

STAFF PAPER

October 2012

IASB Meeting

Project	Insurance contracts		
Paper topic	Cover note for IASB sessions		
CONTACT(S)	Andrea Pryde	apryde@ifrs.org	+44 (0)20 7246 6491

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

1. This paper provides an overview of the papers for the IASB September 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 10A *Adaptations for the measurement of financial instruments with discretionary participation features*
 - (b) Agenda paper 10B *Transition—Overview and proposed drafting*
 - (c) Agenda paper 10C *Redesignation and reclassification of financial assets*
 - (d) Agenda paper 10D *Transition—Ancillary issues*
 - (e) Agenda paper 10E *Transition—Effective date, comparative financial statements and early application*

Agenda paper 10A Adaptations for the measurement of financial instruments with discretionary participation features

3. Agenda paper 10A *Adaptations for the measurement of financial instruments with discretionary participation features* examines the adaptations that are needed to

the measurement model for participating insurance contracts for financial instruments with discretionary participation features. This paper does not revisit the board's decision to include financial instruments with discretionary participation features in the scope of the insurance contracts standard, but rather considers the consequential amendments that are needed as a result of that decision.

4. The staff recommends:

- (a) that the contract boundary for a financial instrument with discretionary participation feature should be defined as follows:

The contract boundary for a financial instrument with a discretionary participation feature is the point at which the contract no longer confers substantive rights on the contract holder. This occurs when the contract holder no longer has a contractual right to receive benefits arising from the discretionary participating feature in that contract, or the premiums charged confer upon the contract holder substantially the same benefits as those that are available to new contract holders.

- (b) that the recognition requirement for a financial instrument with discretionary participation feature should be as follows:

An entity shall recognise a financial instrument with a discretionary participation feature asset or liability when, and only when, the entity becomes a party to the contractual provisions of the instrument.

- (c) That the board make no other adaptations. Our recommendation includes not making any adaptations for the allocation of the residual margin.

Agenda paper 10B Transition—Overview of previous decisions and recommendations

5. Agenda paper 10B *Transition—Overview of proposed decisions and recommendations* sets out the proposed drafting for the board's previous decisions and current staff recommendations for transition for the proposed insurance contracts standard.
6. This paper provides an overview and context and does not ask any questions.

Agenda paper 10C Redesignation and reclassification of financial assets

7. Agenda paper 10D *Redesignation and reclassification of financial assets* asks the IASB whether upon the first application of the proposed insurance contracts standard insurers should be permitted to redesignate and/or reclassify financial assets that had previously been designated or classified in accordance with IAS 39 or IFRS 9.
8. This paper recommends that an insurer should follow the *reclassification* guidance in the relevant financial instruments standard, except that an insurer:
 - (a) should be permitted to designate eligible financial assets under the fair value option (FVO) where new accounting mismatches are created by the first application of the insurance contracts standard.
 - (b) should be required to revoke previous designations under the FVO where an accounting mismatch no longer exists due to the application of the insurance contracts standards; and
 - (c) following earlier application of IFRS 9, should be permitted to newly elect to use other comprehensive income for the presentation of changes in the fair value of some or all equity instruments that are not held for trading, or revoke a previous election.

Agenda paper 10D Transition—Ancillary issues

9. Agenda paper 10D *Transition—Ancillary issues* asks the IASB to consider remaining issues for transition. This paper:
- (a) explores a practical expedient for unlocking the residual margin for changes in estimates before the date of transition;
 - (b) contemplates the transition requirements for first-time adopters of IFRS; and
 - (c) asks the IASB to decide whether to include explicit guidance to permit insurers to redesignate assets in the scope of IAS 16 or IAS 40 on transition.
10. The staff recommend:
- (a) when estimating the residual margin on transition, the insurer should be required to treat all changes in estimates of cash flows as if the insurer knew about them at initial recognition;
 - (b) to require entities that adopt IFRS for the first time to follow the same transition requirements that would apply when an insurer applies the new standard after publication; and
 - (c) not to include specific guidance permitting entities to redesignate property, plant and equipment and investment property backing insurance liabilities on transition.

Agenda paper 10E Transition—Effective date, comparative financial statements and early application

11. Agenda paper 10E *Transition—Effective date, comparative financial statements and early application* asks the IASB to consider:
- (a) the mandatory effective date for the forthcoming Insurance Contracts Standard;
 - (b) whether to require restatement of comparative financial statements; and

(c) whether to permit early application of the standard.

12. The staff recommend that the IASB:

- (a) set a mandatory effective date that is three years after the date of issuance of the final standard;
- (b) require entities that apply the final standard at the mandatory effective date to restate comparative financial statements;
- (c) permit entities to apply the final standard before the mandatory effective date; and
- (d) permit entities that apply the final standard before the mandatory effective date not to restate comparative financial statements.

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

13. 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.

14. 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.

15. 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 presentation in the statement of comprehensive income in agenda papers 2A-2C will already be included in the targeted question described in paragraph 14(b).
 - (b) Agenda paper 2D deals with details relating to the boards decisions on the premium allocation approach that are not significant enough to warrant re-exposure in its own right.
 - (c) The decisions related to participating contracts in agenda paper 2F¹ are already included in the targeted question described in paragraph 14(a).
 - (d) The decisions in agenda paper 10A relating to the modifications needed to the insurance contract standard for investment contracts with discretionary participation features are consequential details arising from the IASB's decision to include such contracts in the scope of the standard.
 - (e) The decisions related to transition in agenda papers 10B-10E will already be included in the targeted question described in paragraph 14(e).

¹ Agenda paper 2E is not used for this meeting.