IFRS

STAFF PAPER

September 2012

REG IASB Meeting

Project	Insurance contracts
Paper topic	Disclosures: Staff analysis

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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*.

Purpose of this paper

1. This paper considers whether the IASB should modify the proposed disclosure requirements for insurance contracts, clarify any requirements or add additional disclosures. This paper is intended to complete the IASB's discussion of disclosures for insurance contracts, with the exception of any disclsoures necessary as a result of decisions the board is yet to take (which will be presented in the context of the decisions at this meeting).

2. The staff does not propose to ask the IASB to discuss the recommendations in this paper individually, unless a IASB member requests to do so. Instead, the staff will ask the IASB to confirm the package of disclosures in agenda paper 16F, which incorporates the recommendations in this paper.

Summary of staff recommendations

3. The staff recommends that:

	Recommendation	Paragraph references in this paper	Paragraph reference in agenda paper 16F
(a)	insurers should disclose gains or losses arising on	9-11	87(f)

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	modification, commutation or derecognition of an insurance contract		
(b)	The IASB should confirm the requirement to provide reconciliations between opening and closing carrying amounts.	12-17	86-87B
(c)	insurers should disclose a reconciliation of the additional liabilities for onerous insurance contracts.	18	86(d)
(d)	insurers should disclose a reconciliation of the aggregate carrying amount of insurance contract liabilities and insurance contract assets, showing separately: (i) the expected present value of fulfilment cashflows (ii) risk adjustment (iii) residual margin. (This was the summarised margin information previously proposed in paragraph 86 of the ED)	19-22	86
(e)	The IASB should not add more guidance on the level of disaggregation of the reconciliation of carrying amounts in the statement of financial position beyond the overall requirement to consider the level of detail necessary to satisfy the disclosure objective and the requirement to aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.	24-29	81

(f)	The IASB should delete the disclosure in paragraph 89 of the ED about contracts for which uncertainty about the amount and timing of claims payments is not typically resolved fully within one year.	30-32	89
(g)	An insurer should disclose the amount of equity that the insurer holds to comply with regulatory requirements. That amount should comprise the equity required using regulatory measurement requirements, together with the effect of differences, if any, between those measurements and the measurements made using IFRSs.	33-42	92(d2)
(h)	the disclosure of the amounts payable on demand should highlight the relationship between such amounts and the carrying amount of the related contracts.	43	95(c)

Staff analysis

General comments

4. Although many preparers were concerned that the disclosures specified in the ED are excessive and could obscure the information that financial statement users will find necessary and useful, users generally supported the proposed disclosure package. They argued that the disclosure requirements mainly reflect disclosures that are already required under the current IFRS 4 *Insurance Contracts*.

5. However, some of the user feedback stated that the disclosures need to be more specific to reflect the new presentation requirements and the margin approach and some respondents called for additional disclosures.

6. At the joint meeting in September 2011, the IASB and FASB decided tentatively to retain the disclosures proposed in the ED, with specified modifications. However, the boards did not discuss:

    (a) The reconciliation of carrying amounts required by paragraphs 86-89 of the ED, including the related requirements for short duration contracts;

    (b) Additional disclosures and clarifications suggested in the comment letters; or

    (c) Disclosures that relate to topics for which the IASB has changed the proposed requirements in the ED. These topics include:

        (i) Participating contracts, to be discussed at a future meeting.

        (ii) Presentation of earned premiums in the statement of comprehensive income, to be discussed at a future meeting.

        (iii) Offsetting changes in estimates of future cash flows in the residual margin. Paragraph 21(a) discusses the additional information needed as a result of this decision.

        (iv) Presentation in other comprehensive income of changes in discount rate. Paragraph 92 of IAS 1 requires that entities disclose reclassification adjustments relating to components of other comprehensive income. As a result, an insurer would disclose any amounts recycled on transfers of insurance contract liabilities. The staff notes that the IASB does not require specific disclosures for financial assets measured at fair value through OCI, except disclosures of credit losses. Disclosures of credit losses are not relevant for insurance contract liabilities. Accordingly, the staff does not recommend additional disclosure requirements.

        (v) Unbundling. The IASB has tentatively decided that insurers should unbundle embedded derivatives, distinct goods and services and distinct investment components. In the staff's view, the fact that an insurer has unbundled non-insurance components would be useful information to users in understanding the products that the insurer sells. However, the staff thinks that sufficient information about the

existence of unbundled non-insurance components would be disclosed to comply with the accounting policy disclosures required by IAS 1. Accordingly, the staff does not recommend additional disclosure requirements.

7. This paper discusses the disclosures in the order in which they appear in agenda paper 16F (see paragraph 3).

8. Paragraph 44 details disclosure requirements proposed in the comment letters that the staff do not recommend the IASB adopts.

Commutations and other contract modifications

9. In April 2012, the IASB and FASB noted that they would discuss disclosures about commutations at a future meeting.

10. A commutation is a type of contract modification, in which the parties to the insurance or reinsurance contract settle the contract in a way that results in a complete discharge of all obligations between the parties under that reinsurance contract.

11. It follows that a commutation is one type of contract modification. Accordingly, the staff do not propose to add disclosures only about commutations, as opposed to other contract modifications. Instead, the staff proposes to require disclosure of gains and losses on contract modification, commutation and derecognition. Contract modification, commutation and derecognition all arise as a result of changes to a contract that have been made after inception and give rise to gains and losses. In principle, such disclosure should already be provided to comply with the requirement that an insurer disclose additional information necessary to meet the disclosure objectives and in the reconciliation of carrying amounts. However the staff thinks that specific reference would result in disclosure of useful information to users of financial statements.

Staff recommendation (a): Gains or losses on modification, commutation or derecognition of an insurance contract

Therefore, the staff recommend that insurers should disclose gains or losses arising on contract modification, commutation or derecognition.

Reconciliation of carrying amounts

Need for reconciliations

12. Paragraphs 86 and 87 of the ED propose to require reconciliation of carrying amounts as follows:

> 86 To comply with paragraph 85(a), an insurer shall disclose a reconciliation from the opening to the closing balance of each of the following, if applicable:
>
> (a) insurance contract liabilities and, separately, insurance contract assets.
>
> (b) risk adjustments included in (a).
>
> (c) residual margins included in (a).
>
> (d) reinsurance assets arising from reinsurance contracts held by the insurer as cedant.
>
> (e) risk adjustments included in (d).
>
> (f) residual margins included in (d).
>
> (g) impairment losses on reinsurance assets.
>
> 87 For each reconciliation required by paragraph 86, an insurer shall show, at a minimum, each of the following, if 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:
>
> (i) claims and benefits.
>
> (ii) expenses.
>
> (iii) incremental acquisition costs.
>
> (e) other cash paid and, separately, other cash received.

(f) income and expense, reconciled to the amounts disclosed to comply with paragraphs 72 and 75.

(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.

13. In addition, paragraph 88 of the ED proposed an additional reconciliation for insurance contracts measured using the premium allocation approach, as follows:

> 88 For short-duration contracts measured using the measurement described in paragraphs 54-60 [ie the premium allocation approach], an insurer shall disclose the reconciliation required by paragraph 86 separately for:
>
> (a) pre-claims liabilities.
>
> (b) additional liabilities for onerous insurance contracts
>
> (c) claims liabilities.

14. Those reconciliations were consistent with the proposal in the ED that:

(a) For contracts accounted for using the building block approach, insurers should provide a reconciliation between opening and closing carrying amounts that also reconciled to the summarised margin information presented in the statement of comprehensive income

(b) For the pre-claims liability for contracts accounted for using the premium allocation approach, insurers should provide a reconciliation between the opening and closing carrying amounts that support the volume information that is generated in the premium allocation approach. The premium allocation approach divides the insurance contract liability into a liability for remaining coverage and a liability for incurred claims and measures the liability for remaining coverage by allocating the premium. Because the allocation of premium would not identify adverse changes in estimates, insurers would also be required

to recognise additional liabilities if the contract is onerous. The ED therefore proposed that insurers should provide reconciliations for the unearned premium (ie liability for remaining coverage) , claims liabilities and, if applicable, additional liabilities for onerous contracts.

15. The staff observes that the IASB has endorsed the proposal to require the reconciliation of carrying amounts in the statement of financial position in the 2011 Exposure Draft *Revenue from Contracts with Customers*, as follows:

> BC256 Preparers and users expressed differing views on the proposal to disclose a reconciliation of contract balances. Most preparers commented that it would be costly to compile and present the information required by the reconciliation of contract assets and contract liabilities. Furthermore, some preparers doubted whether, given the preparation costs, the disclosure would be cost-beneficial. In contrast, users stated that the information that would be provided by the reconciliation is not available from other qualitative or quantitative disclosure requirements. And, although the reconciliation would impose costs on preparers, those users commented that the disclosure was important because it would help them to understand the interaction between the revenue that has been recognised and the movements in cash and receivables, as well as to understand the contract assets and contract liabilities.
>
> …
>
> BC259 Therefore, the boards affirmed the proposal to require the reconciliation of contract balances because of the importance of that information to users of financial statements.

16. Similar views were expressed in the comment letters to the insurance contracts ED and the staff believes the same considerations and logic apply for the reconciliation of carrying amounts in the statement of financial position required for insurance contracts. Therefore, although considered by some to be onerous to prepare and voluminous to present, the staff thinks that the information provided

by the reconciliation from opening to closing carrying amounts is important to users of financial statements.

17. This view was supported by users of financial statements, who have told us that information about new contracts recognised in the period, premiums received and payments for claims and expenses is important to their analysis of how well an insurer is performing, for the following reasons:

    (a) Information about new contracts recognised in the period would give users of financial statements information about growth or shrinkage of the insurer

    (b) Information about cash premiums received and cash payments for claims and expenses would provide more objective information to supplement other more subjective information available about insurance contracts.

    (c) Information about acquisition costs, together with information about new contracts recognised would give an insight into how much an insurer pays to acquire contracts, another metric commonly assessed by users of financial statements.

    (d) Information about movements in a liability that occur as a result of portfolio transfers or business combinations is important to users because it highlights the effects of non-recurring transactions in the year.

    (e) Finally, the disclosure as a whole will explain how the various components of the change in insurance contract liability interrelate.

Staff recommendation (b): Reconciliations between opening and closing carrying amounts

Accordingly, the staff propose that the IASB confirm the requirement to provide a reconciliation between opening and closing carrying amounts.

Reconciliations of any onerous contract liability recognized in the pre-coverage period

18. In March 2011, the IASB tentatively decided that insurance contract assets and liabilities should initially be recognised when the coverage period begins, and to require the recognition of an onerous contract liability in the pre-coverage period if management becomes aware of onerous contracts in the pre-coverage period.

Staff recommendation (c): reconciliation of additional liabilities for onerous contracts
The staff recommends that insurers should provide a reconciliation of the carrying amounts of an onerous contract liabilities recognised in the pre-coverage period because it has the same information value as the reconciliation of the carrying about of insurance contracts recognised when coverage begins

Reconciliations that provide the summarised margin information proposed in the ED

19. The staff plans to discuss at a future meeting the presentation of premiums, claims and expenses in the statement of comprehensive income. At the meeting, the staff plans 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).

20. 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.

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

22. 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.

23. 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 notes that the information to provide both reconciliations would be needed to comply with the measurement and presentation requirements and therefore concludes that the benefits of providing such information outweigh the costs.

Staff recommendation (d): reconciliations of insurance contract liabilities and insurance contract assets
Accordingly, the staff recommends that insurers should disclose a reconciliation of the aggregate carrying amount of insurance contract liabilities and insurance contract assets, showing separately: (i) the expected present value of fulfilment cashflows (ii) risk adjustment (iii) residual margin.(This was the summarised margin information previously proposed in paragraph 86 of the ED)

Level of disaggregation

24. Many of the comment letters to the ED stated the reconciliation of insurance liabilities appears overly prescriptive and onerous and will require significant cost and effort for limited added value. A particular issue is the aggregation level of disclosures about insurance contracts.

25. Most respondents stated users will obtain sufficiently meaningful information from these reconciliations *at the entity level*. They believe the provision of the reconciliations at the portfolio level would provide little additional benefit, result in unreasonable cost to preparers and not be practical. They argue that the segment information that would already required to comply with IFRS 8 *Operating Segments* would provide sufficient information.

26. However, many users highlighted the importance of segmental, or even more detailed, information and indicated that reconciliations of carrying amounts would help them to understand the changes in insurance contract liabilities. Furthermore, the information provided by such reconciliations is not available from other qualitative or quantitative disclosure requirements. Some therefore suggest that

for a proper understanding, reconciliations of carrying amounts need to be disclosed at a portfolio level.

27. In September 2011, the IASB confirmed the principle regarding the aggregation level of information as described in paragraph 81 of the ED, which stated that the insurer shall aggregate or disaggregate information so that information that is useful is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. However, the IASB noted it would consider specific, possibly more detailed, disaggregation requirements for the reconciliation from opening to closing balance of contract assets and contract liabilities, after it finalised redeliberation on presentation issues.

28. In determining the level of disaggregation, the difficulty lies in balancing the consistency and completeness that could be achieved by prescribing a minimum level of disaggregation, with the cost of providing that information and the risk of information overload. Some also believe that specifying the level of disaggregation in a principled way, consistent with the IASB's other decisions, would result in more relevant disclosure.

29. The staff notes that, as is the case for other recent IFRSs:

    (a) An insurer would need to comply with the overall requirement to consider the level of detail necessary to satisfy the disclosure objective and the requirement to aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

    (b) An insurer would also need to consider whether the information to be disclosed in a reconciliation would be material.

Staff recommendation (e): level of disaggregation

The staff does not propose to add more guidance on the level of disaggregation of the reconciliation of carrying amounts beyond the overall requirement to consider the level of detail necessary to satisfy the disclosure

objective and the requirement to aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

Disclosures about incurred claims

30. Paragraph 89 of the ED proposes that:

> For contracts for which uncertainty about the amount and timing of claims payments is not typically resolved fully within one year, an insurer shall disclose the claims and expenses incurred during the period.

31. Some note that this additional disclosure does not seem to add significantly to the disclosure of "claims and expenses paid during the year" for claims liabilities which is included in the reconciliation of amounts presented in the statement of financial position for contracts accounted for using the premium allocation approach.

32. However we note that in the ED paragraph 89 applied to contracts for which insurers would apply the building block approach, and is intended to give information about claims development after the end of the coverage period. At the time of the ED, insurers were not required to provide information about claims and benefits in the statement of comprehensive income. As a result of the IASB's decisions since the ED, that situation has changed and we expect that information about claims incurred and expenses incurred would be provided (we will discuss disclosures about premiums, claims and benefits in a future meeting). In addition, paragraph 89 overlaps with the requirement in paragraph 92(e)(iii) to disclose actual claims compared with previous estimates of the undiscounted amount of the claims. That disclosure would disclose the undiscounted amount of all claims incurred in the period, whether or not the amount and timing of claims payments is typically resolved fully within one year.

Staff recommendation (f): uncertainty about amount and timing of claims payments

Accordingly, the staff proposes to delete the disclosure about contracts for which uncertainty about the amount and timing of claims payments is not typically resolved fully within one year (proposed in paragraph 89 of the ED).

Disclosures about 'free' capital

33. Paragraph 92(d) of the ED proposed that insurer should disclose the effect of the regulatory frameworks in which the insurer operates, for example minimum capital requirements or required interest rate guarantees. Many users indicated a wish for additional disclosures that would help them to understand and analyse those *effects*.

34. Regulatory requirements mean some of the insurer's equity becomes tied up when the insurer issues new contracts because regulatory capital must be held for the new contracts now in force. Many users of financial statements seek information about how much regulatory capital an insurer will need to hold for the new contracts written in the period, and when that capital will cease to be required.

35. In some cases, the amount of regulatory capital may be derived from measurements of assets and liabilities whose measurement for this purpose differs from their measurement under IFRSs.

36. Some refer to the amount of equity generated in a reporting period that is not needed to service the regulatory capital requirements as 'free cash flow'. This has led to suggestions that users of financial statements should look to the cash flow statement to obtain the information that they seek.

37. However, the cash flow statement would not distinguish the cash generated that is available to shareholders from cash needed to support existing contracts, nor the amount needed for reinvestment in the business. Paragraph 48 of IAS 7 *Statement of Cash Flows* does require an entity to "disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group." Paragraph 49 provides as an

example of such restrictions “cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.” However, this does not provide information about the amount available for either distribution or reinvestment. That amount may instead exclude some forms of cash, eg cash held as a result of regulatory requirements and that cannot be distributed by the insurer’s subsidiaries, and may include assets other than cash, for example investments that could be realised and used to generate cash easily.

38. The staff notes that paragraph 50(c) of IAS 7 does include an analogous notion in the split between maintenance capital expenditures (capex) and growth capex, as follows:

> 50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include ...(c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity …
>
> 51 The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

39. In the situation envisaged by IAS 7, the entity has discretion to choose how much to invest in the maintenance of its operating capability. For insurers, regulatory capital is the equivalent of operating capability, and the amount of regulatory capital to be held is regulated. Disclosure of the regulatory capital required could provide users of financial statements with information about an insurer’s capacity to write new business in future periods (because the excess over regulatory capital held is available to support future new business).

40. While the staff agrees the information about free cash flow can be helpful for understanding the financial position, financial performance and cash flows during

the reporting period, the staff note that such disclosures are not related to insurance contracts only, and could be useful for all entities operating in a highly regulated business environment. Thus such disclosures might be relevant not only to insurers but to other financial service entities too. The staff are concerned about developing such disclosures in isolation in a project on accounting for insurance contracts, and believe that a better approach would be to develop such disclosures using a more holistic approach and on a broader basis, for example as part of projects on disclosure framework, financial statement presentation or review of existing disclosures as a whole. This could avoid potential redebates in other standards, for example IAS 1, IAS 7 and IFRS 7, and achieve consistent disclosure requirements.

41. Nonetheless, even if the IASB decides to conduct any such holistic project, the finalisation of such a project would remain some time away. In addition, the staff thinks that regulatory disclosures are particularly relevant for insurance contracts as almost any entity that issues insurance contracts is regulated. Therefore, the staff thinks that the IASB should, in its project on insurance contracts, consider specific disclosures about the effects of regulation on the financial statements of insurers.

42. The staff notes that regulatory capital requirements are often derived from measurements of assets and liabilities whose measurement for this purpose differs from their measurement under IFRSs. Any disclosures about the amount of regulatory capital will need to consider how those measurement differences affect the part of the IFRS equity that is locked up in regulatory capital. Disclosing the amount of regulatory capital held that is determined on the regulatory capital basis could be misleading when compared to the amount of equity held that is determined on an IFRS basis. It would be more meaningful to provide disclosure of the amount of regulatory capital adjusted to reflect the differences, if any, between those measurements and the measurements made using IFRSs.

Staff recommendation (g): equity held to comply with regulatory requirements
Accordingly, the staff propose that the insurer should be required to disclose the amount of equity that the insurer holds to comply with regulatory requirements. That amount should comprise the equity required, as determined using regulatory measurement requirements, together with the effect of differences, if any, between those measurements and the measurements made using IFRSs.

Amounts payable on demand

43. In March 2012, the IASB tentatively decided that insurers should disclose the amounts payable on demand. The staff are concerned about the usefulness of this disclosure in isolation. The staff thinks that this disclosure should supplement the disclosures about the carrying amount, and timing of expected net cash outflows, disclosed in the maturity analysis required by paragraph 95(a) of the ED.

Staff recommendation (h): amounts payable on demand
The staff propose to clarify that amounts payable on demand should be disclosed in a way that highlights the relationship between such amounts and the carrying amount of the related contracts.

Further modifications suggested to the proposals in the ED

44. The staff do not propose to amend the disclosures in response to the requests described in the following table.

	Issue	Staff comment and analysis
1	**Ceding commissions** Some note that the ED proposed that insurers disclose separately acquisition costs paid, but not of ceding commissions which insurers receive from reinsurers that they regard as related to those acquisition costs.	The IASB has previously decided that ceding commissions should be treated as an adjustment of premiums unless they are contingent on claims or benefits experience. In other words the IASB does not view ceding commissions as directly related to the acquisition costs paid by the underlying policyholder to the cedant. Accordingly, the staff do not think that the separate disclosure of ceding commissions received should be required. Furthermore, it could be difficult to distinguish ceding commissions related to acquisition costs from those inherent in the premium passed on.
2	**Claims triangles** Most respondents support the requirement that claim developments (ie actual claims compared with previous estimates of the claims) should be disclosed because they regard it as a useful tool to evaluate the precision of management's estimates and corresponding quality of earnings. They also support the requirement to disclose this on an undiscounted basis. However, a few respondents suggest clarification of whether claim developments should be disclosed on a	Paragraph 92 of the ED stated that **91. An insurer shall disclose information about the nature and extent of risks arising from insurance contracts in sufficient detail to help users of financial statements evaluate the amount, timing and uncertainty of future cash flows arising from insurance contracts.** 92 To comply with paragraph 91, an insurer shall disclose: (a) ... (e) information about insurance risk on a **gross and net basis** [emphasis added], before and after risk mitigation (eg by

	Issue	Staff comment and analysis
	gross of reinsurance; on a net of reinsurance or on both a gross and net of reinsurance basis. Some question how the disclosure of claims development would work for life contracts.	reinsurance) including information about: ... (iii) actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). Thus, the ED already proposes both gross and net presentation, because gross and net disclosure of claims developments will provide a better understanding of the insurer's risk mitigating techniques and ultimate exposure to risk. The staff notes that disclosure of claims development would not typically be needed for most life contracts. Paragraph 92(e)(iii) states: '…An insurer need not disclose information about the development of claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.'
3	**Policyholder dividends** Some comment letters suggest enhanced disclosure of the expected dividend payments to policyholders, including the effect on the measurement of the liability of expected dividend payments.	Paragraph 90(a) requires disclosure of the methods used and the processes for estimating the inputs to those methods for the measurements that have the most material effect on the recognised amounts arising from insurance contracts. Paragraph 90(b)(iii) proposed disclosure about the methods and inputs used to estimate policyholder dividends, to the extent not provided in accordance with paragraph 90(a). However the ED did not propose the disclosure of the expected dividend payments or the effect on the measurement of the liability of expected dividend payments that are contractually required.

	Issue	Staff comment and analysis
		The staff notes that, as stated in paragraph BC70 of the ED: "It can be exceptionally difficult to determine whether an insurer is paying participating benefits because it believes it is obliged to do so, rather than for some other reason that does not normally justify the recognition of a liability…Even if a reasonable estimate of non-discretionary cash flows were possible, investors would not benefit from knowing how much might be enforceable in the highly unlikely event that an insurer tried to avoid paying participating benefits in periods when performance would typically permit such benefits to be paid. That amount provides no information about the amount, timing and uncertainty of future cash flows. On the other hand, investors would want to know: (i) how much of the cash flows will not be available to investors because the insurer expects to pay them to policyholders. The proposed model conveys that information by including those cash flows in the measurement of the liability. (ii) How much of the risk in the contracts is borne by the policyholders through the participation mechanism and how much by the investors themselves. This information can be conveyed by the required disclosures about risk."
4	**Diversification** Some suggest that an insurer should disclose how it determined the diversification benefit that is reflected in the determination of the risk adjustment.	The staff note that since the ED the IASB has refined the definition of the risk adjustment to be "the compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the insurance contract'. Diversification benefits might affect the amount of compensation required, but that is a matter for the insurer to determine in the light of its own appetite for risk. Paragraph 90(a) of the ED proposed than an insurer should disclose methods used and processes for estimating the inputs to those methods for the

	Issue	Staff comment and analysis
		measurements that have the most material effect on the recognised amounts for insurance contracts. Paragraph 90(b)(i) proposed that to the extent not covered in 90(a), an insurer should disclose the methods and input used to estimate the risk adjustment, including the confidence level to which the risk adjustment corresponds. The staff think that the requested disclosure would be covered by these requirements.
5	**Operating segments** Some suggest that segmental information that complies with IFRS 8 *Operating Segments* may result in segmental disclosures along geographical lines rather than along life/non-life or product lines. Those respondents suggest that segmental disclosure along life/non-life or product lines is essential.	IFRS 8 states that an operating segment is a component of an entity: (a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) (b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) For which discrete financial information is available. IFRS 8 also requires that an entity shall report the revenues from external customers for each product and service, or each groups of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. IFRS 8 also notes that in some entities, there may be a matrix form of organisation (eg different product and service lines worldwide vs specific

Issue	Staff comment and analysis
	geographical areas). In developing IFRS 8, the IASB proposed that in such cases, the components based on products and services should be the basis for the operating segments. However, the IASB was persuaded by the response to the comment letters that such a requirement would be inconsistent with the management approach. As a result, IFRS 8 requires the entity to determine which set of components constitutes the operating segments by reference to the core principle of IFRS 8, which states that "an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates." The staff observes that many insurers are organised along product lines, many users of insurers of financial statements are interested in the product lines, and that insurers are regulated along product lines. However, that is also true for users of the financial statements of other types of entity. Accordingly, the staff does not think that a sufficient case has been made to override the management approach in IFRS 8.[1]

[1] The staff notes that the IASB is currently conducting a post-implementation review of IFRS 8 *Operating Segments*.

	Issue	Staff comment and analysis
6	**Differential disclosure for life and non-life contracts** Some suggest that the risk disclosures in paragraph 92 of the ED were more applicable to non-life insurance than for life insurance. However others believe that the same detail should be disclosed under either method.	The IASB has confirmed its view that there should be a single accounting model for all insurance contracts, with simplifications in some cases. To be consistent with this view, the same disclosures should, in principle, be relevant to all insurance contracts, subject to materiality.
7	**Separate presentation of experience adjustment and changes in estimate** Some suggest that experience adjustments and changes in estimates should be presented separately. The ED would have permitted them to be combined in one line item.	The IASB's subsequent decisions on offsetting only changes in estimates in the residual margin make this comment obsolete.
8	**Operating profit – presentation** Some suggest disclosure of expected versus actual return on assets and any change in the long-term expected rate to help users judge an insurer's investment performance.	This disclosure relates to asset returns and not to insurance contract liabilities and is therefore out of the scope of the proposed standard.
9	**Analysis of gains by source** Some suggest that insurers should disclose an analysis of profit or loss by source (i.e. the amount recognised in profit and loss arising from changes in mortality, morbidity and lapse assumptions; investment income; other expenses).	The staff already recommend that the insurer shall disclose the underwriting margin, (disaggregated into the change in risk adjustment, the release of residual margin), experience adjustments, and changes in estimates and interest on insurance contract liabilities. In the staff's view requiring all insurers to further disaggregate comprehensive income to show separately profit or loss arising from the effects of changes in mortality, morbidity and lapse assumptions would be excessive. Furthermore, in the cases where there is particular information

	Issue	Staff comment and analysis
		value in separately identifying gains or losses arising from mortality, morbidity or lapse, perhaps because of unusual patterns in one of those assumptions, an insurer would need to consider the general requirement to disclose whatever additional information is necessary to meet the disclosure objectives
10	**Disclosures about the regulatory framework** Paragraph 92(d) of the ED proposed disclosure about the regulatory framework insurers operate in, for example minimum capital requirements or required interest rate guarantees. Some questioned how this requirement interrelates with the existing requirement to disclose information about the capital and capital management of the entity in paragraphs 134-136 of IAS 1 *Presentation of Financial Statements*. Some suggest that the requirement to disclose information about the regulatory framework would be onerous for multi-nationals to compile and disclose and would not add sufficient value to justify the cost of preparation.	The staff agrees that there is some overlap between the disclosures required by paragraphs 134-136 of IAS 1 and the ED's proposed requirement to disclose information about the regulatory framework that an insurer operates in. IAS 1 requires disclosure about whether the entity complied with any externally imposed capital requirements and the extent of non-compliance. Information about the regulatory framework would provide supporting information about what the externally imposed capital requirements are. The staff notes that differing regulatory frameworks can affect a multi-national insurer even more than a domestic insurer and the users of financial statements are less likely to understand the varying risks that result from operating in many regulatory jurisdictions. Therefore, although the information would be more onerous to provide, it would also provide correspondingly higher benefit. Furthermore, an insurer's management should have the information available about the most significant regulatory requirements (in order to comply with them) and would not need to acquire it. The main cost should thus be limited to distilling the summary description into a form that is accurate, concise and suitable for public disclosures.