

STAFF PAPER

November 2012

IASB Meeting

Project	Insurance contracts		
Paper topic	Cover note for IASB sessions		
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1. This paper provides an overview of the papers for the IASB November meeting, together with a summary of the staff recommendations:

Summary of staff recommendations

2. The following papers have been prepared for the IASB meeting:
 - (a) Agenda paper 3A *Presentation and disclosures: Proposed drafting*
 - (b) Agenda paper 3B *Presentation and disclosures: Presentation of insurance contracts in the financial statements*
 - (c) Agenda paper 3C *Presentation and disclosures: Disclosures relating to participating contracts, earned premium and transition*
 - (d) Agenda paper 3D *Presentation and disclosures: Interim financial reports*
 - (e) Agenda paper 3E *Field testing*

Agenda paper 3A Presentation and disclosures: Proposed drafting

3. Agenda paper 3A *Presentation and disclosures: Proposed drafting* provides a mark-up that shows how the proposals in the ED would be amended by the IASB's previous tentative decisions and the staff recommendations in the papers

for this meeting. This paper also illustrates how the tentative decisions and recommendations for the presentation of insurance contracts in the financial statements and the reconciliation of contract balances might be applied. There are no questions for the IASB in this paper.

Agenda paper 3B Presentation and disclosures: Presentation of insurance contracts in the financial statements

4. Agenda paper 3B *Presentation and disclosures: Presentation and disclosures: Presentation of insurance contracts in the financial statements* reviews the line items presented in the statement of financial position and the statement of comprehensive income for all insurance contracts.
5. The staff recommend that for all insurance contracts:
 - (a) in the statement of financial position, an entity should:
 - (i) present all rights and obligations for insurance contracts on a net basis;
 - (ii) be required to present separate line items for insurance contracts and for reinsurance contracts.
 - (b) the general requirements of IAS 1 are sufficient to specify the presentation requirements for the statement of comprehensive income for insurance contracts.

Agenda paper 3C Presentation and disclosures: Disclosures relating to participating contracts, earned premium presentation and transition

6. Agenda paper 3C *Presentation and disclosures: Disclosures relating to participating contracts, earned premium presentation and transition* considers the disclosures needed for participating contracts, the presentation of earned premiums in the statement of comprehensive income, and transition.
7. The staff recommend that:

- (a) for participating contracts¹ to which the mirroring approach applies:
- (i) an insurer should disclose the carrying amounts of insurance contract liabilities arising from contracts to which the mirroring approach has been applied.
 - (ii) if an insurer measures the underlying items in a participating contract on a basis other than fair value, and discloses the fair value of the underlying items, the insurer shall disclose the extent to which the difference between the fair value and carrying value of underlying assets would be passed to policyholders.
- (b) for all insurance contracts, an insurer should disclose a reconciliation from the opening to the closing balance of the aggregate carrying amount of insurance contract liabilities and insurance contract assets, showing separately:
- (i) the remaining balance of liabilities for remaining coverage but excluding any amounts attributable to losses on initial recognition. (For the premium allocation approach, this will be the unearned premium.)
 - (ii) liabilities for remaining coverage attributable to (a) losses on initial recognition and (b) subsequent changes in estimates recognised immediately in profit or loss. (For the premium allocation approach, this will be the additional liabilities for onerous contracts.)
 - (iii) liabilities for incurred claims.
- (c) for contracts accounted for using the building block approach, an insurer should:
- (i) disaggregate insurance contract revenue into the inputs to the measure of insurance contract revenue in the period, ie

¹ See agenda paper 2A for the joint meeting for a discussion about contracts that contain participation features for which the mirroring approach does *not* apply. The staff do not think additional disclosures are required for such contracts.

1. the probability-weighted claims, benefits and expenses expected to be incurred in the period;
 2. an allocation of expected acquisition costs;
 3. the risk margin relating to that period's coverage; and
 4. the margin allocated to that period.
- (ii) disclose the effect of the insurance contracts written in the period on the insurance contract liability, showing separately the effect on:
1. the expected present value of future cash outflows, showing separately the amount of acquisition costs;
 2. the expected present value of future cash inflows;
 3. the risk adjustment;
 4. the residual margin.
- (d) in the period in which the new insurance contracts standard is initially applied, disclosure of the current period line item amounts that would have been reported in accordance with previous accounting policies in IFRS 4 should **not** be required.

Agenda paper 3D Presentation and disclosures: Interim financial reports

8. Agenda paper 3D *Presentation and disclosures: Interim financial reports* discusses whether an entity should apply the proposed insurance contracts disclosure requirements, in particular those relating to premium revenue, to interim financial reports.
9. The staff recommend that IAS 34 *Interim Financial Reporting* should be amended to specify that an entity that prepares interim financial reports should disclose in those reports the information required for annual financial statements about premium revenue (if material), if that information changes from period to period.

Agenda paper 3E Fieldwork: Planning

10. Agenda paper 3E *Fieldwork: Planning* provides background on previous fieldwork and the forthcoming re-exposure of the insurance proposals and describes the proposed plan for fieldwork with preparers and users, including the proposed objectives, population and timing.
11. The paper asks the IASB if it has comments on the proposed plan for fieldwork.

Considering the need to seek feedback in the re-exposure draft

12. At its meeting on 26 September 2012, the IASB concluded that its proposals for insurance contracts accounting should be re-exposed with feedback being sought only on the following targeted questions.
13. The targeted questions in the new Exposure Draft will relate to proposed requirements for:
 - (a) treatment of participating contracts;
 - (b) presentation of premiums, claims and expenses in the statement of comprehensive income;
 - (c) treatment of the unearned profit (ie the residual margin) in an insurance contract;
 - (d) presenting, in other comprehensive income, the effect of changes in the discount rate used to measure the insurance contract liability; and
 - (e) the approach to transition.
14. In the staff's view, none of the staff recommendations in the papers this month (both in the joint and IASB meeting) would require the addition of a targeted question in the new Exposure draft. The staff's reasons are as follows:
 - (a) The decisions related to contracts with explicit crediting rates in agenda paper 2A will already be included in the targeted question described in paragraph 13(a) and 13(d).

- (b) The decisions related to presentation in the statement of comprehensive income in agenda paper 3A *Presentation and disclosures: Proposed drafting* will already be included in the targeted question described in paragraph 13(b).
- (c) The decisions related to presentation in the statement of financial position in agenda paper 3A *Presentation and disclosures: Proposed drafting* are not significant enough to warrant re-exposure in their own right.
- (d) The decisions related to disclosures about participating contracts in agenda paper 3B *Presentation and disclosures: Presentation of insurance contracts in the financial statements* will already be included in the targeted question described in paragraph 13(a).
- (e) The decisions related to disclosures about earned premiums in agenda paper 3B will already be included in the targeted question described in paragraph 13(b).
- (f) The decisions related to disclosures about transition in agenda paper 3B will already be included in the targeted question described in paragraph 13(e).
- (g) Agenda paper 3C *Presentation and disclosures: Disclosures relating to participating contracts, earned premium and transition* sets out proposed drafting and does not contain a staff recommendation.
- (h) The decisions related to interim financial reports in agenda paper 3D *Presentation and disclosures: Interim financial reports* are not significant enough to warrant re-exposure in their own right.
- (i) Agenda paper 3E *Field testing* sets out the plan for field work during the exposure period and does not contain a staff recommendation.