IFRS

STAFF PAPER

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Insurance working group

Project	**Insurance contracts**
Paper topic	IASB Update June 2012 (for information)

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IASB Update June 2012

1. Below is an extract from IASB Update June 2012 which gives details of the insurance contracts discussion at the Joint IASB/FASB Board meeting held in June 2012.

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts by exploring a method of measuring earned premiums for presentation in the statement of comprehensive income and considering how to attribute cash flows to the unbundled components of bundled insurance contracts in order to measure those unbundled components.

Method of measuring earned premiums

The boards discussed an approach to derive a measurement of earned premiums. The boards agreed to explore further the usefulness of the information and the extent of any operational difficulties. In particular, the boards would seek feedback from the Insurance Working Group, which includes users among its members. No decisions were made at this meeting.

[This is the background to agenda papers 10 and 10A for this working group meeting.]

Unbundled components

The boards tentatively decided that:

a. an insurer should attribute cash flows to an investment component and to an embedded derivative on a stand-alone basis. This means that an insurer would measure an investment component or embedded derivative as if it had issued that item as a separate contract. The insurer would thus not include the effect of any cross-subsidies or discounts/supplements in the investment component.

b. after excluding the cash flows related to unbundled investment components and embedded derivatives:
   i. The amount of consideration and discounts/ supplements should be attributed to the insurance component and/or service component in accordance with proposals in paragraphs 70-80 of the exposure draft *Revenue from Contracts with Customers*.
   ii. Cash outflows (including expenses and acquisition costs) that relate directly to one component should be attributed to that component. Cash outflows related to more than one component should be allocated to those components on a rational and consistent basis, reflecting the costs that the insurer would expect to incur if it issued that component as a separate contract. Once cash outflows are attributed to components, the insurer would account for those costs in accordance with the recognition and measurement requirements that apply to that component.

[These decisions relate to non-insurance components that are separated (ie unbundled) as summarised in agenda paper 4 for this working group meeting.]