STAFF PAPER

21 May – 24 May 2012

FASB | IASB Meeting

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Project	**Insurance Contracts**
Paper topic	Summary of Questions and Staff Recommendations for using OCI for insurance contracts

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What is this paper about?

1. The following papers are identical to the papers used at the joint education session in April 2012 on the use of other comprehensive income (OCI) for presenting the effect on the insurance contract liability arising from changes in specified assumptions:

May Board meeting Agenda paper number	**April education session Agenda paper number**
AP2H/83H	AP2A/82A
AP2I/83I	AP2B/82B
AP2J/83J	AP2C/82C
AP2K/83K	AP2D/82D
AP2L/83L	AP2E/82E

2. Agenda paper 2M/83M for this meeting provides additional background on the use of OCI to present changes in the insurance liability that was requested by board members at the April 2012 education session.

3. The purpose of this paper is to provide an inclusive document highlighting the questions for the boards and related staff recommendations (including corresponding paper and paragraphs references) for using OCI with insurance contracts.

AP2I/83I: The use of OCI for presenting the effect on the insurance liability arising from changes in specified assumptions

Question 1: Presenting changes in the insurance liability in OCI (par. 7-39)
The staff recommend that changes in the insurance liability arising from changes in discount rate should be presented in OCI. Do the boards agree?

Question 2: Recording the impact of changes in interest sensitive assumptions (par. 40-58)
Should changes in the insurance liability arising from changes in interest sensitive cash flow assumptions be presented in: A. OCI (FASB staff view)? B. Profit or loss (IASB staff view)?

Question 3: Permit or Require (par. 59-79)
The staff recommend that changes in the insurance liability arising from changes in discount rates should be presented in OCI unless presenting those changes in profit or loss would eliminate or significantly reduce an accounting mismatch. Do the boards agree?

Question 4: Unit of Account (par. 80-90)

In determining whether changes in the insurance liability arising from changes in discount rates should be presented in OCI or profit or loss, what unit of account should be used:

A. Portfolio (FASB staff view)?

B. Allocation based on asset mix (IASB staff view)?

Question 5: Frequency of election (par. 91-97)

The staff recommend that the decision to present changes in the insurance liability in OCI or profit or loss should be:

A. Irrevocable if the unit of account is an allocation of individual contracts

B. Changes if the fundamental strategy for the portfolio were to change resulting in a new accounting mismatch (expected to be rare).

Do the boards agree?

AP2J/83J: The mechanics of using OCI to present specified changes in the insurance contract liability

Question 1: Mechanics (par. 7-21)
The staff do not recommend alternative B which presents in net income interest expense calculated using the current discount rate plus an amount transferred to/from OCI such that the total interest expense in net income is equal to interest calculated using the discount rate locked in at inception. The staff recommend that insurers present in: A. Profit or loss interest expense using the discount rate locked in at inception of the insurance contract; B. OCI changes in the liability arising from changes in discount rate (Alternative A). Do the boards agree?

Question 2: What discount rate should be used for changes in expected cash flows? (par. 22-30)
The staff recommend that insurers present interest expense in the profit or loss in respect of changes in expected cash flows based on the discount rate locked in at inception of the insurance contract. Do the boards agree?

AP2K/83K: Loss recognition test

Question 1: Requiring a loss recognition test
The FASB staff recommend a loss recognition test. The IASB staff do not recommend a loss recognition test. Which approach do the boards support?