Project	**Insurance contracts**		
Paper topic	Cover note		

CONTACT(S)	Andrea Pryde	apryde@ifrs.org	+44 (0)20 7246 6491
	Jennifer Weiner	jweiner@fasb.org	+ 1 203-956-5305

1. This paper:

   a. Summarises the boards' progress in the insurance contracts project (paragraphs 5 -12).

   b. Provides an overview of the papers for the meeting on 19 – 21 October, together with a summary of the staff recommendations (paragraphs 21 - 36).

   c. Provides an overview of the papers we intend to discuss with the Insurance Working Group meeting at their meeting on Monday 24 October 2011 (paragraphs 36- 37).

   d. Describes next steps towards issuing a new IFRS.

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;

(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.

Comment on volatility

8. A critical issue in the response to the ED/DP was the volatility that would arise under the proposed model.

9. We believe that a current measure of the insurance contracts liability is essential to providing complete information about changes in estimates. Failure to provide such information would make the accounting for insurance contracts more complex and less understandable.

10. Volatility is an inevitable consequence of a current measurement model. Volatility arises:

    (a) if the values of, or cash flows from, assets and liabilities respond differently to changes in economic conditions. Such **economic** mismatches may result in reported volatility which we believe faithfully represents the underlying economics.

    (b) if changes in economic conditions affect assets and liabilities to the same extent, but the carrying amounts of those assets and liabilities do not respond equally to those economic changes because they are measured on different bases. We seek to eliminate such **accounting mismatches.**

11. Throughout their discussions, the boards have considered whether any reported volatility is a faithful representation of the underlying economic phenomena. As a result:

    (a) We confirmed that both a top-down and a bottom-up approach could be used to determine the rate used to discount insurance contract liabilities, and that the insurer can decide which approach is best in its circumstances. We also clarified that, in a top-down approach, fluctuations in the overall asset spread, other than those arising from expected credit losses and an estimate of the market risk premium for bearing credit risk,[1] would be attributed to the illiquidity component of

[1] We emphasise that 'credit spread' and similar terms often refer to an estimated spread covering both credit risk and liquidity factors. The top-down approach splits the 'credit spread' into a portion for credit risk and a portion for liquidity factors. The discount rate for the insurance contracts liability would exclude the portion for credit risk and includes the portion for liquidity. In the top-down

the asset yield. Hence those fluctuations would also be mirrored in the changes in the liability discount rate. This could be a significant proportion of the changes in the overall spread on bonds. This removes a portion of the volatility from the changes in bond yields, compared to the 'bottom-up' approach that most respondents interpreted the ED/DP to require.

(b) For participating contracts, the IASB (but not the FASB) tentatively decided that the measurement of the cash flows relating to the policyholder's participation should be on the same measurement basis as the underlying items the policyholder participates in. Such items could be assets and liabilities, the performance of an underlying pool of insurance contracts or the performance of the entity. This eliminates accounting mismatches when there is a contractual link between the assets and the liabilities. It also means that, when permitted by existing accounting treatments, insurers could use cost-based measurements for the items underlying the policyholder participation, without creating an accounting mismatch.

12. When an insurer has an economic mismatch, we believe that market fluctuations give rise to real economic effects. However, giving excessive prominence to those effects may not provide particularly relevant information to users of an insurer's financial statements because they may reverse over time without affecting the insurer's cash flows. However:

(a) we provided clarification that in the absence of observable market inputs for determining the discount rate, 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. Thus an insurer is not required to use directly the closest market observable input. Because the estimates needed to determine unobservable inputs may often tend to put more weight on longer term assumptions than on short term fluctuations,

approach, the insurer would estimate the portion for credit risk, determining the portion for liquidity as the remainder. The portion for credit risk would not typically be observable directly from market prices.

this may mean that less volatility arises than some respondents had assumed.

(b) we are continuing to explore ways to present such fluctuations in a way that does not obscure longer term performance.

Overview of papers

13. We have three topics (four papers) for this meeting: fixed fee service contracts, eligibility criteria for short duration contracts and presentation in the statements of financial position and financial performance.

Fixed fee service contracts

14. In March 2011, the boards tentatively decided to exclude fixed fee service contracts in the scope of a standard on insurance contracts, but asked the staff for additional analysis on how to identify those contracts.

15. Agenda paper 4A/74A *Scope: Fixed fee service* recommends that the boards should exclude from the scope of a standard on insurance contracts, fixed-fee contracts that provide service as their primary purpose if they exhibit all of the following characteristics:

    (a) contracts are not priced based on an assessment of the risk associated with an individual customer,

    (b) contracts typically compensate customers by providing a service, rather than by paying cash, and

    (c) the type of risk transferred relates mostly to the overutilization of services.

Short duration contracts

16. In previous meetings, differing views emerged on whether the premium allocation approach constitutes a separate and distinct model of accounting for

insurance contracts or whether it should be used only when it is a proxy for the building block approach.

17. In Agenda paper 4B/74B *Short duration contracts – eligibility criteria*, we put aside those differences to focus on determining eligibility criteria for application of the premium allocation approach. For that paper, we consider the eligibility criteria by considering what features in a contract mean that a premium allocation approach does not provide sufficiently useful information to users of financial statements, and what features in a contract would make it too difficult to apply the premium allocation approach.

18. Agenda paper 4B/74B recommends that insurers should apply the building block approach rather than the premium allocation approach to portfolios of contracts when either of the following apply:

    a. the building block approach provides more relevant information for these portfolios than the premium allocation approach, relative to the cost of providing that information.

    b. it is difficult to allocate the premium for the contract in a reliable and rational manner.

    We also recommend application guidance as to when those conditions might be met.

19. In addition, some staff further recommend that, for portfolios of contracts in which most of the contracts' coverage periods are approximately one year or less, insurers should always be permitted to measure the liability for remaining coverage using the premium allocation approach as a proxy for the full building block approach.

20. We plan to consider in future meetings:

    a. the specific mechanics of the premium allocation approach (e.g. the use of discounting, inclusion of a risk adjustment in the onerous test, treatment of acquisition costs, etc.).

b. whether insurers should be permitted, rather than required, to apply the premium allocation approach to contracts that meet the eligibility criteria recommended by the staff.

Presentation

21. For this meeting staff prepared two papers related to presentation of insurance contracts in the financial statements.

    a. Agenda paper 4C/74C *Presentation- statement of financial position*

    b. Agenda paper 4D/74D *Presentation – statement of comprehensive income*

22. Those papers deal primarily with disaggregation and ask the boards what information is needed in financial statements at what level of disaggregation, and how much of this information needs to be in the statements of comprehensive income and financial position, rather than in the notes.

23. Agenda paper 4C/74C *Presentation- statement of financial position* recommends:

    a. The 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:

        (i) Expected future cash flows

        (ii) risk adjustment (for the IASB)

        (iii) residual margin (for the IASB)

        (iv) the single margin, where relevant (for the FASB)

        (v) the effect of discounting

    b. For those contracts measured under the premium allocation approach, the liability for remaining coverage should be disclosed separately from the liability for incurred claims. Some staff recommend that these two items should be presented separately in the statement of financial position. Other staff believe that separate disclosure in the notes would suffice.

c. As a change to the proposals included within the ED the 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 contract rights and obligations should be presented on a net basis in the statement of financial position.

d. Conditional rights to any premium measured under the premium allocation approach should be netted against the liability for remaining coverage if presented separate from the liability for incurred claims.

e. The liability (or asset) for insurance contracts should be presented in the statement of financial position separately for those measured using the building block approach and those measured using the premium allocation approach.

f. Portfolios in an asset position should not be aggregated with portfolios in a liability position in the statement of financial position. This recommendation addresses concerns raised in response to a drafting error in the ED. However, this recommendation also applies to both the premium allocation approach and the building block approach and thus requires a greater level of disaggregation than was proposed in the ED.

24. The recommendations in agenda paper 4D/74D *Presentation – statement of comprehensive income* are as follows:

Disclosure of information in financial statements

25. The insurer shall disclose the BBA underwriting margin.

26. The insurer shall disclose the following components of the BBA underwriting margin:

    a. The total difference between actual and expected cash flows, showing separately

        (i) Actual premiums received

        (ii) (Expected) premiums due

        (iii) Actual benefits paid

        (iv) Expected benefits

        (v) Actual expenses paid

        (vi) Expected expenses

    b. The change in expected future cash flows

    c. The release of the single margin (for the FASB)

    d. The change in residual margin (for the IASB)

    e. The change in risk adjustment (for the IASB).

    f. Any losses on initial recognition of an insurance contract showing separately:

        (i) Any losses on insurance contracts acquired in a portfolio transfer

        (ii) Any losses at inception of an insurance contract

27. The insurer shall disclose the PAA underwriting margin.

28. The insurer shall disclose the following components of the PAA underwriting margin:

    a. Premiums earned (based on the release of the liability for future coverage grossed up for amortisation of acquisition costs)

    b. Claims incurred, showing separately:

        (i) Costs incurred for new loss occurrences during the period

(ii) Difference between actual and expected cash flows

(iii) Change in expected future cash flows

(iv) Changes in additional liability for onerous contracts

c. Claims adjustment expenses incurred, showing separately:

(i) Costs incurred for new loss occurrences during the period

(ii) Difference between actual and expected cash flows

(iii) Change in expected future cash flows

(iv) Changes in additional liability for onerous contracts

d. Amortization of acquisition costs

e. The change in risk adjustment for the liability for incurred claims (for the IASB).

f. Any losses on initial recognition of an insurance contract showing separately:

(i) Any losses on insurance contracts acquired in a portfolio transfer

(ii) Any losses at inception of an insurance contract

29. The staff have differing views regarding which components listed in paragraph 26 and 28 need to be presented on the face of the statement of comprehensive income, rather than in the notes to the financial statements. Therefore, the paper includes two recommendations: Recommendation A and Recommendation B.

Presentation on the face of the financial statements

Recommendation A:

30. The insurer should disclose the underwriting margin, either in aggregate for all insurance contracts or separately for contracts measured under the BBA and PAA.

31. For insurance contracts measured under the BBA, the insurer shall present as a minimum on the face:

(i) Premiums due

(ii) Expected benefits and expected expenses, either in aggregate or separately

(iii) Any losses at initial recognition

b. for insurance contracts measured under the premium allocation approach (“PAA contracts”), the insurer shall present as a minimum on the face:

(i) Premiums earned (based on the release of the liability for future coverage grossed up for amortisation of acquisition costs)

(ii) Claims and claims adjustment expenses incurred, either in aggregate or separately

(iii) Any losses at initial recognition

32. The insurer shall disclose the components listed in paragraphs 26 and 28 in the notes to the extent they are not presented on the face of the statement of comprehensive income.

Recommendation B:

33. The insurer shall present the BBA underwriting margin as a separate line item in the statement of comprehensive income.

34. The insurer shall disclose the components listed in paragraphs 25-28 in the notes to the extent they are not presented on the face of the statement of comprehensive income.

Other information

35. Furthermore, the staff recommend:

a. The removal of the requirement to separately present in the statement of comprehensive income acquisition costs that are not part of the insurance contract liability measurement;

b. Interest on insurance contract assets' and liabilities' expected net cash flows[2] shall not be included within underwriting margin and shall be included with investment activity.

Insurance Working Group Meeting

36. The next Insurance Working Group will be held in London on Monday 24 October 2011. The agenda and most papers have been posted and can be grouped in the following categories:

    a. Papers reporting on the boards' activities, both in the insurance contracts project and in other areas

    b. Papers that seek specific input from working group members. These include:

        (i) Evaluating the consequences of the contract boundary

        (ii) Changes to the ED proposals on the premium allocation approach

        (iii) Considering the different approaches for accounting for reinsurance assets

    c. Papers that report tentative board decisions and share the IASB staff's working drafts on the following topics:

        (i) Cash flows

        (ii) Discount rate

        (iii) Risk adjustment

        (iv) Disclosures

37. We have also invited some Insurance Working Group members representing industry groups to present their proposals on other comprehensive income.

[2] Insurance contract assets and liabilities include (assets) liabilities for future coverage and liabilities for incurred losses

Next steps

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

39. 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, can set a price that fully reflects that risk. • In addition, for contracts for which the pricing of the premiums does	Consider whether there are unintended consequences**.**

	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.	
Building block 3 – Risk adjustment		
Risk adjustment	**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	Extent of diversification benefits to be included in risk adjustment (see unit of account)

	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 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.	

Building block 4 – residual margin		
Residual / composite margin	• 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 variability of cash outflows. • An insurer should not remeasure or recalibrate the single margin to recapture previously recognised margin.	*(IASB only)* • Whether to unlock the residual margin for changes in discount rate • Level of aggregation
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:	• 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

	• 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 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:	• Criteria for eligibility **(to be discussed in agenda paper 4B for this meeting).** • Simplifications or exceptions in a premium allocation approach • Whether the premium allocation approach should be permitted or required

	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.	• 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 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	• Presentation • Interaction with requirements for short-duration contracts • Interaction with other requirements in standard

	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 reinsurance contract.	

	Definitions, scope and unbundling	

Definition	• Confirm proposed definition in the ED and DP, together with the guidance that:
	  o an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant.
	  o 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.	
Scope	• Exclude from the scope of the insurance contracts standard some fixed–fee service contracts which have as their primary purpose the provision of services. • 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: o 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 o 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	• How to identify fixed-fee service contracts which have as their primary purpose the provision of services **(to be discussed in agenda paper 4A for this meeting).** • Investment contracts with discretionary participation features • FASB: which financial guarantee arrangements, if any, should be within the scope of the insurance contracts standard.
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	• Reconsideration of decisions on deposit components in light of concerns raised by board members. • Issues related to contract riders • Allocation of expenses to unbundled components • Whether to permit unbundling where not

	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 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.	required • How the decisions would apply to typical types of insurance contracts with account balances. • Whether to combine separate contracts in some circumstances
	Presentation and disclosures	
Presentation	The boards indicated a preference for the model which presents the underwriting results of contracts measured under the building-block	• Whether to require an insurer to present each of the line items in all cases on the statement

	approach separately from contracts measured using the modified approach and includes volume information.	of comprehensive income, rather than in the notes **(to be discussed in agenda paper 4D for this meeting).** • Presentation in the statement of financial position **(to be discussed in agenda paper 4C for this meeting).** • Presentation of reinsurance assets, policyholder participation and short duration contracts • Whether some changes in the insurance liability should be presented in other comprehensive income.
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.	• Level of disaggregation and reconciliation of contract balances • Whether to add any additional disclosures

	• *[IASB only]* to require the maturity analysis of net cash outflows 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*.	
	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