteria against product types.

    b. Some support the 'one-model' view of the premium allocation approach, others support a 'two-model' view.

    c. Participants were in general supportive of the direction of the paper on eligibility criteria that was presented to the boards at their October meeting, but expressed concern about the words used in the staff paper.

d. Some continue to believe a business model approach should be used to determine which approach should be used for which contracts.

e. Some raised significant concerns about discounting and risk adjustment in the liability for incurred claims (or claims liability).

f. On the simplifications to the premium allocation approach proposed in the IASB's ED:

   (i) There was support for an exemption for discounting of the liability for remaining coverage if the coverage period is less than 1 year.

   (ii) There was support for an option to expense acquisition costs because they would not be significant if the contract is short. Failing that, most would prefer to treat acquisition costs as a deferred asset rather than treat them in the same way as in the building block approach.

   (iii) Participants believe that onerous contracts should be identified on a facts and circumstances basis, and no risk adjustment should be included in the onerous contract test, as it is unlikely to be significant.

   (iv) There was no indication of support for an exemption from performing an onerous contract test on contracts with coverage periods that are less than 1 year.

Reinsurance

16. The IWG considered 3 possible approaches, including one raised by reinsurers in a comment letter and subsequently.

    a. There were differing views on each of the 3 approaches, and arguments in favour of each. Participants expressed an interest in considering the moral hazard implications of each, and where the significant

judgements are. They expressed concern about recognising profits before risks are extinguished.

b. Participants stated comparison of the approaches would require more clarity on how the approaches would work in practice, in particular their application to more complex examples like non-proportional reinsurance contracts or excess of loss contracts.

c. Participants noted that the staff intend to ask the boards to consider the level of aggregation for determining the reinsurance asset (in particular the extent to which diversification benefits would be included) and whether there should be alignment between the accounting method used for the reinsurance asset and for the underlying direct contracts (ie premium allocation approach or building block approach).

Contract boundary

17. We asked whether there are any unintended consequences of the changes to the contract boundary we made in March:

    a. Few issues were reported but there was general nervousness about how to interpret the words.

    b. The staff requested concrete examples of contracts that have a shorter contract boundary than appropriate as a result of the changes to help us evaluate both the decision and the drafting. The staff will follow up on specific queries raised.

Reporting back

18. The staff asked for feedback on the boards' tentative decisions on cash flows, discount rate, risk adjustment and disclosures. We expect to continue to seek feedback on these decisions. Points noted:

    a. General concern about requirements that some view as seeking spurious precision in eg cash flow estimates and risk adjustment.

b. Some continued disagreement with the discount rate as we articulate it

c. Disagreement with the requirement to disclose confidence level equivalent.

Wrap up

19. The staff thanked the IWG for their support and noted that the next IWG meeting would be likely to be held at the end of March.

Next steps

20. In the coming months we plan to complete the remaining topics (ie unlocking the residual margin, presentation, participating contracts, short duration contracts and transition).

21. We then plan to assess whether any differences between the boards can be reconciled and to assess whether the IASB will issue a review draft or re-expose. The FASB intends to issue an exposure draft early in 2012.

Appendix: Progress report

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

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 • Treatment of acquisition costs in the pre-coverage period
Contract boundary	• Contract renewals should be treated as a new contract: o when the insurer is no longer required to provide coverage; or o 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,	Consider whether there are unintended consequences**.**

	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 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

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.	Additional guidance on when 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 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. • 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.	

<table>
<tr><th colspan="3">Building block 3 – Risk adjustment</th></tr>
<tr><td>Risk adjustment</td><td>IASB:
• Measurement of an insurance contract should include an explicit adjustment for risk that is determined independently from the premium and re-measured in each reporting period.
• The objective of risk adjustment should be the ‘compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the insurance contract’
• No limit on the range of available techniques to determine the risk adjustment.
• Application guidance:
o the risk adjustment measures the compensation that the insurer would require to make it indifferent between (1) fulfilling an insurance contract liability which would have a range of possible outcomes or (2) fulfilling a fixed liability that has the same expected present value of cash flows as the insurance contract. For example, the risk adjustment would measure the compensation that the insurer would require to make it indifferent between (1) fulfilling a liability that has a 50% probability of being 90 and a 50% probability of being 110 or (2) fulfilling a liability of 100.
o in estimating the risk adjustment, the insurer should consider both favourable and unfavourable outcomes in a way that reflects its degree of risk aversion. The boards noted that a risk averse insurer would place more weight on unfavourable outcomes than on favourable ones.
o Retain the list of characteristics, proposed in paragraph of B72 of the ED, that a risk adjustment technique should</td><td>Extent of diversification benefits to be included in risk adjustment (see unit of account)</td></tr>
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<table>
<tr><td></td><td>exhibit if that technique is to meet the objective of the risk adjustment
o Retain as examples the three techniques proposed in the ED (confidence levels, conditional tail expectation and cost of capital), together with the related application guidance
• Confirmed the confidence level equivalent disclosure that had been proposed in paragraph 90(b)(i) of the ED.
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.</td><td></td></tr>
<tr><td colspan="3">Building block 4 – residual margin</td></tr>
<tr><td>Residual / single margin</td><td>• 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</td><td>(IASB only)
• Whether to unlock the residual margin for changes in discount rate
• Level of aggregation</td></tr>
</table>

	variability of cash outflows. • An insurer should not remeasure or recalibrate the single margin to recapture previously recognised margin.	
Application guidance for building blocks		

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 discount 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 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
		• Clarification of issues relating to previous decisions
		• 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

	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 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.	• Criteria for eligibility • Simplifications or exceptions in a premium 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
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: o Less than zero and the coverage provided by the reinsurance contract is for future events, the cedant should establish that	• Presentation • Interaction with requirements for short-duration contracts • Interaction with other requirements in standard

	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. o Less than zero and the coverage provided by the reinsurance contract is for past events, the cedant should recognise the loss immediately. o 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 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: o The cedant shall apply the impairment model for financial instruments when determining the recoverability of the reinsurance asset. o The assessment of risk of non-performance by the reinsurer should consider all facts and circumstances, including collateral. o 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	

<table>
<tr><td></td><td>reinsurance contract.</td><td></td></tr>
<tr><td colspan="3">Definitions, scope and unbundling</td></tr>
<tr><td>Definition</td><td>Confirm proposed definition in the ED and DP, together with the guidance that:
an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant.
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 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.</td><td></td></tr>
<tr><td>Scope</td><td>Exclude from the scope of the insurance contracts standard fixed–fee service contracts that provide service as their primary purpose and that meet all of the following criteria:
The contracts are not priced based on an assessment of the risk associated with an individual customer,</td><td>Investment contracts with discretionary participation features
FASB: which financial guarantee arrangements, if any, should be within the scope of the insurance contracts standard.</td></tr>
</table>

	○ The contracts compensate customers by providing a service, rather than cash payment, and, ○ The type of risk transferred by the contracts are primarily related to the utilization (or frequency) of services relative to the overall risk transferred • 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: ○ 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 ○ 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	
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 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	• Reconsideration of decisions on deposit components in light of concerns raised by board members **(to be discussed in agenda paper 9A/75A for this meeting)**. • Issues related to contract riders • Allocation of expenses to unbundled components • 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

<table>
<tr><td></td><td>provides to the customer, the entity should account for the promised good or service as a separate performance obligation if:
o 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
o the good or service has a distinct function.
• A good or service has a distinct function if either:
o the entity regularly sells the good or service separately, or
o 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 financial instruments in IFRS, subject to future decisions on allocation.</td><td></td></tr>
<tr><td colspan="3">Presentation and disclosures</td></tr>
<tr><td>Presentation</td><td>Presentation of the Statement of Financial Position
a. An insurer should disaggregate the following components, either in the statement of financial position or in the notes, in a way that reconciles to the amounts included in the statement of financial position:
(a) Expected future cash flows</td><td>• Whether the cash flows relating to the recovery of acquisition costs should be separately disaggregated.
• Whether an insurer should present separately on the face of the primary statements information about contracts accounted for using the premium</td></tr>
</table>

	(b) Risk adjustment (for the IASB), (c) Residual margin (for the IASB), (d) The single margin, where relevant (for the FASB), and (e) The effect of discounting. b. For those contracts measured using the premium allocation approach, the liability for remaining coverage should be presented separately from the liability for incurred claims in the statement of financial position. c. For those contracts measured using the building block approach, any unconditional right to any premiums or other consideration should be presented in the statement of financial position as a receivable separately from the insurance contract asset or liability and accounted for in accordance with existing guidance for receivables. The remaining insurance contracts rights and obligations should be presented on a net basis in the statement of financial position. d. For those contracts measured using the premium allocation approach, all insurance contract rights and obligations should be presented on a gross basis in the statement of financial position. e. Liabilities (or assets) for insurance contracts should be presented separately for those measured using the building block approach and those measured using the premium allocation approach. f. Portfolios that are in an asset position should not be aggregated with portfolios that are in a liability position in the statement of	allocation approach separately from those accounted for using the building block approach • Presentation of reinsurance assets, policyholder participation and short duration contracts • Whether some changes in the insurance liability should be presented in other comprehensive income.

	financial position. *Presentation of the Statement of Comprehensive Income* An insurer should present premiums, claims, benefits, and the gross underwriting margin in the statement of comprehensive income. The Boards will consider at a future meeting whether these items should be presented in the statement of comprehensive income separately for contracts measured using the building block approach and the premium allocation approach..	
Disclosures	Confirm the disclosures proposed in paragraphs 90-97 of the IASB's exposure draft *Insurance contracts* (ED), with changes as follows: • to delete the requirement that an insurer shall not aggregate information relating to different reportable segments (ie paragraph 83 of the ED) to avoid a conflict with the principle for the aggregation level of disclosures. Thus the level of aggregation could vary for different types of qualitative and quantitative disclosures. However, the standard would add to the examples listed in paragraph 84 of the ED by stating that one appropriate aggregation level might be reportable segments. • to require the insurer to disclose separately the effect of each change in inputs and methods, together with an explanation of the reason for the change, including the type of the contracts affected. • for contracts in which the cash flows do not depend on the performance of specified assets (ie non-participating contracts), to require disclosure of the yield curve (or range of yield curves) used. • *[IASB only]* to require the maturity analysis of net cash outflows	• Level of disaggregation and reconciliation of contract balances • Whether to add any additional disclosures

	resulting from recognised insurance liabilities proposed in paragraph 95(a) of the ED to be based on expected maturities and remove the option to base maturity analysis on remaining contractual maturities. Furthermore, within the context of time bands, to require the insurer to disclose, at a minimum, the expected maturities on an annual basis for the first five years and in aggregate for maturities beyond five years. • In place of this disclosure, the FASB would rely on its tentative decisions relating to risk disclosures for financial institutions reached in its project on financial instruments at the FASB board meeting held on 7 September 2011. Those disclosures would apply to insurance entities. In addition, the IASB tentatively decided to delete the proposed requirement in paragraph 90(d) of the ED to disclose a measurement uncertainty analysis and to consider (in due course) whether to develop disclosure about measurement uncertainty part of a possible follow up to IFRS 13 *Fair Value Measurement*. The FASB tentatively decided to retain this disclosure.	
	Other	
Business combination issues		• To scope and consider issues to be discussed.
Transition and effective date		• Consider how to approximate residual /composite margin on transition • Consider redesignation of financial assets • Determine effective date