

## STAFF PAPER

19-23 November 2012

## REG IASB Meeting

<b>Project</b>	<b>Insurance Contracts</b>		
<b>Paper topic</b>	Fieldwork: Planning		
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**What is this paper about?**

1. Fieldwork is a non-mandatory due process step. Consequently, the IASB must consider whether fieldwork should be undertaken as part of the re-exposure of the insurance contracts proposals.
2. This paper:
  - (a) provides background on previous fieldwork and the forthcoming re-exposure of the insurance proposals (paragraphs 3–6); and
  - (b) describes the proposed plan for fieldwork with preparers and users, including the proposed objectives, population and timing (paragraphs 7–17).

## Background

### *Previous fieldwork*

3. As part of the Insurance Contracts project, the IASB previously conducted two rounds of fieldwork. The second round of fieldwork examined the proposals in the 2010 Exposure Draft (ED) in order to:
  - (a) understand how the proposed measurement model, including specified aspects, would operate in practice;
  - (b) identify where more detailed implementation guidance may be required;
  - (c) evaluate the costs and benefits of the proposed measurement model; and
  - (d) assess how the measurement model will help insurers to communicate with users of their financial statements.
4. The specific feedback and supporting material provided by the participants were used by the staff to:
  - (a) better understand some of the arguments presented to us in our outreach, as well as in the comment letters.
  - (b) better understand qualitative arguments from respondents about the ED proposals. For example, information about the size of the impact in retained earnings when setting a nil residual margin on transition date could be a potential issue that the IASB may consider when it evaluates the merit of the proposals for transition.
  - (c) develop board papers on the specific issues addressed in the testing (eg unbundling, acquisition costs, definition of a portfolio).
5. As we described in the September 2012 Agenda Paper 16E, fieldwork participants did not raise any issues in addition to those concerns already expressed from the geographical areas to which they belong.

**Re-exposure**

6. At its September 2012 meeting, the IASB decided to re-expose its proposals for insurance contracts, with targeted questions on the proposed requirements for:
- (a) the treatment of participating contracts;
  - (b) the presentation of volume information in the statement of comprehensive income, including
    - (i) the premium (and claims) after excluding the amounts relating to investment components; and
    - (ii) presenting premiums in the statement of comprehensive income that have been allocated in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and presenting claims when incurred.
  - (c) the treatment of the unearned profit in an insurance contract by using the margin to offset changes in estimates of future cash flows (unlocking);
  - (d) presenting, in other comprehensive income (OCI), the effect of changes in the discount rate used to measure the insurance contract liability; and
  - (e) transition.

**Proposed fieldwork with preparers****Objective**

7. We note that one of the reasons that the IASB decided to re-expose its proposals is to better understand the operation of the five significant changes from the 2010 ED proposals outlined in paragraph 6. We think that fieldwork can assist in understanding the costs and any other issues that may arise in applying those proposals.
8. Consequently, the objectives for the fieldwork would be to:
- (a) understand how the targeted proposals would be applied in practice;

- (b) evaluate the costs and benefits of the targeted proposals; and
  - (c) assess how the proposed approach will help insurers to communicate with users of their financial statements.
9. Fieldwork participants would be asked to apply the proposed measurement model to a selected portfolio(s) of insurance contracts over two annual periods. Depending on the type of insurance contracts selected, the participants would then provide the results to the applicable questions.

### ***Population of fieldwork participants***

10. Fifteen entities agreed to participate in the previous round of the IASB's fieldwork. These entities will be invited to participate in the third round of fieldwork, if they are not participating in fieldwork with their local standard-setters or regional bodies that work in collaboration with the IASB.
11. We intend to work collaboratively with standard-setters, and regional bodies, in identifying participants and conducting the fieldwork to avoid undue costs to preparers.
12. Some regional bodies (eg EFRAG), and other interested national standard-setters, are planning to conduct similar fieldwork during the comment period as part of their own process. The questionnaire to be used as part of the fieldwork could be developed with the staff of those standard-setters. For our purposes, this questionnaire should concentrate on the targeted issues on which the IASB is seeking feedback. Standard-setters could then include additional questions related to their requirements although we would encourage them neither to overburden respondents nor to detract from the five targeted issues which is the focus of the forthcoming Re-Exposure Draft.
13. Any information received will be treated as confidential. Any information that we release publicly about the results of the fieldwork will not enable readers to identify data about individual participants.

## Proposed fieldwork with users of financial statements

14. We are also planning to hold workshops with users of financial statements to discuss the usefulness of the information that would be produced by insurers when applying the targeted proposals. We expect to involve users of insurance company financial statements as well as those who cover a wide range of industries.
15. We intend to tailor the content of the workshops to users' particular interests by developing appropriate material and focussing the discussion on the usefulness of:
  - (a) the information produced by the treatment of participating contracts an unearned profit;
  - (b) the presentation, and related disclosures, of volume information in profit or loss and the effects of changes of discount rate in other comprehensive income; and
  - (c) the disclosures proposed on transition.

For those users who cover a wide range of industries we may need to focus the discussion specifically on the presentation of volume information in profit or loss.

16. We expect to involve the staff of standard-setters and regional bodies in planning these workshops.

## Timing

17. Our plan is to:
  - (a) develop the fieldwork questionnaires and other materials when we finalise the forthcoming Re-Exposure Draft so that the users' workshops can take place, and entities can conduct the fieldwork, during the comment letter period; and
  - (b) present a preliminary analysis of the results at the same time as the comment letter analysis and the views received during the outreach activities. The results of the fieldwork, together with the views

expressed in comment letters, would then be taken into consideration when developing further board papers.

**Fieldwork**

Does the IASB have any comments on the proposed plan for fieldwork?