18 February–22 February 2013

IASB Meeting

Project	**Insurance Contracts**		
Paper topic	Permission to ballot a targeted revised Exposure Draft on accounting for insurance contracts		
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Introduction

1. At its September 2012 meeting the IASB discussed Agenda Paper 16E *Due process summary for the insurance contracts project*. Following this discussion the IASB decided:

   (a) to re-expose the Insurance Contracts proposals; and

   (b) to seek feedback only on a limited range of questions.

2. The purpose of this paper is:

   (a) to request permission to begin the balloting process for a targeted revised Exposure Draft on accounting for insurance contracts (discussed in paragraphs 3-4);

   (b) to ask whether any IASB member intends to dissent from the publication of the revised Exposure Draft (discussed in paragraph 5); and

   (c) to recommend the length of the comment period (discussed in paragraphs 6-7).

Permission to begin the balloting process

3. At this meeting, the IASB will complete the planned technical decisions needed to finalise its revised Exposure Draft on Insurance Contracts. The staff is asking for permission to begin the balloting process. The staff believe that:

   (a) all of the required steps in the IASB's *Due Process Handbook* have been complied with; and

   (b) the proposals for accounting for insurance contracts are sufficiently developed and therefore, the staff can proceed to ballot the revised Exposure Draft.

4. To assist the IASB in this decision, the staff have prepared a package consisting of the following materials:

   (a) Appendix A of this paper sets forth the reasons for undertaking the Insurance Contracts project and the need for a new IFRS on insurance contracts.

   (b) Appendix B of this paper reviews the history of the project and describes the due process the IASB has undertaken in developing the proposals for accounting for insurance contracts.

   (c) Appendix C of this paper shows how the IASB has adhered to the protocol for development of an Exposure Draft as set out in the IFRS Foundation's *Due Process Handbook*, which was approved by the IFRS Foundation Trustees in January 2013.

   (d) Appendix D of this paper sets out the main differences between the IASB's and FASB's decisions. Since 2008, the IASB and FASB have been deliberating the issues in the project jointly. The IASB and FASB have decided to issue separate Exposure Drafts and finalise those Exposure Drafts separately.

   (e) AP2B *Overview of the Board's proposals* provides a high level summary of the IASB's proposals to be included in a new IFRS on insurance contracts.

(f) AP2C *Comparison of the IASB's tentative decisions to the comment letter summary* is an overview of the ways in which the IASB has addressed the comments received on the 2010 Exposure Draft *Insurance Contracts*.

(g) AP2D *Summary of comment letters on the IASB ED* reproduces Agenda Paper 3E *Summary of comment letters on the IASB ED*, which was presented to the IASB at its meeting in January 2011.

Permission to ballot
Does the IASB grant the staff permission to begin the balloting process for the targeted revised Exposure Draft on accounting for insurance contracts?

Possible dissents

5. At this time, the staff are also asking whether if any IASB members intend to dissent from the proposal and, if they do, their reason for doing so.

Possible dissents
Do any IASB members intend to dissent from the proposal?

Comment period

6. The minimum comment period for a revised Exposure Draft is 90 days. However, the staff expects that some of the areas targeted in the revised Exposure Draft have wide-ranging implications, and that it would take time for interested parties to assess those implications. In addition, the staff believe that a longer comment period is needed because the IASB intends to conduct a programme of outreach during the comment period, including fieldwork. Sufficient time is needed to engage in outreach activities with stakeholders and to process their feedback.

7. Accordingly, the staff recommend a comment period of 120 days for the revised Exposure Draft on accounting for insurance contracts.

Comment period
Does the IASB agree that the comment period for the targeted revised Exposure Draft on accounting for insurance contracts should be 120 days?

Appendix A—Reasons for undertaking the insurance contracts project

Purpose of this appendix

A1. The purpose of this appendix is to describe the need for an IFRS on accounting for insurance contracts.

A2. At present, IFRSs have no credible standard that deals with the accounting for insurance contracts. IFRS 4 *Insurance Contracts*, published in 2004, is an interim standard that permits a wide range of practices and includes a 'temporary exemption' that states explicitly that an insurer does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users or are reliable. As a result, there are "substantial differences used by different companies to account for [insurance] contracts"[1].

A3. Furthermore, the IASB regards existing practice in many jurisdictions as having the following flaws:

(a) Some practices have developed in a piecemeal fashion over many years and do not provide a coherent framework for dealing with more complex contracts (such as multi-line or stop-loss contracts) or resolving emerging issues with new types of insurance contracts.

(b) Accounting methods have sometimes been tailored more to meeting the need of insurance regulators than to meeting the sometimes different needs of investors and other capital providers.

(c) Some practices used by insurers differ from those used by other entities, particularly other financial institutions, such as banks and fund managers, even though there is no sound reason for all those differences. These differences impede comparisons between insurers and other financial institutions which compete with insurers for investor capital. They can also mean that financial conglomerates produce financial statements that are internally inconsistent.

[1] November 2011 SEC staff paper *An analysis of IFRS in Practice*.

A4. Accordingly, the diversity in current application of IFRSs for insurance contracts today means that until a standard on insurance contracts is finalised, IFRSs could be regarded as incomplete. The IASB's project on insurance contracts project is intended to address these problems by:

(a) Providing a comprehensive framework that will require insurers to provide information that is relevant to users of financial statements for economic decision-making through transparent reporting of changes in the insurance contract liability and in the economic value of embedded options and guarantees.

(b) Eliminating inconsistencies and weaknesses in existing practices.

(c) Improving comparability across entities, jurisdictions and capital markets.

Difficulties in accounting for insurance contracts

A5. The business model of an insurance company is to write contracts today for which it will not know the profit for many years. This inevitably results in complex accounting that depends heavily on assumptions. In addition, many insurance products are often deliberately complex either for tax or competition purposes. While accounting standards can exacerbate complexity in reporting insurance contracts, no accounting standard will remove this basic and key complexity, or the need to rely on assumptions about the future.

A6. At the most basic level, insurers receive cash in the form of premiums, invest that cash into assets (generally financial assets) and promise to pay cash to the policyholder if the insured event happens, sometimes many years in the future. In addition, many insurance contracts create complex interdependencies between rights and obligations that make them difficult to account for using existing standards. The difficulties of applying generally applicable standards include:

(a) Interdependencies between rights and obligations can make it difficult to identify the various performance obligations provided by the contract or to allocate the consideration paid by policyholders to those individual performance obligations.

(b) Uncertainty of outcomes can make it difficult to make estimates reliably and options and guarantees can exacerbate the uncertainty of outcomes. There can be significant changes in the cash flows that would be needed to fulfil the contracts.

(c) Long durations can mean that estimates made at the inception of a contract may not provide useful information throughout the life of the contract. Furthermore, there is little ability to assess whether estimates made at inception were reasonable or accurate.

(d) The presence of many embedded options and guarantees, which is discussed in paragraph A7. Examples of such embedded options and guarantees include, for example:

   (i) guarantees of minimum investment returns, minimum interest rates or minimum crediting rates, minimum annuity rates or guarantees of maximum charges for mortality.

   (ii) surrender options, conversion options or options to cease or suspend payment.

   (iii) options for the policyholder to reduce or extend coverage, or buy additional coverage.

A7. Inconsistent treatment of embedded options and guarantees was a major flaw in many traditional accounting models. The flaws included:

(a) ignoring the time value of some or all embedded options and guarantees. The time value of such an item is the value arising from the possibility that the option or guarantee may be in the money at the time when it has an effect (eg when the option is exercisable).

(b) capturing the intrinsic value of some or all embedded options or guarantees on a basis that reflects management’s expectations or hopes but is inconsistent with current market prices. The intrinsic value of such an item reflects the extent to which the option or guarantee is in the money at the measurement date, and reflects the difference between the current level of the variable underlying the option or guarantee and the level specified in the underlying option or guarantee.

(c) ignoring the intrinsic value of some or all embedded options or guarantees.

A8. The particular model that the IASB has developed would greatly increase the comparability and transparency in accounting for insurance contracts. The proposed model would provide users with:

(a) relevant information about the amount, timing and uncertainty of future cash flows that will arise as the insurer fulfils its existing insurance contracts;

(b) explicit and robust estimates of cash flows, using a consistent approach for all changes in estimates that is also consistent with the approach to estimating future cash flows for other financial and non-financial liabilities in IFRSs;

(c) information about risk, through the inclusion of an explicit risk adjustment. This would be particularly useful because accepting and managing risk is the essence of insurance;

(d) consistent measurement of both the time value and intrinsic value of all options and guarantees embedded in insurance contracts;

(e) reporting of economic mismatches that occur when insurance liabilities and related assets respond differently to the same changes in economic conditions; and

(f) elimination of accounting mismatches that arise if changes in economic conditions affect assets and liabilities equally when the policyholder receives returns from contractually linked items;

(g) consistency with observable current market prices for financial market prices for financial market variables, such as interest rates and equity prices, to the extent that they are available; and

(h) a clear and understandable approach for acquisition costs, by treating direct costs that an entity incurs in acquiring the contracts in the portfolio as cash flows arising from the related insurance contract. Indirect acquisition costs would be recognised as an expense when incurred.

A9. In short, the accounting model that the IASB has developed will address the issues of comparability and transparency in accounting for insurance contracts among IFRS preparers. Application of the IASB's accounting model will provide users of financial statements with the information that is useful for investment and other economic decisions.

Appendix B—Due process review for the insurance contracts project

Purpose of this appendix

B1. This appendix reviews the steps the IASB has taken in developing phase II of its project to develop an insurance contracts Standard. It describes those steps in the context of the project history. Appendix C shows how the IASB has adhered to the protocol for development of an Exposure Draft.

B2. This appendix includes:

(a) Background to Phase II: previous work on insurance contracts (paragraphs B3-B10);

(i) work by IASC (paragraphs B3-B5); and

(ii) phase I of the IASB’s project on insurance contracts (paragraphs B6-B10)

(b) Phase II (paragraphs B11-B31):

(i) due process documents published (paragraphs B12-B13);

(ii) deliberating jointly with FASB (paragraph B14);

(iii) public hearings and use of consultative groups (paragraphs B15-B19);

(iv) fieldwork (paragraphs B20-B23);

(v) other outreach (paragraphs B24-B26);

(vi) reporting to IFRS Foundation bodies (paragraphs B27-B28); and

(vii) effect analysis (paragraphs B29-B31)

(c) Compliance with required due process steps (paragraphs B32-B35).

Background to Phase II: previous work on insurance contracts

Work by IASC

B3. In 1997, IASC set up a Steering Committee to carry out the initial work on an Insurance Contracts project.

B4. The Steering Committee published an Issues Paper in 1999. The first volume of the Issues Paper analysed the characteristics of different forms of insurance contracts and considered the significant accounting issues. The second volume contained 82 illustrative examples, summarised relevant national standards and requirements in 17 countries and summarised the main features of the principal types of contracts found in eight countries.

B5. The Issues Paper attracted 138 responses. The Steering Committee held two meetings of three days each to discuss the comment letters and two further meetings, totalling seven days, to develop a Draft Statement of Principles (DSOP). The Issues Paper indicated the former IASC Steering Committee's intention to publish the DSOP for formal comment. However, when the IASB was formed, the Steering Committee used the draft DSOP[2] as an internal report to the newly constituted IASB. The role of the Steering Committee finished at that point.

Phase I of the IASB's project on Insurance Contracts

B6. The IASB began discussing the project in November 2001, using the DSOP as the initial basis for the discussions. However, the IASB decided not to invite formal comments at that stage on a document that the IASB had not yet discussed, because it takes commentators a great deal of time and effort to develop a response to documents of this kind. Nevertheless, the IASB took the unusual step of making the DSOP available on its website and this helped to stimulate an active debate, within both the industry and within the actuarial community.

[2] The Draft Statement of Principles was not completed—it did not include the intended chapters on participating contracts and presentation. It is available at http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Pages/dsop.aspx.

B7. The IASB split this project into two phases in May 2002. The IASB published its proposals for Phase I in July 2003 as ED (Exposure Draft) 5 *Insurance Contracts*. The deadline for comments was 31 October 2003 and the IASB received 133 responses. After reviewing the responses, the IASB issued IFRS 4 *Insurance Contracts* in March 2004.

B8. The IASB consulted its Standards Advisory Council to seek feedback on this project at various times, principally in June 2002, November 2002 and November 2003.

B9. The IASB established an Insurance Advisory Committee. The role of the Advisory Committee was to respond to requests from the IASB staff for advice. The Advisory Committee met in April 2002, September 2002 and September 2003 (on each occasion for two days) and the staff consulted it extensively by email, though unavoidably at short notice given the tight timetable for Phase I. Between October 2002 and April 2003, the staff sought advice on 17 papers. Members of the committee gave the staff valuable input, although inevitably different members had different views. In view of the quantity and quality of input available from the comment letters on ED 5, the staff consulted the Insurance Advisory Committee less extensively after the close of comments on ED 5.

B10. The IASB completed Phase I in 2004 by issuing IFRS 4 *Insurance Contracts*, which:

(a) made limited improvements to accounting practices for insurance contracts;

(b) permitted a wide variety of accounting practices for insurance contracts to continue, thus avoiding major changes that Phase II might reverse; and

(c) required an insurer to disclose information about insurance contracts.

Phase II

B11. In mid-2004 the IASB started work on Phase II. This paper describes the due process and outreach activities on Phase II.

Due process documents published

B12. In May 2007, the IASB published a Discussion Paper *Preliminary Views on Insurance Contracts*, setting out its preliminary view on the main components of an accounting model for an insurer's rights and obligations (ie assets and liabilities) arising from an insurance contract. The IASB received 162 comment letters in response.

B13. The IASB published the Exposure Draft *Insurance Contracts* (the ED) in July 2010. The ED had a comment period ending on 30 November 2010. The ED was approved by eleven of the fourteen members of the IASB. Two members voted against its publication and one member abstained from voting in view of his recent appointment to the IASB. The IASB received over 250[3] comment letters in response.

Deliberating jointly with the FASB

B14. In developing the proposed accounting model for insurance contracts, the IASB has deliberated issues jointly with the FASB. Since October 2008, the IASB and FASB have held over 50 joint meetings on the proposed model for insurance contracts. In September 2010, the FASB issued a discussion paper, *Preliminary Views on Insurance Contracts*. There was significant overlap between the proposals exposed in the FASB DP and the 2010 ED. Although the IASB and FASB have reached converged decisions in many areas, the IASB and FASB have reached differing views as described in Appendix D. The IASB and FASB have decided to issue separate Exposure Drafts and finalise those Exposure Drafts separately.

Public hearings and use of consultative groups

B15. In September 2004, the IASB created a working group to advise it on its project. The working group initially comprised 19 senior executives, analysts, actuaries, auditors and regulators, from 9 countries plus 3 official observers. The Insurance

[3]Some comment letters have been received in parts. As a result of administrative inconsistencies, some were labelled as subparts (eg 2, 2A, 2B, 2C) and others had separate numbers (eg 4 and 114). In total the IASB received 253 letters from 247 respondents.

Working Group had six two-day meetings between September 2004 and June 2007.

B16. The IASB began its review of the responses to the 2007 Discussion Paper in February 2008. It decided not to hold public round-table meetings at this stage of the project, noting that the members of its Insurance Working Group would supply input from a wide range of perspectives.

B17. The IASB consulted the Insurance Working Group again in April 2008, November 2008 and June 2009, to provide input on a number of issues that followed from the responses to the Discussion Paper.

B18. In December 2010, the IASB held six round-table meetings in Tokyo, London and Norwalk to listen to the views of, and obtain information from, interested parties about the proposed requirements. The IASB received broad input from 94 participants from 81 organisations in 9 countries, representing a wide variety of constituents (including users, preparers, auditors and others).

B19. In addition, the IASB consulted the Insurance Working Group in November 2010, March 2011, May 2011, October 2011 and June 2012, meeting for a total of 6.5 days. At these meetings, the Insurance Working Group considered a total of 58 papers covering all aspects of the proposed IFRS, including: scope, unbundling, recognition, contract boundary, cash flows, discount rate, risk adjustment, residual margin, participating contracts, reinsurance assets, premium allocation approach, disaggregation and volume information, OCI, disclosures and transition.

Fieldwork

B20. Between October 2001 and June 2002, IASB members and staff conducted field visits to 19 insurance companies from 9 countries. The purpose of these visits was to assess the practical implications of implementing the model proposed in the DSOP (which forms much of the foundation for the model now developed by the IASB). The staff and the IASB members gained a great deal of practical input during these visits.

B21. In 2009, the IASB conducted field tests to better understand some aspects of the practical application of the proposed insurance model. Sixteen insurers, based in

Asian, Australian, European and North American markets and with life, non-life and reinsurance businesses, participated.

B22. Between September 2010 and January 2011, the IASB conducted a further round of field tests, involving 15 insurers, based in Asian, Australian, European and North American markets and with life, non-life and reinsurance businesses. This round was intended to test the proposals in the ED in order to understand how the proposed approach would operate in practice, identify where more detailed implementation guidance might be required, evaluate the costs and benefits of the proposed approach and assess how the proposed approach would help insurers to communicate with users of their financial statements. The IASB and FASB discussed a preliminary field test report at their joint meeting on 1-2 March 2011. The detailed findings of the field test were used by the staff:

(a) to better understand the arguments presented to us in our outreach, as well as in the comment letters; and

(b) in the development of Staff Papers on the specific issues addressed in the testing (eg unbundling, acquisition costs, definition of a portfolio).

B23. In Agenda Paper 16E for the September 2012 meeting, the staff provided a high level overview of the responses to the field questionnaire and of the IASB's actions on the issues raised.

Other outreach activities

B24. The IASB and its staff have, throughout the process, held a large number of meetings[4] with individuals and groups of preparers, users, actuaries, auditors, regulators and others in order to test proposals and to understand concerns raised by affected parties. In addition, IASB members and staff have:

(a) appeared at many public events to exchange views with constituents;

(b) maintained a regular and active dialogue with regulators, standard-setters and industry representative groups; and

[4] Over 400 meetings since the 2010 ED was published.

(c) obtained the views of users of financial statements through targeted meetings and attendance at user forums in the US, Europe and Asia.

B25. At the same time, the IASB staff have used the IASB's website to inform the public about the status of the IASB's deliberations. In addition to the standard posting of papers, decision summaries and Board meeting webcasts, this has included regularly updated material as follows:

(a) a high level summary of progress on the project, describing the main IASB decisions;

(b) a high level comparison of the IASB's tentative decisions with the proposals in the ED;

(c) a detailed summary of the IASB's decisions, which shows how each paragraph in the 2010 Exposure Draft would be affected by the decisions taken each month;

(d) a 10-15 minute podcast that summarises the Insurance Contracts meetings for each month and places those decisions in context; and

(e) topic reports on the IASB's decisions, presented together with working drafts.

B26. Interested parties have been notified by subscriber email alerts when these items have been updated. In January 2013, there were over 14,600 subscribers to the Insurance Contracts email alert.

Reporting to IFRS Foundation bodies

B27. IASB members discussed the project specifically with the Advisory Council in November 2007 and October 2011. Education sessions were also held for Advisory Council members in February 2010 and October 2010. In addition, the project was regularly mentioned at the general session on the work plan at each meeting of the Advisory Council.

B28. The Due Process Oversight Committee was informed of progress in the project in March 2011, June 2011, July 2011, October 2011, April 2012 and September 2012. In addition, in January 2012, the Due Process Oversight Committee was informed about correspondence with the HUB Global Insurance Group regarding the accounting for short-duration insurance contracts.

Effect analysis

B29. The IASB is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing associated costs and benefits of each new IFRS—the costs and benefits are collectively referred to as ‘effects’. The IASB gains insight on the likely effects of the proposals for new or revised IFRSs through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities.

B30. In evaluating the likely effects of an IFRS for insurance contracts, the IASB has considered the following factors:

(a) how the proposed changes are likely to affect how activities are reported in the financial statements of those applying IFRSs;

(b) how those changes improve the comparability of financial information between different reporting periods for an individual entity and between different entities in a particular reporting period;

(c) how the changes will improve the quality of the financial information and its usefulness in assessing the future cash flows of an entity;

(d) the benefit of better economic decision-making as a result of improved financial reporting;

(e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and

(f) how the likely costs of analysis for users (including the costs of extracting data, identifying how the data has been measured and adjusting data for the purposes of including them in, for example, a valuation model) are affected. The IASB takes into account the costs incurred by users of financial statements when information is not available and the comparative advantage that preparers have in developing information when compared with the costs that users would incur to develop surrogate information.

B31. A preliminary effects analysis was provided to the IASB in Agenda Paper 16E for the September 2012 meeting.

Required due process steps

B32. In January 2013, the Trustees of the IFRS Foundation approved an updated version of the *IFRS Foundation Due Process Handbook*.

B33. Paragraphs 3.43 and 3.44 of the *IFRS Foundation Due Process Handbook* state:

> 3.43 The due process steps that are mandatory include:
>
> (a) debating any proposals in one or more public meetings;
>
> (b) exposing for public comment a draft of any proposed new IFRS, proposed amendment to an IFRS or proposed Interpretation of an IFRS—with minimum comment periods;
>
> (c) considering in a timely manner those comment letters received on the proposals;
>
> (d) considering whether the proposals should be exposed again;
>
> (e) reporting to the Advisory Council on the Technical Programme, major projects, project proposals and work priorities; and
>
> (f) ratification of an Interpretation by the IASB.
>
> 3.44 Other steps are specified in the *Constitution* and are not mandatory. They include:
>
> (a) publishing a discussion document (eg a discussion paper) before an exposure draft is developed;
>
> (b) establishing consultative groups or other types of specialist advisory groups;

(c) holding public hearings; and

(d) undertaking fieldwork.

B34. The *Due Process Handbook* also presents a reporting template for demonstrating to the DPOC how the IASB has met its due process requirements.[5]

B35. This paper demonstrates that the IASB has, for the insurance contracts project, met the requirements of all the mandatory and 'comply or explain' due process steps set out in the *IFRS Foundation Due Process Handbook*. Specifically, Appendix C describes how the IASB has adhered to the protocol for the development of an Exposure Draft.

[5] Although the appendix accompanies the *IFRS Foundation Due Process Handbook*, it is not an integral part of the handbook and may be updated from time to time by the IASB and its staff, subject to the approval of the DPOC.

Appendix C—Development and publication of an Exposure Draft for an IFRS, practice guidance or *Conceptual Framework* chapter

Purpose of this appendix

C1. This appendix shows how the IASB has adhered to the protocol for development of an Exposure Draft as set out in the *Due Process Handbook*, which was approved by the IFRS Foundation Trustees in January 2013.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held to discuss topic Project Website contains a full description with up-to-date information on the project Meeting papers posted in a timely fashion	Members of the IASB discuss with DPOC progress on major projects, in relation to the due process being conducted DPOC reviews comments from interested parties on IASB due process as appropriate	**Board meetings** The IASB discussed the project at every meeting between December 2010 and February 2013. **Project website** The project website contains a full description with up-to-date information on the project. In addition to the standard posting of papers, decision summaries and Board meeting webcasts, this has included regularly updated material as follows: • A high level summary of progress on the project, describing the main IASB decisions • A high level comparison of the IASB's tentative decisions with the proposals in the 2010 Exposure Draft • A detailed summary of the IASB's decisions, which shows how each paragraph in the 2010 Exposure Draft would be affected by the decisions taken each month. • A 10-15 minute podcast that summarises the insurance contracts meetings for each month and places those decisions in context. • Topic reports on the IASB's decisions and working drafts. **DPOC** The Due Process Oversight Committee (DPOC) was informed of progress on the project in March 2011, June 2011, July 2011, October 2011, April 2012 and September 2012. In addition, in January 2012, the Due Process Oversight Committee was informed about correspondence with the HUB Global Insurance Group regarding the accounting for short-duration insurance contracts.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Consultation with the Trustees and the IFRS Advisory Council	Required	Discussions with the IFRS Advisory Council on topic	DPOC meets with the Advisory Council to understand perspectives of stakeholders on due process of IASB Advisory Council Chair invited to Trustees' meetings and meetings of DPOC	IASB members discussed the project with the Advisory Council in November 2007 and October 2011. Education sessions were also held for Advisory Council members in February 2010 and October 2010. The IASB's September 2012 discussions on due process were reported to the Trustees in October 2012.
Consultative groups utilised, if formed	Optional	Extent of consultative group meetings, and evidence of substantive involvement in issues Consultative group review of draft exposure draft	DPOC receives report of consultative group activity from IASB	Since the end of the comment period, the IASB has consulted with the Insurance Working Group in November 2010, March 2011, May 2011, October 2011 and June 2012, meeting for a total of 6.5 days. The working group papers covered the all aspects of the proposed IFRS including scope, unbundling, recognition, contract boundary, cash flows, discount rate, risk adjustment, residual margin, participating contracts, reinsurance assets, premium allocation approach, disaggregation and volume information, OCI, disclosures and transition. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the use of consultative group activities.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Fieldwork undertaken in analysing proposals	Optional	IASB describes approach taken on fieldwork IASB explains why it does not believe fieldwork is warranted, if that is the preferred path Extent of field tests	DPOC to review the IASB's explanation if fieldwork is deemed by IASB as not required and have the opportunity to discuss the explanation with IASB DPOC receives a report on fieldwork activities and how findings have been taken into consideration by IASB	The IASB has conducted field work in 2001/2002, in 2009 and in 2010/2011. **2001/2002:** field visits to 19 insurance companies from nine countries, to assess the practical implications of implementing the model proposed in the DSOP (on which the proposed IFRS is largely based) **2009:** targeted field tests by sixteen insurers, based in Asian, Australian, European and North American markets and with life, non-life and reinsurance businesses, to better understand some aspects of the practical application of the proposed insurance model. **2010/2011:** targeted field tests, involving fifteen insurers, based in Asian, Australian, European and North American markets and with life, non-life and reinsurance businesses, to test the proposals in the ED in order to understand how the proposed approach would operate in practice, identify where more detailed implementation guidance may be required, evaluate the costs and benefits of the proposed approach and assess how the proposed approach will help insurers to communicate with users of their financial statements. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the fieldwork undertaken in analysing proposals.
Outreach meetings with a broad range of stakeholders, with special effort for investors	Optional	Extent of meetings held and location Evidence of specific targeted efforts for investors	DPOC receives a report on outreach activities and IASB reviews with DPOC outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation	IASB members and staff have, throughout the process: • held over 400 meetings with individuals and groups of preparers, users, actuaries, auditors, regulators and others in order to test proposals and to understand concerns raised by affected parties since the ED was published. • appeared at many public events to exchange views with constituents. • maintained a regular and active dialogue with regulators, standard setters and industry representative groups • obtained the views of users of financial statements through targeted meetings and attendance at user forums in the US, Europe and Asia. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the use of outreach meetings with a broad range of stakeholders, including the IASB's efforts to obtain feedback from investors.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.	Optional	Extent of and participation in Webcasts	DPOC receives a report on outreach activities	Staff and IASB members have recorded 17 podcasts since the end of the 2010 Exposure Draft period and presented four webcasts. The webcasts introduced the 2010 Exposure Draft and discussed the accounting for reinsurance contracts. The podcasts summarise the insurance contracts meetings for each month and place those decisions in context. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the use of webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.
Public discussions with representative groups.	Optional	Extent of discussions held	DPOC receives a report on outreach activities	The staff think that the public round tables and insurance working group meetings, together with discussions with representative groups in private meeting, make it unnecessary to hold public discussions with representative groups.
Online survey to generate evidence in support of or against a particular approach.	Optional	Extent and results of surveys	DPOC receives a report on outreach activities	The public round tables and insurance working group meetings, together with discussions with representative groups in private meetings, make this step unnecessary. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the use of public roundtables, insurance working group meetings and discussions with representative groups in private meetings, all of which supplant the use of online surveys.
IASB hosts regional discussion forums, where possible, organised with national standard-setters.	Optional	Schedule of meetings held in these forums	DPOC receives a report on outreach activities	This step overlaps with the round table meetings, which were organised in conjunction with the Accounting Standards Board of Japan and the US standard-setter, the Financial Accounting Standards Board. In addition, staff and IASB members have presented at regional discussion forums in Europe, South Africa and Canada, and with the AOSSG. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the use of regional discussion forums.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Round-tables between external participants and members of the IASB.	Optional	Extent of meetings held	DPOC receives a report on outreach activities	In December 2010, after the publication of the ED, the IASB conducted six public round-table meetings in Japan, the USA and London. These were attended by 94 participants from 81 organisations in 9 countries, representing a wide variety of constituents (including users, preparers, auditors and others). Updates on this project were included in regular reports to the DPOC. In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB. That analysis included a description of the use of round-tables between external participants and members of the IASB.
Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or ongoing associated costs.	Required	Publication of effect analysis as part of basis for conclusions	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS IASB provides a copy of the effect analysis to the DPOC at the point of standard's publication	Updates on this project were included in regular reports to the DPOC, and a summary of due process was reported to the Trustees at the Trustees' meeting in October 2012. The IASB has paid particular attention to the effect the proposals would have on the volatility of reported results. The IASB plans to include an analysis of likely effects in the Basis for Conclusions to the forthcoming revised Exposure Draft. A preliminary effects analysis was provided to the Board in September 2012 and the IASB plans to provide a copy of the effect analysis to the DPOC in due course.
Finalisation				
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	DPOC receives summary report on due process steps before an exposure draft is issued	In October 2012, the staff provided the DPOC with a copy of the analysis of due process steps provided to the IASB.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Exposure draft has appropriate comment period.	Required	IASB sets comment period for response Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval	DPOC receives notice of any change in comment period length and approval if required	We plan to ask the IASB for permission to ballot (paragraphs 3-4) and the appropriate comment period (paragraphs 6-7) at this meeting.
Drafting				
Drafting quality assurance steps are adequate	Required	Translations team included in review process	DPOC receives summary report on due process steps followed before an exposure draft is issued	To be done in due course
Drafting quality assurance steps are adequate	Required	XBRL team included in review process	DPOC receives summary report on due process steps followed before an exposure draft is issued	To be done in due course
Drafting quality assurance steps are adequate	Optional	External reviewers used to review drafts for editorial review and comments collected and considered by the IASB	DPOC receives summary report on due process steps followed before an exposure draft is issued, including the extent to which external reviewers have been used in the drafting process	Because this is a revised Exposure Draft, the staff does not plan to engage external reviewers formally in the review process. The staff observe that they have shared drafting of some sections of the revised Exposure Draft with the Insurance Working Group and placed topic reports that include that proposed drafting on the project website as the project has progressed. The staff will consider the need for informal external review as part of the balloting process.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Drafting quality assurance steps are adequate	Optional	Drafts for editorial review made available to members of IFASS and comments collected and considered by the IASB	DPOC receives summary report on due process steps followed before an exposure draft is issued	The staff intends to place the revised Exposure Draft on the IFASS website so that members of IFASS may comment on the targeted proposals.
Drafting quality assurance steps are adequate	Optional	Review draft posted on project website	DPOC receives summary report on due process steps followed before an exposure draft is issued	Because this is a revised Exposure Draft, the staff do not plan to post a review draft on the project website. The staff observe that they have shared drafting of some sections of the revised Exposure Draft with the Insurance Working Group and placed topic reports that include that proposed drafting on the project website as the project has progressed.
Publication				
Exposure draft published	Required	Exposure draft posted on IASB website	DPOC informed of the release of the exposure draft	To be done in due course
Press release to announce publication of exposure draft.	Required	Press release published Media coverage	DPOC informed of the release of the exposure draft	To be done in due course

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Snapshot document to explain the rationale and basic concepts included in the exposure draft.	Optional	Snapshot posted on IASB Website	DPOC receives a report on outreach activities Snapshot sent to DPOC members	To be done in due course

Appendix D—Differences in the IASB's and FASB's decisions

Purpose of this appendix

D1. This appendix sets out the areas in which the IASB and FASB have reached different decisions:

(a) Paragraphs D2-D13 set out differences between the IASB and FASB's models for the representation of the profit that the insurer earns over the life of the contract; and

(b) Paragraphs D14-D15 set out further differences between the IASB and FASB's models.

Representation of the unearned profit in the contract

D2. The IASB and the FASB's models have two key differences in the representation of the profit that the insurer earns over the life of the contract:

(a) The IASB's model includes an explicit risk adjustment in the measurement of the insurance contract liability and allocates the residual margin on a systematic basis in line with the pattern of services provided under the contract. In contrast, in the FASB's single margin approach the single margin is viewed as unearned profit that should not be recognised until the associated cash flows become more certain.

(b) In the IASB's model, the residual margin is reduced for a net increase in expected future outflows and a net decrease in expected future outflows is added to the residual margin[6]. In contrast, in the FASB's model all changes in estimates are recognised immediately in profit or loss and as an adjustment to the insurance liability (unless the contract is onerous).

[6] Experience adjustments that relate to past events would be recognised immediately in profit or loss.

Risk adjustment

D3. The IASB's risk adjustment approach remeasures the explicit risk adjustment through profit or loss each reporting period to reflect increases and decreases in risk when such changes are significant, for example when:

(a) there is a significant change in expected risk, for instance the start of a pandemic; and/or

(b) the outcome is inherently uncertain (ie high severity, low frequency contracts).

D4. In contrast, the FASB's single-margin approach, the single margin reflects decreases in risk as the single margin is amortised and is not remeasured unless a portfolio of insurance contracts is deemed onerous.

D5. This difference in remeasurement would not result in differences in the accounting for many contracts, for example where estimated uncertainty about the occurrence or non-occurrence of the insured event and the eventual claim amount will not vary significantly over the coverage and settlement period (eg a 10-year term life contract, in which the risks are stable and relatively low). For such contracts, risk would generally decrease in a predictable way over the coverage period.

D6. However, the difference in remeasurement under the two approaches would create significant differences in the accounting for contracts in which uncertainty about the occurrence or non-occurrence of the insured event and the eventual claim amount can vary significantly over the coverage period (eg insurance cover for asbestosis, where the risk increased significantly in the settlement period).

D7. A further difference between the IASB and FASB's models is in the drivers of profit recognition.

D8. In the IASB's model there are two drivers of profitability. The risk adjustment is released and recognised in profit or loss as the insurer is released from risk, and the residual margin is allocated to profit or loss on a systematic basis in line with the pattern of services provided under the contract. This approach reflects a view that the insurer may earn profit from the contract in more than one way.

D9. In contrast, in the FASB's model risk, taken in conjunction with entity-specific factors, is the primary driver for the release of the whole of the single margin (part of which is equivalent to the residual margin). Thus, risk is regarded as the main driver of profitability. The single margin is released over the coverage and settlement periods in the building block approach. Thus, in the FASB's model, the whole of the profit in the contract is released to profit or loss as an insurer is released from exposure to risk as evidenced by a reduction in the variability of cash flows. The implicit single margin is released over the coverage period only in the premium allocation approach.

D10. This difference in the release pattern would not result in different accounting treatment for contracts that are predominantly driven by insurance risk, especially contracts of a shorter coverage period (eg most non-life contracts). However, the difference in the release pattern under the two approaches would result in different accounting treatment for life contracts that have a large investment component relative to the insurance risk. The service under such contracts may not be provided in the same pattern as the risk in the contract (for example, for some regular premium contracts, the service is predominantly asset management and can increase over time).

Adjusting changes in the margin

D11. In the FASB's model, all changes in estimates are recognised immediately in profit or loss and as an adjustment to the insurance liability (unless the contract is onerous). The FASB's approach to changes in estimates is consistent with the IASB's ED, and reflects the view that a current measure of the insurance liability is integral to understanding and reporting insurance contracts, and that the immediate recognition of all changes in estimates provides important information to users about changes in circumstances for insurance contracts.

D12. However, in response to the comment letters, the IASB revised its preliminary view because it was persuaded that adjusting the residual margin for changes in estimates of future cash flows would provide better information for users of financial statements. Consequently, a decrease (or increase) in the contract's expected profitability arising from changes in estimates of future cash flows would not be recognised immediately[7] (except to the extent that a decrease exceeded the residual margin available, ie if the contract became onerous). It would be recognised in subsequent periods, when the residual margin is released to profit or loss. This is commonly referred to as 'unlocking'. The reasons for this decision are:

(a) It would reflect a view of the residual margin as the unearned profit in the contract. Applying this view, the residual margin should be measured as the difference between the premiums and the estimates of the cash outflows. If the cash outflows increase, the contract becomes less profitable and the residual margin decreases accordingly. If the increase relates to estimates of future cash flows (as opposed to experience adjustments), the increase reduces the unearned component of the residual margin. Consequently, a change in the estimate of the future cash flows should be viewed as a transfer between the components of the total liability, ie it should adjust the residual margin.

(b) It would avoid outcomes that some people regard as counterintuitive. Immediate recognise of adverse changes in estimates can make contracts that are profitable overall appear to be loss-making in some years. It can also make contracts that actually become loss-making overall appear to be profitable in later years.

(c) An approach that adjusts the residual margin for changes in estimates could help prevent manipulation of profits. Applying the original proposals, an insurer might over-estimate the fulfilment cash flows on 'day 1' of the contract. On 'day 2' it could revise the estimates down and recognise the difference as an immediate gain. In contrast, applying the revised approach, the insurer would recognise the

[7] However, that change would be disclosed in rollforwards in the notes to the financial statements.

difference as an adjustment to the residual margin. The outcome would be the same as if the insurer had correctly estimated the fulfilment cash flows on day 1. The insurer would not recognise an immediate gain.

D13. An effect of 'unlocking' the residual margin in the manner summarised in the previous paragraph is that it 'locks' the liability as a whole (except to the extent that the contract becomes onerous). The liability is locked at an amount equal to the premiums received from the policyholder for services not yet provided. Thus, the effect of 'unlocking' the residual margin is to make the building block approach more like the model proposed in the Revenue Recognition project.

Other differences

D14. The following table sets out further differences between the IASB's decisions and the FASB's decisions to date.

Issue	**IASB's decisions**	**FASB's decisions**
Premium allocation approach	*Permit* premium allocation approach for contracts when it produces similar measurements to building block approach.	*Require* premium allocation approach for all contracts meeting specified criteria.
Acquisition costs	Margin shows expected profit after deducting all costs of acquiring and fulfilling the insurance contract liability. Acquisition costs prssented as part of the fulfilment cash flows.	Margin shows expected profit after deducting all costs of acquiring and fulfilling the insurance contract liability excluding the portion deemed not to result in the issue of particular contracts. Acquisition costs presented as part of the single margin.

Issue	IASB's decisions	FASB's decisions
Application of the **mirroring approach** (ie 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)	Applies to all expected cash flows relating to the policyholder's participation where the contract establishes that the policyholder shares in the underlying items.	Does not apply to any discretionary cash flows above the minimum policyholder participation specified. Does not apply when the obligation is based on the policyholder's participation in the fair value of the underlying items and those underlying items are measured at cost.

D15. There are also minor differences in scope, presentation and disclosures between the IASB's model and the FASB's model.