IFRS™

STAFF PAPER

November 2012

REG IASB Meeting

Project	**Insurance contracts**		
Paper topic	Presentation and disclosures: Disclosures relating to participating contracts, earned premium presentation and transition		

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Introduction

1. This paper considers disclosures needed for:

   (a) Participating contracts, ie contracts that provide policyholders with the contractual right to share in the return from specified underlying items.

   (b) The presentation of earned premiums in the statement of comprehensive income.

   (c) Transition.

Staff recommendation

2. The staff recommend that:

   (a) For participating contracts[1] to which the mirroring approach applies:

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[1] See agenda paper 2A 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.

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(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. 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.

Background

3. At its September 2012 meeting, the IASB tentatively approved a proposed disclosure package, noting that it would consider at a future date any additional disclosures that might be appropriate in light of later decisions. The IASB has subsequently reached decisions on three matters for which additional disclosures might be appropriate: participating contracts, measurement of premiums and claims in the statement of comprehensive income, and transition.

Participating contracts

4. At its October meeting, the IASB confirmed the staff's understanding of its previous decisions that apply to contracts with participating features, in particular:

(a) The 'mirroring approach' for participating insurance contracts. Under this approach, in order to avoid accounting mismatches, the insurer measures and presents the part of the obligation that relates to the underlying items on the same basis as it measures and presents those underlying items.

(b) The tentative decision that the discount rate for cash flows arising from a participating contract should reflect the dependence of those cash flows on the performance of those assets, if any, that affect the amount, timing or uncertainty of those cash flows. This decision achieves consistency between the characteristics of those cash flows (ie their amount, timing and uncertainty) and the discount rate for those cash flows.

(c) The tentative decision to include in the measurement of the insurance liability contractual cash flows (both guaranteed and discretionary) arising from current contracts, regardless of whether they are paid to current or future policyholders.

5. Agenda paper 2A for the joint November meeting discusses contracts with participation features to which the mirroring approach does not apply.

Premiums and claims in the statement of comprehensive income

6. At its October 2012 meeting, the IASB tentatively decided that premiums and claims presented in an insurer's income statement should be measured by applying an earned premium presentation, whereby premiums are allocated to periods in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and claims are presented when incurred.

Transition

7. At its September 2012 meeting, the IASB discussed transition requirements. The IASB tentatively decided that insurers shall make the disclosures required by IAS 8 on transition to the final insurance standard. In addition, insurers shall make the following, more specific, disclosures on transition:

(a) If full retrospective application is impracticable, the earliest practicable date to which the insurer applied the guidance retrospectively.

(b) The method used to estimate the expected residual margin for insurance contracts issued before that earliest practicable date, including the extent to which the insurer has used information that is objective; and

separately, the extent to which the insurer has used information that is not objective, in determining the margin.

(c) The method and assumptions used in determining the initial discount rate during the retrospective period.

8. At its September 2012 meeting, the IASB also tentatively decided that an insurer need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the first financial year in which it first applies the new guidance. Furthermore, if it is impracticable, when an insurer first applies the guidance, to prepare information about the claims development that occurred before the beginning of the earliest period for which the insurer presents full comparable information, it shall disclose that fact.

Staff analysis

Disclosures for participating contracts

9. In this section, we consider whether there would be a need for disclosures about participating contracts in addition to the disclosures that the IASB agreed to at the September 2012 meeting. Such a need could arise from:

(a) the differences in the accounting for participating contracts compared to the accounting for other insurance contracts, or

(b) specific features of participating contracts themselves that make them different from other contracts.

10. The staff notes that the disclosures to which the IASB tentatively agreed in September 2012 would provide information about participating contracts as follows (all paragraph references refer to the drafting in agenda paper 3A *Presentation and disclosures: Proposed drafting*):

(a) Paragraph 90 would require an insurer to disclose the methods used to measure insurance contracts and the processes for estimating the inputs to those methods. In the staff's view, to comply with the requirement, an insurer would need to disclose, amongst other things:

(i) When the mirroring approach is used.

(ii) The basis and extent of participation (eg how the underlying assets are measured and the percentage passed through to the policyholder).

(iii) The nature of the dependency of cash flows on the performance of specified assets and how the discount rate used is determined.

(b) In addition, the IASB decided that insurers should disclose the methods and inputs used to estimate policyholder dividends, to the extent not provided by more general disclosure requirements[2].

(c) Paragraphs 91 and 92 of drafting set out in agenda paper 3A would require an insurer to disclose information about the nature and extent of risks arising from insurance contracts. In the staff's view, to comply with this requirement, an insurer would need to disclose, amongst other things:

(i) Information about the contractual terms and conditions of participating contracts.

(ii) The extent to which the insurer is exposed to risk and the extent to which any exposure is mitigated because the policyholder bears risk.

Additional disclosures needed for the mirroring approach

11. When an insurer applies the mirroring approach, the following differences from other insurance contracts arise:

(a) The insurer will measure the insurance contract liability on the same basis as is used to measure the underlying item, rather than on the basis of a current estimate of the cash flows used to fulfil the insurance contract, adjusted for the effects of uncertainty and the time value of money

(b) Changes in the measurement of the insurance contract liability are presented on the same basis as equivalent changes in the underlying

[2] One preparer noted that this might require disclosure of proprietary information. However, this was not a general concern. The staff thinks there is little justification for modifying the proposal in the ED.

assets. Thus, if changes in value of the underlying assets are presented in profit or loss, then the resulting change in the insurance contract liability would also be presented in profit or loss.

12. Some are concerned that measuring the insurance contract liability on the same basis as underlying assets may result in reduced comparability between the liabilities of different insurers. This is because the measurement basis of the underlying assets may differ between insurers and, furthermore, there may be more than one permitted option for measuring the underlying item, eg investment property, which could be carried at either amortised cost or fair value. However, the staff do not think that this is a valid concern. Application of the mirroring approach means that the insurance contract liability would reflect the outflow of resources from the insurer on the basis of the carrying value of those resources, and this provides the most relevant information to users of financial statements. Thus, the net equity would not be misstated. However, to alleviate this concern, the staff propose that, when an insurer applies the mirroring approach, the insurer should disclose the carrying amounts in the financial statements that arise from cash flows that vary with underlying items.

13. In some cases the underlying items are not carried at fair value, but the insurer is required to disclose the fair value of those items. Examples of such assets include financial assets and investment properties, if not at fair value. The staff think that, in such cases, it would be useful to inform users of financial statements that the policyholders have an economic interest in the difference between the fair value of the underlying assets and their carrying amount. Without such disclosure, users of financial statements may have incomplete information because part of the fair value that is disclosed will be passed through to policyholders, and will not go to the insurer.

14. The staff think that such disclosures would be appropriate only if the entity discloses the fair value of the underlying item. Fair value disclosures would not be required if the underlying items include deferred tax, goodwill or future profits from non-participating contracts written in a participating fund. In such cases, disclosing the policyholder share of the underlying unrecognised value could be misleading because changes in the amounts disclosed would be driven by an

unrecognised and undisclosed value on the asset side. Furthermore, such disclosure is likely to be burdensome to calculate without providing useful information to users.

15. Accordingly the staff propose that, when an insurer discloses the fair value of underlying items that are not measured at fair value in the financial statements, the insurer should also disclose the extent to which the difference between the fair value and carrying value of those assets would be passed to policyholders.

Disclosures related to discount rate and payments to future policyholders

16. In the staff's view, the tentative decision that the discount rate should reflect the characteristics of the assets to the extent that the cash flows reflect that dependence is an elaboration of the principle that the discount rate used to discount cash flows in the measurement of the insurance contract liability should reflect the characteristics of that liability. Because the characteristics of the liability reflect dependence on assets, the discount rate must also reflect the dependence on the assets.

17. Similarly, the staff think that the tentative decision that the measurement of a liability arising from a participating contract should include all such payments that result from that contract, whether paid to current or future policyholders is an elaboration of the principle that the insurer should measure the insurance contract liability incorporating all cash flows that arise as the insurer fulfils the contract.

18. Because these decisions create no difference in principle from the general requirements, the staff do not think that additional disclosures are needed.

Question 1: Disclosures about participating contracts

Do the boards agree that, for participating contracts:

(a) an insurer should disclose the carrying amounts of insurance contract liabilities arising from contracts to which the mirroring approach has been applied, and

(b) 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.

Disclosures relating to earned premiums

19. In October 2012, the IASB decided that decided that premiums and claims presented in an insurer's statement of comprehensive income should be measured by applying an earned premium presentation, whereby premiums are allocated to periods in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and claims are presented when incurred.

20. In the paragraphs that follow we consider, in the light of the IASB's decision to require an earned premium presentation:

    (a) How to modify the disclosure requirements relating to reconciliation of contract balances;

    (b) Whether any additional disclosures are needed.

Reconciliations of the insurance contracts balances

21. The exposure draft (paragraphs 86 and 87) proposed that an insurer should provide reconciliations of contract balances showing each of the following, as applicable:

    (a) The carrying amounts at the beginning and end of the period

    (b) New contracts recognised during the period

    (c) Premiums received

    (d) Payments, with separate disclosure of claims and benefits, expenses and incremental acquisition costs.

    (e) Other cash paid and, separately, other cash received

    (f) Income and expense, reconciled to the amounts disclosed to comply with line items in the statement of comprehensive income

(g) Amounts relating to contracts acquired from, or transferred to, other insurers in portfolio transfers or business combinations

(h) Net exchange differences arising on the translation of foreign currency amounts into the presentation currency.

22. The ED proposed that:

(a) for the building block approach, those reconciliations would be provided for total insurance contract liabilities, total insurance contract assets, total reinsurance contract liabilities and total reinsurance contract assets, showing separately reconciliations for the risk adjustment and residual margin components.

(b) For the premium allocation approach, each asset or liability must be divided into three components:

(i) The pre-claims liability

(ii) An additional liability for onerous contracts

(iii) The claims liability (now termed the liability for incurred claims).

(The pre-claims liability and the additional liability for onerous contracts together form the liability for remaining coverage.)

23. As noted in paragraph 19, the IASB decided to propose an earned premium presentation for the building block approach. This would mean that the amounts presented in the income statement for contracts accounted for using the building block approach and those accounted for using the premium allocation approach would be the same. As a result, the staff think that the same reconciliation requirements would be useful to explain the amounts recognised in the statement of comprehensive income for contracts that apply the building block approach and those that apply the premium allocation approach.[3]

[3] The staff note that in the September 2012 meeting, the IASB tentatively decided that it would require reconciliations that show the movements between opening and closing balances for the expected present value of cash flows, risk adjustment and residual margin when the building block approach is applied.

24. To apply the earned premium presentation in the building block approach and the premium allocation approach an insurer will need to disaggregate the insurance contracts liability into components, as follows:

    (a) The remaining balance of liabilities for remaining coverage, excluding any amounts attributable to losses on initial recognition. (For the premium allocation approach, this will be the unearned premium.)

    (b) 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 changes in the additional liability for onerous contracts)

    (c) Liabilities for incurred claims.

25. Thus, providing the reconciliations described in paragraph 21 for these components of the insurance contract liability would make it easier to link the reconciling items to the amounts presented in the income statement.

Question 2: Reconciliations of contract balances
Does the IASB agree that for all insurance contracts, insurers should disclose a reconciliation 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) the liability for incurred claims

Disclosures to explain the amounts recognised in the financial statements

26. Paragraph 97 of the proposed disclosures (see agenda paper 3A) states that an insurer shall disclose qualitative and quantitative information about:

(a) the amounts recognised in its financial statements arising from insurance contracts

(b) the significant judgements, and changes in the judgements, made in applying the [draft] IFRS to those contracts

(c) the nature and extent of risks arising from insurance contracts.

27. The earned premium presentation does not introduce any additional judgements or risks in the accounting for insurance contracts: the insurance contract revenue is measured by reference to the change in the building block liability. Accordingly we consider only whether additional disclosures would be required to explain the amounts recognised in the statement of comprehensive income for premiums and claims.

28. The earned premium presentation allocates the consideration charged between periods by reference to the relative value of the services provided in each period. It does this by seeking to identify the price that the insurer would have charged for coverage in that specific period if each period were charged for separately through a series of forward start contracts. Because the price that would have been charged for coverage in each period cannot be observed, the earned premium presentation estimates it using the components of the decrease that occurs in the liability for remaining coverage as the insurer satisfies its obligation to provide coverage, ie:

(a) the probability-weighted claims and benefits expected to be incurred in the period;

(b) the non-claims fulfilments costs (expenses) expected to be incurred in relation to those claims and benefits;

(c) an allocation of expected acquisition costs;

(d) the risk margin relating to that period's coverage, and

(e) the margin allocated to that period.

29. The inputs listed in paragraph 28 would be available in the reconciliation of the liability for remaining coverage that is recommended in Question 2. However, the staff believe that there is benefit in requiring the insurer to disaggregate the

insurance contract revenue (earned premium) into the amounts relating to each of those inputs, for example, as follows:

Amount of insurance contract revenue relating to:

Expected claims and benefits (after excluding deposit components)	XXX
Expected expenses	XXX
Release of risk adjustment	XXX
Release of margin	XXX
Insurance contract revenue	**XXX**

30. The staff note that such disaggregation would be feasible only for contracts accounted for using the building block approach because this information would not be obtainable for contracts accounted for using the premium allocation approach. Consequently, we propose that the disclosure should apply only to contracts accounted for using the building block approach.

Question 3: Explanation of recognised amounts

Do you agree that, for contracts accounted for using the building block approach, an insurer should disaggregate the insurance contract revenue into the inputs to the measure of insurance contract revenue in the period, ie

(a) the probability-weighted claims, benefits and expenses expected to be incurred in the period;

(b) an allocation of expected acquisition costs;

(c) the risk margin relating to that period's coverage, and

(d) the margin allocated to that period?

Disclosures of other activity measures

31. In the October 2012 discussion on earned premium, some board members noted that there would be useful information for users of financial statements if insurers were to disclose more than one measure of an insurer's activity. The boards noted that a measure of insurance contract revenue by itself did not provide all the

information that users of financial statements would seek. In particular, the IASB noted:

(a) Many users of financial statements find information about the amount of new business written in each period to be important in assessing the future prospects of an entity. A revenue measure alone may provide a misleading view of whether an insurer's business is growing or shrinking. Some board members were particularly concerned about the impression that would be given if the amount of revenue were to increase, while the number of new contracts written were to decrease.

(b) Some users of financial statements favour premium recognition patterns that reflect cash receipts.

32. Accordingly, this section considers whether information about activity could be provided to supplement the premium revenue that would be presented in the statement of comprehensive income.

Written premium

33. Written premium is the amount of all expected premium inflows included in the insurance contracts measurement (ie including deposit components) relating to contracts that are initially recognised in the period. The staff believes that information about contracts written in the period provides useful information about the sales volume of the insurer as described in paragraph 31(a). Therefore, written premium information could supplement the premiums earned presented in the statement of comprehensive income.

34. Additionally, the staff believes that, for contracts accounted for using the building block approach, the value of information about the premiums written would be enhanced by information about the expected present value of the fulfilment cash flows and risk adjustment related to premiums written in that period. Such information would provide all the information about new business that we have been told that users of financial statements seek and that would allow those users to compare the results for business written in prior years with the expected result for contracts written in the current year. Accordingly, the staff recommend that, for contracts accounted for using the building block approach, insurers should

disclose the effect of contracts written in the period on the insurance contract liability, showing separately written premiums disaggregated into the following amounts:

(a) the expected present value of future cash outflows, showing separately the amount of acquisition costs;

(b) the expected present value of future cash inflows;

(c) the risk adjustment; and

(d) the residual margin.

35. Such a disclosure might look like this:

Contracts written in period:	
Expected present value of cash outflows	Xxx
Risk adjustment	Xxx
Residual margin	Xxx
Expected present value of cash inflows	(xxx)
Net liability *	Xxx
*This will be equal to any initial losses.	

Premiums due and premium receipts

36. Because many constituents had suggested that the IASB should require a premiums due approach for allocating premiums in the statement of comprehensive income, and because the premiums due presentation is currently used in some jurisdictions, the staff considered whether insurers should be required to reconcile the premiums earned to the premiums due each period.

37. The staff note that paragraph 87 of the disclosures in agenda paper 3A would require that an insurer disclose the amount of premiums received in a period as part of the reconciliation of contract balances. That amount would be very similar to the amount of premiums due in a period. (Premiums due is the amount of the invoiced or receivable premium, which is unconditionally due to the insurer. The staff think there would generally be insignificant differences between that amount and the premium receipts.) Because the premiums due is similar to the premiums received in a period, the staff thinks that there is little benefit in requiring an additional disclosure of the premiums due.

38. Therefore, if we replaced the premiums due with premium receipts, a reconciliation might look like this:

Premium receipts	xxx
less amounts added to (withdrawn from) the liability to provide for future (current) claims and repayments	(xxx)
less repayments	(xxx)
Earned premium	**XXX**

39. Such a reconciliation would make clear whether the insurer is adding to liabilities or drawing on liabilities to make repayments and to compensate itself for the insurance coverage.

40. However, this reconciliation implies that the earned premium is a component of the premium receipts for the period[4], rather than the amount released from the liability because the insurer has earned revenue by fulfilling its performance obligation to provide insurance coverage for the period. It also implies that there should be a relationship between the premiums collected in a period and the premiums earned, which is not necessarily true.

41. Accordingly, the staff do not recommend that the IASB require additional disclosures about premiums receipts, or a reconciliation from earned premium to premiums due or received. In the staff's view, the information is already required by the requirement to disclose the amount of premiums received as part of the reconciliation of contract balances.

Question 4: activity measures

Does the IASB agree that, for contracts accounted for using the building block approach, insurers should disclose the effect of contracts written in the period on the insurance contract liability, showing separately the effect on:

(a) the expected present value of fulfilment cash outflows;

(b) the risk adjustment;

(c) the residual margin?

[4] The fact that it is not is illustrated for single premium contracts, in which the premiums due after the first year would be zero, and thus the earned premium cannot be a component.

Disclosures for transition

42. As noted in paragraph 7, insurers shall make the disclosures required by IAS 8 on transition to the final insurance standard.

43. When the initial application of an IFRS has an effect on the current period or on any prior period, paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to disclose, for the current period and for each prior period presented, the amount of the adjustment for each financial statement line item affected.

44. In May 2012, the IASB tentatively decided to remove this requirement as part of its project to make narrow-scope amendments to IAS 8. Instead, the IASB would decide on a case-by-case basis whether additional disclosures are needed.

45. However, in October 2012, the IASB decided to remove the project to make narrow-scope amendments to IAS 8 from its current work plan. Thus, entities would continue to be required to disclose, for the current period and for each prior period presented, the amount of the adjustment for each financial statement line item affected. The IASB noted that it would still be incumbent on IASB staff to assess and present to the IASB on a case-by-case basis whether to create more specific transition requirements for a particular IFRS or amendment.

46. Under the IASB's tentative decisions to date in the insurance contracts project, insurers would need to restate comparative periods. When an insurer first applies the new insurance contracts standard, paragraph 28(f) of IAS 8 would require disclosure of the line item amounts that would have been reported in accordance with the previous accounting policy under IFRS 4:

    (a) for the current period, and

    (b) for prior periods that are required to be restated.

47. The staff have identified three considerations to take into account in evaluating whether each line item should be required to be reported in accordance with both the new insurance contracts standard and IFRS 4 in the current period and for prior periods that are required to be restated:

    (a) whether such disclosures would provide useful information;

(b) the cost of providing such disclosures; and

(c) whether the existing transition disclosure requirements are sufficient and enable users to assess the effect of transition.

48. **Useful information** - the staff question whether disclosing current-period and prior-period amounts based on an insurer's previous accounting policies under IFRS 4 would result in useful information. IFRS 4 permits the continuation of a wide range of existing practices, and permits insurers to select accounting policies that result in information that is neither relevant nor reliable. Moreover, the new insurance contracts standard will introduce new line items in the statement of comprehensive income and the statement of financial position.

49. **Cost** - the staff note that requiring disclosure of IFRS 4 amounts in the current period and in prior periods would require entities to incur the costs of running parallel systems, which would be onerous for preparers.

50. **Existing disclosure requirements** - as discussed in paragraph 7, the IASB has tentatively voted on a disclosure package for transition to the new insurance contracts standard. This disclosure package includes the disclosure requirements in IAS 8. If the IASB decides to provide relief from the disclosure requirement in paragraph 28(f) of IAS 8, the other disclosure requirements in IAS 8 will still enable investors to understand the effect of the transition from IFRS 4 to the new insurance contracts standard. For instance, paragraph 28(c) requires entities to disclose the nature of the change in accounting policy.

51. For the reasons described in the previous paragraphs, the staff recommend that in the period in which the new insurance contracts standard is initially applied, disclosure of the current-period and prior-period line item amounts that would have been reported in accordance with previous accounting policies in IFRS 4 should **not** be required.

Question 4: Disclosures for transition
Do you agree that 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?

Appendix A: Extract from September 2012 paper

Reconciliations that provide the summarised margin information proposed in the ED

52. The staff plan to discuss at a future meeting the presentation of premiums, claims and expenses in the statement of comprehensive income. At the meeting, the staff plan to propose that an insurer should provide reconciliation of the carrying amounts that would reconcile to the presentation in profit or loss. Users of financial statements find information more useful when it reconciles to the statements of financial position and comprehensive income (ie information that is consistent with the presentation model).

53. However, in the comment letters on the ED, many respondents commented that the reconciliations that would have been provided by the summarised margin approach (ie reconciliations of the opening to closing amounts of risk adjustment, discount cash flows and residual margin) would have been extremely useful because it would provide information generated by the measurement model for the liability and because it provide insight into an entity's insurance contracts.

54. In particular, the reconciliation showing information generated by the measurement model would provide important information as follows:

    (a) The decision to offset in the residual margin the effects of changes in estimates of future cash flows means that those effects will not appear in the statement of comprehensive income. Thus, users will see those effects only in the reconciliation of movements in the expected present value of fulfilment cash flows and of movements in the residual margin.

    (b) Many users have told us about the importance of understanding how profitability differs for different generations of policies. Information about the profitability of contracts that have been written in the period would be provided by the residual margin recognised at inception for those contracts, as reported in the reconciliation of movements in the residual margin.

    (c) Providing separate reconciliations of movements in the expected cash flows separately from the risk adjustment each period would enable

users of financial statements to compare the movements in the expected present value of fulfilment cash flows of insurers applying the IASB's model to the movements in the expected present value of fulfilment cash flows of insurers applying the FASB's proposed model (for whom the expected present value of fulfilment cash flows does not include an explicit adjustment for risk).

55. Accordingly, the staff propose that insurers should be required to disclose a breakdown of the opening and closing balances of the expected present value of cash flows, the risk adjustment and the residual margin. The staff also think that it would be useful to show the movements in those amounts because it would provide users of financial statements with the equivalent information regardless of whether they focussed on the information that derives from the measurement model or the information that derives from the presentation model.

56. However, requiring reconciliation of information generated by the measurement model in addition to reconciliation of information generated by the presentation model would mean that insurers would need to disclose two types of reconciliation from opening to closing carrying amounts in the balance sheet. Although providing two reconciliations from opening to closing carrying amounts may appear onerous, the staff note that the information to provide both reconciliations would be needed to comply with the measurement and presentation requirements and therefore conclude that the benefits of providing such information outweigh the costs.