STAFF PAPER

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Project	Insurance Contracts		
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Purpose of this paper

1. This paper outlines the main themes raised in the 194 comment letters received on the Exposure Draft *Insurance Contracts* ('the ED') and in the outreach activities that supplemented the formal consultation on that Exposure Draft.

2. This paper summarises:

    (a) Key themes in the response to the IASB's Exposure Draft (paragraphs 5-8).

    (b) The feedback on the specific proposals in the ED (paragraphs 9-117).

    (c) The comments on the effects of the Standard as a whole (paragraphs 118-126).

    (d) A description of the issues raised that were not targeted by the IASB in the ED (paragraph 127).

    This paper does not detail the response to Question 7 on clarity of drafting. The staff will consider those comments in drafting the final Standard.

3. This paper does not provide a quantitative analysis of the comments received or capture a complete record of all issues and recommendations raised in the comment letters. The paper is provided for information only, and no decisions are required from the IASB. The staff will present a more detailed analysis of each issue when it asks the IASB for decisions.

4. The appendices to this paper provide:

(a) Appendix A: Statistical information about the 194 comment letters received by respondent type and geographical region.

(b) Appendix B: A summary of outreach activities, including statistical information about constituent type and geographical region.

Key themes

5. Many constituents commended the IASB for the significant progress it had made in developing the proposals in the 2010 Exposure Draft. They generally commented that the IASB had responded to the concerns raised on the proposals in the 2010 Exposure Draft, and had largely addressed those concerns satisfactorily. As a result, most believe that the proposals in the 2013 ED are an improvement over those in the 2010 ED. In particular, many respondents expressed their support for the IASB's revised proposals to:

   (a) change the recognition point in typical cases, to the point at which the coverage period begins (or when the payment from the policyholder is due, if earlier);

   (b) expand the cash flows used to measure an insurance contract to include an allocation of overhead costs;

   (c) revise the requirements for acquisition costs so that all directly attributable costs that arise when originating the portfolio basis (including those for both successful and unsuccessful efforts) are included in the estimates of cash flows;

   (d) amend the contract boundary so that cash flows are outside the boundaries of the existing contract if an entity is able to reprice the portfolio that includes the contract, so that the price charged for the portfolio as a whole fully reflects the risk of the portfolio;

   (e) clarify guidance to indicate that both 'top-down' discount rate and 'bottom-up' approaches are acceptable for developing a discount rate that is consistent with the characteristics of the liability;

   (f) eliminate the limitation of techniques used to determine risk adjustment;

(g) introduce a requirement that an entity must adjust the contractual service margin for changes in estimates of cash flows related to future coverage or future service (ie to unlock the contractual service margin);

(h) revise the eligibility criteria to permit entities to apply the premium allocation approach if doing so would produce a reasonable approximation to the general approach;

(i) simplify the premium allocation approach, including:

  (i) an exception from discounting the liability for remaining coverage and liability for incurred claims in some circumstances, and

  (ii) to require an entity to assess whether a contract is onerous only when facts and circumstances indicate that the portfolio may be onerous; and

(j) introduce requirements to apply the proposals retrospectively if practicable, and using specified simplifications for estimating the contractual service margin on transition if it is not practicable.

6. Many also welcomed that the IASB had retained an accounting approach based on the current measurement of insurance contract liabilities, and that the measurement of such liabilities should reflect the time value of money and incorporate an explicit risk adjustment.

7. However, although respondents welcome some of the changes that the IASB made to its 2010 proposals, many state that the proposals would still not result in a faithful representation of insurance contracts, unless the IASB resolves the following key concerns:

(a) **Complexity**. Most constituents expressed concern about the complexity of some specific proposals or of the proposals as a whole. These concerns were strongest where the proposals differed more significantly from existing practices, either for financial reporting, regulatory reporting or supplementary reporting. Constituents suggested that simplifications would be needed in the following areas:

  (i) the need to bifurcate the cash flows from an insurance contract (for the mirroring approach, updating the discount rate, adjusting the contractual service margin and excluding deposit components from revenue);

(ii) the interaction between changes that are recognised as an offset to the contractual service margin, in profit and loss, or in other comprehensive income;

(iii) the use of locked-in discount rates (for interest expense, determining the amounts that adjust the contractual service margin and transition); and

(iv) the need for information that is not currently used by management, for example the accumulated cash surrender value component of a payment on death.

(b) The extent of **accounting mismatches** that would result from application of the proposed standard. In particular:

(i) Most constituents disagree that there should be mandatory reporting of part of the insurance contract liability in other comprehensive income. Most constituents are concerned that this would inevitably lead to accounting mismatches, because of the mixed measurement attribute model for assets in IFRS.

(ii) Although many constituents welcomed the IASB's aim of eliminating accounting mismatches for some types of participating contracts, many believed that those proposals should also be extended to participating contracts outside that narrow range. Furthermore, many constituents disagreed with the mirroring proposals as described in subparagraph (c).

(c) The treatment of **participating contracts**. Many constituents have significant concerns about the mirroring proposals in paragraphs 33 and 34 of the ED. Most understand the IASB's motivation for eliminating accounting mismatch in limited circumstances. However, some suggest that a building block approach that measures all insurance contracts, including participating contracts, at a current value would be preferable to a complex and operationally onerous exception that would apply to only a narrow range of contracts. In particular, many believe that not enough accounting mismatches would be eliminated to justify the complexity introduced into the model. Others are also concerned that when the mirroring proposals do not apply, the accounting mismatches that would remain would give a false comparison to contracts to which mirroring applies.

8. Some of the feedback indicates an underlying diversity of views about what constitutes service from an insurance contract. That question has a number of important implications for:

   (a) what changes in estimates should adjust the contractual service margin;

   (b) the allocation pattern and period of the contractual service margin; and

   (c) the proposals to present insurance contract revenue that depicts the transfer of promised services arising from the insurance contract in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services, and the proposal to disaggregate the deposit component.

Targeted areas

9. The following paragraphs summarise the feedback received on the targeted questions in the ED.

Treatment of changes in estimate (unlocking, Question 1)

Summary:

The proposals to present the effect of changes in estimates of future cash flows relating to future service when the service is delivered (unlocking the contractual service margin) were widely supported. However, many constituents think that the proposals should be refined by extending the proposals to cover the effect of changes in estimates of risk adjustment relating to future service. In addition, some questioned the meaning of "service" for insurance contracts, especially for participating contracts.

10. Question 1 asked for views on the proposal that the contractual service margin should be adjusted for differences between the current and previous estimates of the present value of future cash flows, if those differences relate to future coverage and other future services, provided that the contractual service margin would not be negative.

11. Most constituents supported the proposal to present the effect of changes in estimates of future cash flows relating to future service in the periods in which the future service is delivered (ie to 'unlock' the contractual service margin for changes in cash flows relating to future cash flows). There was support from all types of constituents from all jurisdictions. Nonetheless, many noted that there would be a degree of operational complexity introduced because of the interaction between locking the discount rate in the income statement and unlocking the contractual service margin.

12. Those supporting the proposal to unlock the contractual service margin provided the following reasons:

    (a) It would provide a better representation of the contractual service margin as the unearned profit in the contract.

(b) It would better reflect the economics of an insurance contract as a long-term contract based on estimates made at inception.

(c) It would avoid the counterintuitive result that contracts known to have become less profitable would continue to report the originally expected level of profit in periods after the change in estimate.

(d) It would result in consistency between measurement on initial recognition and subsequently.

(e) It would be more consistent with the way in which profit is reported under the premium allocation approach.

13. However, views often differed as to the nature of the unearned profit in an insurance contract and, accordingly, there were differing suggestions for how unlocking should be modified (see paragraphs 25-28).

14. There were some who did not agree that changes in cash flow should adjust the contractual service margin:

(a) Some users of financial statements expressed concerns that the amounts recognised in the balance sheet would not reflect changes in estimates because of the effect of unlocking, and that this would mean that the primary financial statements would not provide information about changes in circumstances as soon as the entity is aware of those changes in circumstances. As a result, many users of financial statements noted that the disclosures, particularly the reconciliation of contract balances, would be important to understanding the effect of changes in estimates that were offset in the contractual service margin. A more detailed summary of views from users of financial statements is provided in Agenda Paper 2B *Feedback from users of financial statements*.

(b) Some regulators believed that unlocking decreases transparency and inappropriately smooths the underwriting result, because it does not reflect changes in estimates in the overall measurement of the liability immediately. Some also noted that unlocking the contractual service margin would result in a difference between financial reporting and regulatory reporting, because regulatory reporting either does not have a contractual service margin or does not unlock it.

(c) Some smaller preparers, or preparers in emerging economies, were concerned about the tracking that might be required when the margin is unlocked. However, it appears that many who expressed this concern believed that there was a retrospective element to unlocking, rather than the fully prospective approach that the ED proposes.

(d) Some preparers were concerned about whether it is possible to distinguish estimates of cash flows relating to past service from estimates of cash flows relating to future service.

(e) Some note that the amount of contractual service margin recognised in each period should represent the margin required to cover expenses, including allocations of overheads. They are concerned that there might be insufficient contractual service margin as a result of unlocking to match against expenses in some periods.

Proposed changes

15. Many constituents proposed that the IASB modify its proposals as follows:

(a) Many suggest that changes in risk adjustment relating to future service should also be offset in the contractual service margin. See paragraphs 17-20.

(b) Many suggest that losses that were recognised in profit or loss when there is no remaining contractual service margin should be reversed before the contractual service margin is rebuilt. See paragraphs 21-24.

(c) Some suggest that the contractual service margin should also be offset by other changes in estimates. See paragraphs 25-28. These proposals reflected the differences in view among constituents as to the nature of the unearned profit of an insurance contract.

(d) Some preparers noted that the contractual service margin was unlocked by the present value of the change in cash flows. However, although the ED implies that this present value is determined using the discount rates at inception, some suggest that it would be more appropriate to use the current discount rate. Others note that their preference for the locked-in rate.

(e) Many note a lack of clarity about the cash flows that unlock the contractual service margin. See paragraphs 29-30.

(f) Some constituents in Asia believe that the prospective unlocking approach proposed in the ED is unduly complex, and propose an alternative approach for unlocking the contractual service margin.

16. As noted in paragraph 14, some respondents did not support the proposal to adjust the contractual service margin for changes in estimates of future cash flows. Of those respondents:

(a) Most would present such changes in estimates in profit or loss

(b) One suggests entities should be allowed to choose whether to adjust the contractual service margin

(c) A few would restrict adjusting the margin only to a subset of contracts.

Unlock for risk adjustment

17. In developing the ED, the IASB concluded that most of the change in the risk adjustment would relate to the expiry of risk in a period, and that it would be difficult to divide the risk adjustment into a part relating to a future period's coverage and a part relating to past and current periods' coverage. The IASB also observed that it would be more transparent to report changes in risk relating to expected changes in circumstances in profit and loss, and that changes in risk do not affect the amount of cash outflow, because the risk adjustment unwinds over time.

18. Most constituents believe that the conceptually correct approach would be to adjust the contractual service margin by changes in the risk adjustment that relate to future coverage, and to report the change in the risk adjustment relating to current and past coverage in profit or loss. In addition, some are also concerned that recognising changes in risk adjustment in profit or loss could result in losses being recognised in profit or loss in one period even if the contract overall is profitable.

19. Furthermore, some constituents challenged the IASB's assumption that the main driver of the change in risk adjustment would be expected to be related to the

expiry of coverage. Accordingly, they believe that adjustment the contractual service margin for changes in the risk adjustment relating to future service would provide better information for users of financial statements.

20. However, views are mixed on the feasibility of dividing the risk adjustment in this way:

    (a) The majority of constituents, particularly those in Europe, Australia and North America, state that it is relatively straightforward to separate the risk adjustment between the part related to future coverage, and the part relating to current and past coverage. They state that existing methods for determining the risk adjustment already make this information available. For example, regulatory reporting for general insurance in Australia already requires a similar separation.

    (b) A minority of constituents, particularly in Asia, think that it would not be feasible to divide the risk adjustment into a part relating to future service and a part relating to current and previous years' service, particularly because the IASB has not mandated a particular method for determining the risk adjustment. They also question whether the effect would be material. Some suggest taking the whole of the change in the risk adjustment to profit and loss is a more practical approach.

Reversal of losses

21. The ED proposes a prospective unlocking of the contractual service margin, which means that favourable changes in estimates of future cash flows would be added to the contractual service margin. This would also be the case when previous changes in estimates of cash flows have been recognised in profit and loss because the contractual service margin was zero.

22. Some constituents, in particular regulators, are concerned that the contractual service margin can be rebuilt without first reversing losses that have previously been recognised in profit or loss. They question whether the contractual service margin and an entity's profit or loss could be distorted if an entity creates profits by recognising 'excess' losses that would exceed the contractual service margin in one period, and revising estimates to rebuild the contractual service margin from zero in a subsequent period.

23. Some acknowledge that determining the amount of losses that must be reversed would introduce complexity, because it would require an entity to track and amortise the amount recognised in profit or loss as a result of changes in estimates relating to future coverage. Some suggest that the complexity of tracking all unfavourable changes in cash flows that had been previously recognised in profit or loss should not be imposed.

24. However, most believe that reinstating losses through profit and loss before rebuilding the margin would provide a more faithful representation, would avoid distortion of the amount of retained earnings and would avoid an entity reporting different amounts in P&L depending on the frequency of reporting. Furthermore, some note that they already track this information and do not consider it onerous. Accordingly, many constituents believe the additional complexity is justified.

Unlock for additional changes in estimates

25. Some suggest that the contractual service margin should be unlocked for other changes in estimates, including:

(a) Changes in reinvestment assumptions relating to future services. Those supporting this approach argue that the initial estimate of fulfilment cash flows depends on the reinvestment assumptions made by the insurer, and that changes in those assumptions should affect the future profitability of the entity, rather than directly affecting the net income of the period.

(b) The effects of changes in underlying asset returns to the extent to which they affect the unearned profit of the insurer, as discussed in paragraphs 26-28.

(c) Some suggest that the effect of discounting also affects the initial estimate of fulfilment cash flows, and the effect of changes in discount rates should similarly adjust the contractual service margin. However, they note that there should be an exception to allow entities to recognise this effect in profit or loss or OCI when doing so would significantly reduce accounting mismatches.

(d) For reinsurance contracts held, some suggest that changes in expected credit quality of a reinsurer should also unlock the contractual service margin of reinsurance contracts, because the change in credit quality affects potential recoveries occurring in the future.

26. Many preparers, supported by some others, suggest that when insurance contracts provide payments to policyholders that are based on changes in the value of the underlying assets, the contractual service margin should be adjusted by both:

    (a) changes in the estimates of cash outflows under the insurance contract (which reflect the changes in the payments to policyholders that result from changes in the underlying assets); and

    (b) changes in the value of the underlying assets themselves.

27. These constituents believe that the contractual service margin of the insurance contract should reflect both:

    (a) the expected profit that the entity will earn from the returns on the underlying assets; and

    (b) the risk-adjusted expected profit that the entity will earn as the difference between the cash inflows and cash outflows arising from the insurance contract.

28. Those supporting this view believe that an intrinsic element of the unearned profit of the insurer, and therefore of the insurance contract, is the investment return of the assets that are held to back the insurance contract. The proposal to adjust the contractual service margin for changes in the value of underlying items (referred to by some as a "fully unlocked contractual service margin" is a key component of the alternative proposal for participating contracts proposed by some industry bodies.

Difficulties in understanding the proposals

29. Paragraphs B68 of the ED provided application guidance on which changes in cash flows unlock the contractual service margin. However, many constituents found this paragraph difficult to understand. As a result there is significant uncertainty among preparers and actuaries as to whether all cash flows, including options and guarantees, unlock the margin.

    (a) B68(d) states that the contractual service margin is not unlocked for changes in estimates of cash flows that depend on investment returns, if those changes arise as a result of changes in the value of the underlying items.

(b) B68(e) states that the contractual service margin is adjusted for changes in estimates that are expected to vary directly with returns on underlying items only if those cash flows relate to future services under the insurance contract.

30. Some actuaries ask how to identify cash flows that vary directly with returns on underlying items. Some also ask how these paragraphs apply to fees for asset management services, which may vary with investment returns, and which they believe relate to future services.

Other issues relating to the contractual service margin

31. Many constituents commented on aspects of the proposals relating to the contractual service margin that were not directly related to unlocking, namely the allocation pattern and period for the contractual service margin, the requirement to accrete interest on the contractual service margin, the rate at which interest is accreted, and the unit of account for determining the contractual service margin and recognising it in profit or loss. These comments reflected constituents' views on what they believed the service provided by an insurance contract to be. Those issues are described in the table in paragraph 127.

Measurement and presentation exception for contracts where no accounting mismatch is possible (mirroring, Question 2)

Summary: mirroring

Many respondents are sympathetic to the IASB's intention of eliminating accounting mismatches for some participating contracts. However the proposals in the ED were widely criticised for being unduly complex and many constituents question whether they could be made workable. Furthermore, many constituents disagree that some types of participating insurance contract should be measured on a different basis from other insurance contracts. In particular, many constituents thought that there should be consistent treatment of the options and guarantees embedded in insurance contracts, though there was a diversity of views about what that treatment should be.

32. Question 2 asked for views on the proposal that there should be a measurement and presentation exception for some types of participating contracts. This exception is commonly referred to as the "mirroring exception". The mirroring exception was intended to eliminate all accounting mismatches between the cash flows of the contract and the cash flows of the underlying items.

Proposals in the ED

33. The mirroring exception would apply only to contracts for which there could be no possibility of an economic mismatch, ie those for which the entity is required to pass on returns from underlying items to the policyholder and for which the entity is required to hold those underlying items.

34. To apply the mirroring exception, an entity would identify, and apply different measurement bases to:

    (a) cash flows that varied directly with underlying items, which would be measured on the same basis as the underlying items; as distinct from

    (b) all other cash flows, which would be measured using the general approach in the ED.

    Some refer to the separation of cash flows in this way as bifurcating, or decomposing, the cash flows.

35. An entity would present changes in the cash flows that varied directly with underlying items on the same bases as the presentation of the underlying items. However, there are differences in the presentation of changes in the other cash flows, as follows:

(a) changes in cash flows that vary indirectly with underlying items would be presented in profit or loss; and

(b) changes in cash flows that are fixed or that do not vary (directly or indirectly) with underlying items are presented in accordance with the general requirements of the ED, ie:

(i) as an offset to the contractual service margin, for changes in estimates of cash flows that relate to future service;

(ii) in profit and loss, for changes in estimates of cash flows that do not relate to future service, and for the risk adjustment; and

(iii) in OCI for the effect of changes in the discount rate.

36. Thus, the Exposure Draft proposed different requirements for changes in the fulfilment cash flows that vary indirectly with underlying items (which are intended to include embedded options and guarantees), depending on whether the contract met the criteria for mirroring, as follows:

(a) When mirroring applies, the changes in the fulfilment cash flows that vary indirectly with underlying items would be presented in profit or loss.

(b) When mirroring does not apply, the changes in the fulfilment cash flows that vary indirectly with underlying items are recognised as described in paragraph 35(b).

Constituent views

37. Some, for example in Canada and Asia, support the elimination of accounting mismatches when the terms of the contract mean the entity will not suffer any economic mismatches. They agree that the mirroring exception would result in a faithful representation of the fact that the amount the entity is obligated to pay is equivalent to the underlying items.

38. However, most constituents had significant concerns about the mirroring proposals though this was articulated in different ways:

    (a) Some expressed support for the concept of eliminating accounting mismatches using a mirroring approach, but went on to describe their objections to the specific proposals in the ED. If those objections cannot be resolved, they would not support mirroring.

    (b) Some rejected the proposals in the ED, but noted that they were sympathetic to the IASB's rationale and intentions.

39. The nature of the concerns can be summarised as follows:

    (a) concerns about the operationality and complexity of the proposals. This was the biggest driver of objections, see paragraphs 41-45;

    (b) concerns about the scope of the proposals, see paragraphs 43-43; and

    (c) conceptual concerns about what the mirroring proposals would portray, see paragraphs 47-50.

40. In addition, many thought that the proposals lacked clarity, both in terms of their scope and in determining which cash flows would be mirrored.

Operationality and complexity

41. Many constituents believe that it would be difficult for entities to identify the different components of the insurance contract that would be accounted for differently. They observe that the IASB's model was designed to treat an insurance contract as a bundle of rights and obligations, and that the IASB had previously decided that there should be limited unbundling of those rights and obligations, on the basis that it would be arbitrary and complex to do so. They believe the same considerations apply to separating the components of a participating insurance contract. In particular, they believe that:

    (a) It is difficult to separate and separately measure part of the probability-weighted estimate of cash flows without taking into consideration all the cash flows expected from the contract. However, some comment that they can separately measure options and guarantees under their existing practices (but would not be able to divide them into a component to be recognised in P&L and a component to be recognised in OCI).

(b) Any decomposition of cash flows is arbitrary, yet different methods of decomposition would lead to different valuations of the insurance contract, and arbitrary measurement in the balance sheet or in the profit reported in the statement of comprehensive income.

(c) The approach to decomposition of cash flows described does not align with the way that many insurers view their products.

42. Furthermore, many participating contracts include a mechanism by which the guarantees inherent in the contract vary from year to year, resulting in the requirement to decompose and mirror a different proportion of the liability each year. Some constituents note that this would increase the operational difficulties of applying the mirroring proposals.

Scope

43. Many constituents find it unclear what is intended by the nature of the link between the insurance contract and the underlying items, and by the requirement that the entity must hold the underlying items. During our outreach, we found some evidence that the scope had not been interpreted as we had intended, or that participants were uncertain whether mirroring would apply to particular contracts:

(a) In some cases, the requirement to hold assets is specified by a regulator, rather than by the contract. It appears that some had interpreted such contracts as being outside the scope of mirroring.

(b) In some cases, the payments to policyholders reflect a large number of factors, including management discretion. Some interpreted the proposals as requiring the entity to identify any traceable link to underlying assets, and to apply mirroring to those cash flows.

(c) Some ask whether the mirroring approach would be applied in cases in which there is discretion over the timing of the distribution or allocation of profits on participating contracts to policyholders.

(d) Some ask how the mirroring approach would be applied to charges that are based on the amounts attributable to the policyholder.

44. Some note that the complexity inherent in separating cash flows, and the different treatments that would arise for similar components in different types of contracts, would not be not justified because of the narrow scope of contracts to which the mirroring approach could apply. That narrow scope would mean that only some and not all accounting mismatches would be avoided.

45. Some think that the proposals would be workable only for the simplest participating contracts, such as those in segregated fund arrangements. For such contracts, almost all the cash flows from the contract would vary directly with the underlying items, and the decomposition of cash flows would not be arbitrary. In contrast, some suggest that, for products for which the nature of the participation includes asset returns, demographic experience, expenses and other items, the cash flows that vary indirectly are difficulty to identify. This is consistent with the conclusions reported in Agenda Paper 2C *Fieldwork* that the exception is substantially easier to apply to some types of product. For this reason, some suggest that the mirroring exception should not be extended beyond the contractually linked cash flows to cash flows in which discretion arises.

46. Some mutual entities questioned the complexity of applying the proposals to participating contracts when the ultimate surplus will ultimately be distributed to policyholders in their capacity as shareholders. However, some note that the ultimate outcome for a mutual is that all the surplus must be shared between policyholders and thus think that mirroring would be necessary to avoid accounting mismatches.

Reflecting the economics of participating contracts

47. Many constituents are concerned because the mirroring proposals would mean that the measurement outcome for some participating contracts would differ from the measurement outcome for other insurance contracts.

48. Some constituents state that they would prefer all insurance contracts to be measured in the same way, because otherwise there would be reduced comparability, eg:

    (a) between an insurance contract for which the entity accounts for the assets backing the contract at amortised cost, and an otherwise identical contract for which the entity accounts for the assets backing the contract at fair value;

(b) between contracts to which mirroring applies, and those to which it does not, as described in paragraph 36. Some believe that the marked difference in accounting does not reflect the more subtle differences in contract characteristics, and believe the proposals to portray a misleading difference; and

(c) many object to the proposal that there would be different treatments of cash flows that vary indirectly with underlying items, depending on whether mirroring applies.

49. In addition, some preparers and regulators are concerned that when the underlying items are measured at cost, the carrying value of the insurance contract would not be a current value. As a result, it would widen the difference between the liability measured for financial reporting purposes, and the liability recognised for regulatory purposes.

50. Finally, some preparers are concerned that if an entity applies the mirroring approach at initial recognition, the contractual service margin could be mis-stated if the underlying items are not measured at fair value. Some note that the IASB would need to clarify that the contractual service margin should be determined on the basis of non-mirrored cash flows.

Proposed changes

51. Some doubt that the IASB would be able to resolve the practical difficulties with applying the mirroring proposals. In addition, some observe that, as a principle, accounting mismatches are best dealt with by consistency of measurement approaches rather than by exceptions. Accordingly, some suggest that there should be no measurement and presentation exception for participating contracts. However, views on the accounting for participating contracts differ:

(a) Some propose that all insurance contract liabilities should be measured using the general proposals of the ED, and that any accounting mismatch should be dealt with by modifying the asset accounting instead.

(b) Some observe that the main problem that mirroring aims to solve could be dealt with much more simply, by allowing use of other comprehensive income to be optional rather than mandatory.

52. Some propose that the alternative models for participating contracts with features that differ from the proposals in the ED, as follows:

(a) Some suggest that all the cash flows for the contract (including options and guarantees embedded in insurance contracts) should be measured using current fulfilment cash flows. However, others suggest:

(i) a variation on the mirroring approach that reduces the number of different types of cash flows that the entity needs to separate;

(ii) an approach in which some options and guarantees embedded in insurance contracts are separately measured and presented. Some suggest the options and guarantees are measured at fair value, others suggest they are measured using the fulfilment cash flows. Some suggest that the changes in the value of options and guarantees are presented according to the general approach in the ED, others suggest that the time value element of such changes is presented in OCI; or

(iii) a cost-based approach.

(b) Some suggest that the contractual service margin should be unlocked for additional changes in estimates, such as those described in paragraph 25.

(c) Some suggest that interest expense presented in profit or loss should be determined differently than proposed in the ED, for example using one of the approaches described in paragraph 104.

(d) Some suggest the use of OCI for presenting specified changes in insurance contract liabilities should be optional, as described in paragraph 97.

(e) Some suggest that both the underlying items and the part of the insurance contract directly related to the underlying item should be measured at fair value through profit or loss.

53. Some suggest retaining the mirroring proposals, but restricting the scope to mutual and unit-linked/segregated fund contracts, possibly on an optional basis.

Participating contracts to which mirroring does not apply

54. The ED did not ask an explicit question about the proposals for contracts in which there is dependence on underlying items, but mirroring would not apply. For such contracts, the proposals would:

   (a) require entities to apply a discount rate for measurement that reflects the extent to which the cash flows depend on underlying assets; and

   (b) update the discount rate used to determine interest expense when the entity expects any changes in those returns to affect the amount of those cash flows.

55. Participants who commented on this issue raised the following concerns:

   (a) The requirement that the discount rate should reflect the extent to which the cash flows depend on asset returns would mean that an entity would need to apply different discount rates to different types of cash flows. In addition, the requirement to update the discount rate implies that an entity is required to apply separate discount rates to each set of cash flows. Some are concerned that applying different discount rates to different cash flows would result in excessive operational complexity. They recommend instead that a single discount rate should be applied to all cash flows that do not qualify for mirroring.

   (b) It was unclear which cash flows should be discounted at the current market rate rather than the locked-in rate. For example, within a universal life contract, a fixed death benefit might be considered a cash flow that does not vary directly with returns on underlying items, and thus should be discounted at the locked-in rate. However, often the universal life contract will lapse if the account balance goes to zero, in which case the death benefit will not be paid. Because the account balance is directly dependent on the level of credited rates, which are directly dependent on returns on the underlying items, these death benefit cash flows might alternatively be considered to vary directly with returns on underlying items, in which case they would be discounted at the reset discount rate.

(c) Some seek clarification on when the discount rate should be updated, and whether it should be updated to the current, market-consistent liability rate. Some constituents believed that the IASB should require the entity to apply a book yield or blended rate when it updates the discount rate that is used to determine interest expense.

Insurance contract revenue (Question 3)

Summary

Reactions to the proposals for insurance contract revenue were mixed. Many of those who had a more generalist outlook supported the objective of consistent reporting for entities that issue insurance contracts compared with those that do not. However, many with a more specialist outlook, including most preparers, did not agree that the presentation of insurance contract revenue would provide useful information. The most contentious issue for life insurers was the proposal that insurance contract revenue should exclude investment components, which are defined as amounts that the insurance contract requires the entity to repay to a policyholder even if an insured event does not occur. Non-life insurers did not object to the proposals because it would not differ significantly from existing practice.

56. Question 3 asked for views on the proposal that entities should present insurance contract revenue in an amount that depicts the transfer of services under the contract. As a result, entities would:

    (a) present insurance contract revenue in the period in which it is earned. The ED elaborated that the insurance contract revenue that the entity would earn in a period would comprise the margin the entity earns for providing coverage and bearing risk, plus the expected cost of providing that service; and

    (b) exclude any deposit components from insurance contracts revenue.

57. Many welcomed the IASB's decision to revisit the summarised margin approach proposed in the 2010 ED for contracts accounted for using the building block approach. Many reiterated their views that the statement of comprehensive income should provide more information than merely margins. They agreed that insurance contract revenue will be more comparable with other industries and make non-specialist investors more comfortable in making their asset allocation decisions with respect to insurance companies.

58. In addition, most agree that there are conceptual merits to the IASB's proposals, and many thought that the alignment between the revenue presented for life insurance contracts, non-life insurance contracts and non-insurance contracts would

be beneficial. In particular, some commented that it is helpful to make bancassurers more comparable to other deposit-taking institutions.

59. However, some that oppose the insurance contract revenue proposals state that comparability between insurance and other industries is not a high priority, because analysts typically compared insurance companies with other insurance companies. Some also state that the IASB should accept the coexistence of two different presentation requirements, even between life and non-life insurance contracts, because they think different presentations offer the most useful presentation of the different characteristics of short- and long-duration coverage insurance contracts. Some of those with this view say they have revised their view on the 2010 ED, and would prefer the IASB to revert to the summarised margin approach.

60. Furthermore, many constituents observe that proposed notion of 'insurance contract revenue' is a new, radical measure. Accordingly, many doubt whether users of financial statements will understand the information and fear that the proposals would lead to a growth of non-GAAP measures. At the very least, some preparers believe that users of financial statements would require extensive education, which they do not believe is justified.

61. Accordingly, many propose that existing measures of premium should continue to be presented in the statement of comprehensive income. They view those existing measures as providing useful information about the level of activity or sales during the period, which they think would be useful for assessing growth. Accordingly, many believe that insurance contract revenue would not meet investors' needs regarding information needed for decision-making, and hence entities would need to continue to provide information about levels of sales activity in the notes.

62. Regardless of whether they agreed or disagreed with the proposals, many stated there was a need for the IASB to educate preparers and users of financial statements about the proposals and how key performance indicators would be affected. Some also strongly support disclosure of a reconciliation between insurance contracts revenue and existing measures of premium such as gross written premium or premiums due. However, some argue that this disclosure does not add much value and adds to the disclosure burden.

63. Overall, views on the proposals among the various types of constituent can be summarised as follows:

(a) Although **some users of financial statements** from Asia, Africa and North America support the proposal, others in other jurisdictions did not. Support mostly came from generalists, rather than specialists. Agenda Paper 2B *Feedback from users of financial statements* describes the views of users of financial statements in more detail.

(b) **Actuaries** did not in general support the proposals. However, their views were mixed.

(c) **Accounting firms** had mixed views. One firm supported the proposals, and two opposed it. Three did not come to a clear conclusion, but instead proposed that the IASB should do more outreach to find out whether users would find the information useful.

(d) **Regulators** say they can see the merits of the proposal, but have concerns about how the proposals would be implemented.

(e) **Standard-setters** mostly agreed with the proposals, sometimes with reservations relating to the requirement to exclude the deposit component (see paragraphs 64-65).

(f) **Preparers**, particularly those in Europe and Asia, generally did not support the proposals. However, there was support from some composite insurers and non-life insurers. Some noted that the proposals were consistent with the revenue and expense that would be reported when the premium allocation approach is applied.

Excluding the deposit component from insurance contract revenue

64. Central to the opposition to the insurance contract revenue is the proposed treatment of deposit components. This is the main concern expressed by preparers and actuaries. Some believe that the deposit component is an integral part of an insurance contract and it would not be meaningful to separate it from the underlying insurance contract. Others accept that there would be a conceptual

justification for separating deposit components, but argue that it would be excessively complex to do so.

65. In terms of the complexity cited by constituents:

(a) Some think that separation of the deposit component would require the entity to identify the expected deposit cash flows at inception, and exclude them from the probability-weighted estimate of cash flows. That would be onerous for many contracts, eg if the amount and timing of the deposit component could vary.

(b) Some note that the deposit component need not be forecast, but can be determined from the amount paid to the policyholder in the period. Nonetheless they believe that separating the cash outflows in each period into the amount that would have been paid if the policyholder had surrendered the policy in the period and the incremental amount paid because the policyholder had died would be onerous because this information is not held within existing accounting systems.

Proposed changes

66. As described in paragraph 60, many constituents doubt the benefits of introducing a new measure of activity. Accordingly, many propose that existing measures of premium should continue to be presented in the statement of comprehensive income.

Premiums due

67. In jurisdictions where US GAAP has been applied, there is significant support for presenting premiums due, including deposit components, in the statement of comprehensive income. Premiums due is similar to the approach used under existing US GAAP. Those supporting premiums due think this information is more objective than insurance contract revenue, provides analysts with more relevant information about cash flows and is more consistent with the information that management would use to assess performance and make operating and capital allocation decisions. Some constituents, who understand the IASB’s objections to the use of premiums due as a revenue measure, suggest that a reconciliation

between premiums due and insurance contract revenue should be provided at the top of the statement of comprehensive income. Such a reconciliation is also recommended as a means to provide a link between insurance contract revenue and other volume-based measures of activity that are widely used in existing accounting practices.

68. However, others disagree that premiums due (or other volume-based measures of activity) should be presented in the statement of comprehensive income. In particular, one accounting firm noted that they had come to share the concern expressed by the IASB that any volume measure presented on the face of the income statement would be viewed as revenue (though this firm supported the summarised margin approach, rather than insurance contracts revenue).

Written premiums

69. A small minority believes that the statement of comprehensive income should present gross written premiums. Those with this view believe that gross written premium provides a comparability metric and information about performance. In some jurisdictions, gross written premium is used as a benchmark and basis for calculating premium taxes.

Summarised margin approach

70. In the response to the 2010 ED, many, including a majority of users, find the information given by a margin-based approach to be helpful and valuable. However, there was limited support for the summarised margin presentation approach, because it eliminates from the statement of comprehensive income information about premiums, benefit payments and claims expenses. Many were uncomfortable with providing this information only in the notes, because they saw such information as being key to providing insight into the amount of new business written by insurers and the strain that this new business places on the resources of the insurer. They implied that the quality of new business is a critical driver of future profitability.

71. Some constituents now support the summarised margin approach for the following reasons:

(a) It provides the most direct link to the measurement model and information about the key drivers of insurance contract performance.

(b) It eliminates cash receipts and cash payments from the income statement, so that investment components are not shown in profit or loss.

(c) It is easier to apply.

72. Many of those that support the summarised margin approach expect that users of financial statements will continue to request existing volume measures such as gross written premiums and new business premiums, which can be provided in the notes.

Other approaches

73. Other approaches were also suggested including:

(a) Combined volume and margin information should be presented in the statement of comprehensive income.

(b) Expected cash flow information, perhaps disaggregated in a way that would show the experience adjustment for each cash flow.

(c) An allocated premium approach based on the transfer of services.

Acquisition costs

74. The ED proposed that, for the purpose of measuring insurance contract revenue, entities should allocate the directly attributable acquisition costs over the coverage period in the systematic way that best reflects the transfer of services provided under the contract. A few respondents believe that this proposal adds complexity that is not justified. They suggest instead that the revenue associated with the directly attributable acquisition costs should be recognised when the costs are incurred.

Requests for guidance

75. Some ask the IASB to provide further guidance on how to determine insurance contracts revenue:

(a) for contracts where the insured event has already occurred, for example for contracts in settlement that are acquired in a business combination; and

(b) for reinsurance ceded, ie for reinsurance contracts in which the entity is the policyholder.

Presentation of interest expense (OCI, Question 4)

Summary

Most constituents welcomed the IASB's decision that entities could present the effects of changes in discount rate in other comprehensive income. However, they commented that mandatory presentation of the effect of changes in discount rates would cause extensive accounting mismatches, because of the mixed measurement attribute model for the assets the entity would hold to back the insurance contracts. Accordingly, they suggest allowing an option. Some opposed the proposals because the requirement to use locked-in discount rates would be onerous.

76. Question 4 asked for views on the proposal that an entity should recognise:

    (a) in profit or loss, interest expense determined on an amortised cost basis; and

    (b) in other comprehensive income, the difference between the carrying amount of the insurance contract measured using the discount rates that were used to determine that interest expense, and the carrying amount of the insurance contract measured using the current discount rates.

77. These proposals are intended to segregate the effects of the underwriting performance from the effects of the changes in the discount rates that unwind over time.

Recognising the effect of changes in discount rate in other comprehensive income: limited support

78. Some constituents welcome the proposal to present the effect of changes in discount rate in other comprehensive income. Support for the proposal that the effect of changes in discount rate should be *required* to be presented in other comprehensive income was generally found in Asia and in France. Reasons given for this support include:

    (a) They consider the proposals to be an effective way to reduce short-term volatility on long-duration contracts, and to distinguish market noise from long-term trends.

(b) They believe the proposed segregation provides additional transparency about underwriting results.

(c) They believe that changes in discount rates are beyond the control of the insurer.

79. In addition, many constituents, particularly users of financial statements, agree with the IASB that an amortised cost view of insurance contracts and a current value view both provide useful information. Many support the proposal that insurers could present a statement of financial position measured at a current value while presenting in profit or loss amounts that they believe reflect the long-term nature of their contracts because they exclude short-term market movements. Some ask whether such information could instead be presented within profit or loss.

80. However, the vast majority of constituents opposed the proposal that the effect of changes in discount rate must be presented in other comprehensive income. This view was expressed both by those that supported the use of other comprehensive income and those that did not.

Constituents that do not support the use of other comprehensive income

81. Those that did not support the use of other comprehensive included constituents in Scandinavia, South Africa, the UK and Australia that already incorporate elements of current value measurement in existing accounting practices. Those with this view generally supported the Alternative Views in the ED. They argued that:

(a) The management of interest rate risk is an important part of the business model of an insurance entity that manages assets and liabilities together. Recognising any part of the change in assets or liabilities outside profit or loss would result in a less meaningful profit or loss statement. Recognising all the change in assets and liabilities in profit and loss would provide a better reflection of the extent to which the entity manages interest rate risk.

(b) Recognising the effect of changes in discount rate in other comprehensive income would be more complex and less transparent than recognising them in profit or loss.

(c) Recognising the effect of changes in discount rate in other comprehensive income would be inconsistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(d) The proposals do not align with economic substance, because there could be gains and losses reported in OCI arising from the unwinding of the locked-in discount rate, even if no real economic changes had occurred in the period.

(e) They see a disconnect between profit and loss, which will reflect a mixture of historic and current valuations, and the balance sheet, which would reflect only a current valuation.

82. Because those with this view generally came from jurisdictions that already use a form of current value measurement for insurance contracts, they sometimes commented that the proposal would be a backward step for their jurisdiction.

83. Some suggest that the IASB should not require additional amounts to be presented in other comprehensive income until it has considered the basis for use of other comprehensive income in its Conceptual Framework project.

Complexity and accounting mismatch

84. Both those that would prefer to recognise the effect of discount rate changes in profit or loss, and those that supported the proposal to recognise such changes in other comprehensive income were concerned about the complexity of the proposals, and the accounting mismatches that would inevitably result because the assets held by the entity are measured using a mixed measurement attribute model.

85. Those concerned about complexity noted:

(a) the need to track and maintain a large number of locked-in discount rates would result in high costs; and

(b) the requirement that a single product line would need to be split into portfolios with different inception dates would increase operational complexity.

86. Those that do not support the use of OCI believe that there is little additional information provided by an amortised-cost view of interest expense and therefore think that this additional complexity is not justified.

87. Almost all constituents were concerned that there would be significant accounting mismatches, because the assets they hold to back insurance contracts are measured using different measurement attributes. They note the proposal enables them to avoid accounting mismatch for many assets measured at fair value through other comprehensive income ('FVOCI'). However, although IFRS 9 provides an option for entities to avoid accounting mismatches by electing to apply fair value through profit and loss to assets that would otherwise be measured at cost or amortised cost, a similar option would not be available to reduce the accounting mismatches that arise with insurance contracts when assets are not measured at FVOCI. Furthermore, even when financial assets are measured at FVOCI, the gains and losses that would be realised on sales and reinvestments of assets would still result in an accounting mismatch.

88. Accounting mismatches would also occur:

(a) When cash outflows under an insurance contract are affected by inflation, because changes in inflation are generally correlated with changes in nominal discount rates. Some think it would be misleading to users of financial statements to report the changes in insurance liabilities due to inflation in profit or loss, with any offsetting effect to be recognised in OCI.

(b) When changes in assumptions about market interest rates affect both the cash flows from an insurance contract and the fair value of the assets measured at FVOCI that the entity holds to back those contracts. The amount presented in OCI for the insurance contract would reflect only changes in discount rates, and not the interest-sensitive cash flows. However the change in the fair value of assets would be reflected in OCI.

89. Most entities expressed vehement objections to the accounting mismatches described in paragraphs 87 and 88. Their reasons are:

(a) It would result in artificial accounting volatility in profit or loss.

(b) It would distort profit or loss for many products, because it would make insurance contracts and associated assets appear unmatched even if they are matched.

(c) These entities find to be counterintuitive the outcome that accounting mismatches would be exacerbated if the entity hedged its risk position by entering into derivatives. Some note that the proposals could discourage entities from hedging real risks, because this hedging would lead to volatility in profit or loss. Similarly, some observe that the extent of accounting mismatch would increase as the entity manages its assets more actively, and are concerned that the proposals could discourage appropriate asset-liability matching activities compared to an approach that reports all changes in assets and liabilities in profit or loss.

(d) They believe that the scale of these accounting mismatches would overwhelm any other useful information that would otherwise be provided by separating underwriting from investing performance, as the IASB intended.

90. Accordingly, while constituents, in particular users of financial statements, support the IASB's proposal to segregate underwriting from investing performance, most ask the IASB to address the accounting mismatches that would result from the proposals in the ED. Their proposals are described in paragraphs 97-105.

Additional issues raised by non-life insurers

Different cost-benefit considerations

91. Non-life insurers gave significantly less support than life insurers did to the proposal to present the effects of changes in discount rates in other comprehensive income. An exception is the Canadian non-life insurers, who welcome the proposal because it removes a mismatch that they have under their existing accounting.

92. Some non-life insurers believe that the costs of discounting insurance contract liabilities outweigh the benefits. Consequently, they are concerned about the even greater cost of presenting the effects of changes in discount rates in other comprehensive income.

93. Some non-life insurers were particularly concerned about the accounting mismatch described in paragraph 88(a) relating to the correlation between inflation rates and interest rates. This would mean that discount rate changes would be presented in other comprehensive income, while changes resulting from inflation would be presented in profit or loss or would adjust the margin. Non-life insurance claims are often significantly affected by changes in inflation rates, and changes in discount rates would provide a natural offset between explicit and implicit inflation effects on the amount of incurred claims.

Date of locked-in discount rate

94. When entities apply the premium allocation approach to the liability for remaining coverage, the building block approach applies to the liability for incurred claims. The ED proposed that the difference in the liability for incurred claims determined using the discount rate at the date of initial recognition, and the liability determined using the discount rate at the reporting date, would be presented in other comprehensive income. However, many non-life insurers note that they do not maintain records for incurred claims on an underwriting year basis (ie according to when the contracts were initially recognised). Instead, they maintain those records on an accident year basis (ie according to when the claims were incurred, sometimes many years after the coverage has finished). Accordingly, they think it unduly onerous to use the locked-in discount rate at the date of initial recognition for the purpose of determining interest expense in profit and loss.

95. Most non-life insurers (with the exception of Canadian non-life insurers) would prefer the effect of discount rate changes to be presented in profit or loss. However, if the effect of discount rate changes is to be presented in other comprehensive income, almost all non-life insurers state that determining interest expense using the discount rate at the start of the period would be a substantial simplification.

Additional issues for reinsurance contracts

96. Some observe that when reinsurance contracts and underlying direct contracts are entered into at different dates, there is a mismatch between the interest income from

the reinsurance asset and interest expense on the liability, even though these would economically offset each other.

Proposed alternatives

Effect of discount rate changes in OCI or P&L

97. Many suggest that entities should have the ability to report the effects of changes in discount rate either in profit or loss or in other comprehensive income. Some of those making this suggestion think it would increase faithful representation by reducing accounting mismatch and some believe it would better accommodate entities' different business models. Others see an option as a means for them to apply their preferred accounting. Views on how to achieve this differ:

    (a) Some suggest that the IASB should add an option to present changes in discount rates in profit or loss, based on the need to eliminate accounting mismatch.

    (b) Some observe that there are limited situations in which the proposals in the ED would *not* result in extensive accounting mismatch, namely that the contract is a single premium contract, the assets held to back the contracts are identifiable and predominantly measured at FVOCI, and the entity does not undertake active asset-liability matching. Accordingly, they propose that the default should be that the effect of changes in discount rates should be presented in profit and loss, and there should be an option to present those changes in OCI when those limited circumstances apply.

    (c) Some suggest that the IASB should not specify a default, but instead allow a free choice. They observe that accounting for assets in accordance with IFRS 9 would drive the entity's business model and promote consistent treatment for different types of products held in different business models.

98. Respondents acknowledged the IASB's questions in the Basis for Conclusions as to how an option would be operated and suggested the following:

    (a) Unit of account:

(i) Most constituents suggested that an option be applied at a portfolio level, because this is the way that entities manage their business.

(ii) Some suggested that an option should be applied at an entity level. These constituents were primarily driven by concerns about complexity, and a desire to make it easier to see whether an entity had elected an option.

(b) Most suggested that the election of an option should be made irrevocably at inception.

(c) Criteria: as described in paragraph 97(c), some suggest there should be a free choice over whether the effects of changes in discount rate should be presented in profit or loss or OCI. Those that think there should be criteria for when an option could be used suggest:

(i) If applying the option would eliminate an accounting mismatch.

(ii) On the basis of the business model, which they see as determined by whether the assets are classified as FVPL or FVOCI.

99. Non-life insurers, who gave much less support to the proposals, for the reasons described in paragraphs 91-95, suggest that entities should be permitted not to apply the OCI proposals to the liability for incurred claims provided that they apply the premium allocation approach to the liability for remaining coverage.

Expand use of OCI

100. Some suggest that the best way to deal with accounting mismatches is to expand the use of other comprehensive income for backing assets. They consider the IASB's OCI proposal to be incomplete, because it does not apply to all the assets an insurer might hold. Accordingly, they would permit all assets that relate to insurance liabilities to be measured at FVOCI. These would include debt instruments that do not meet the contractual cash flow characteristics assessment, equity shares, derivatives and property. Returns on assets, gains and losses on realisation and impairment would be recognised in profit or loss.

Reflecting hedging activity

101. Some note that entities often hedge the interest rate risk from insurance contracts using derivatives.

102. One constituent suggests that the IASB should modify its general hedge accounting requirements to permit the use of derivatives and non-derivative financial assets at FVTPL as hedging instruments in a fair value hedging relationship to hedge the interest rate risk component of insurance contracts. This constituent believes this approach would enable entities to recycle to profit or loss the changes in accumulated OCI that represent gains or losses attributable to the hedged risk.

103. Some also suggest that the IASB should consider whether a macro hedging solution might be appropriate to avoid the mismatches that arise if the effect of changes in discount rate are presented in other comprehensive income. They state that it would not be possible or practical to construct one-to-one hedge accounting relationships with individual insurance contracts through the use of derivative contacts such as interest rate swaps.

Alternative proposals for reporting interest expense

104. Some suggested alternative proposals for determining the amount of interest expense reported in profit and loss. These were as follows:

    (a) **Effective interest yield:** some note that in IFRS 9 the discount rate used to determine the effective yield is a point rate, while the proposals would apply a yield curve. In addition, IFRS 9 would apply the effective yield to the whole contract, not merely to the cash flows that vary directly with underlying items. Some suggest that the IASB should align the methods of determining interest expense so that the same approach applies for IFRS 9 and for insurance contracts. In contrast, some object to the additional complexity of calculating an effective interest rate yield.

    (b) **Current value interest:** some suggest that instead of determining interest expense using the discount rate from the inception of the contract, entities should instead use the discount rate at the start of the reporting period. This would mean that it would be the effect of the current period change in discount rates that would be recognised in OCI, rather than the cumulative change in discount rates since inception,. Those proposing this approach argue that it would provide similar information to the IASB's proposals, but would dramatically decrease the costs, because it would mean that the entity did not need to store discount rates at a large number of points in time. Some also argue that this information would be more useful to users of financial statements, because the amounts presented in OCI would reflect only the movement of discount rates in the current period, and there would be no amounts recognised in profit or loss in a period that discount rates do not change.

(c) **Book yield:** as part of their alternative approach for participating contracts, some preparers suggest that the amount that is recognised in profit or loss should be determined as the book yield on the backing assets, ie an amount based on the return on the assets backing insurance contracts that is recognised in profit or loss in the period.

105. In addition, some suggest that when changes in estimates of cash flows are recognised as an adjustment to the contractual service margin or profit or loss, the cumulative effect of the change in discount rates since inception on those changes in cash flows should also be recognised as an adjustment to the contractual service margin, or in profit or loss, as applicable. Some question whether presenting such changes in other comprehensive income results in a faithful representation of the underwriting performance, because they believe that all effects of a change in underwriting assumptions relate to underwriting performance.

Transition (Question 5)

Summary

The proposals for transition were widely supported, though there were concerns about the remaining operational complexity in some jurisdictions. However, there were concerns about the length of the implementation period, and about the possibility that entities would not be able to apply the proposals at the same time as applying IFRS 9.

106. Question 5 asked for views on the proposal that an entity should apply the [draft] Standard retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when it is practicable, and apply specified simplifications when it would not be practicable. These proposals revise those in the 2010 Exposure Draft, which proposed that the entity should recognise no contractual service margin for contracts in force at the beginning of the earliest period presented. These proposals increase the comparability of contracts in existence at the date of transition to those that are written after the date of transition. However, estimates of the contractual service margin may not be verifiable.

107. Most constituents—preparers, standard-setters, auditors and users—welcomed the IASB's decision that entities should estimate a contractual service margin on transition. They saw the proposals as a significant improvement over the proposals in the 2010 ED. Many noted that there would be increased costs to apply the revised proposals, but commented that the benefits outweighed the cost, and stated that the IASB's simplifications were practical, reasonable and pragmatic.

108. However, there remain some concerns:

    (a) Whether entities will have the information needed to determine the cash flows in periods before the beginning of the earliest period presented. Many constituents, particularly in Asia, comment that contracts in force at the date of transition may have been written decades ago. Some suggest that information about cash flows at the required level of detail to determine the contractual service margin for portfolios would available only up to 10 years back.

(b) Whether entities will be able to determine discount rates at the date of inception of the contracts (for both interest accretion and to determine the cumulative adjustment to OCI). Many constituents comment that it would be impracticable to determine historical discount rates. This could be a particular problem for some jurisdictions where historical market-observed discount rate information is less available.

(c) Some are concerned that the simplifications proposed by the IASB would overstate the contractual service margin (and hence understate retained earnings) at the date of transition. In particular, some are concerned that an overstated contractual service margin would exacerbate the issue of negative equity on transition to the new Standard. This is a particular issue in Asia.

(d) Some are concerned about the subjective nature of the estimates, and the extent to which such estimates are auditable.

109. Respondents propose further simplification, including:

(a) Some suggest that entities should apply the proposed simplifications to all contracts in force at the date of transition, and not merely those for which retrospective application is impracticable.

(b) Some suggest that the IASB should introduce an expedient, similar to that proposed by the FASB, that would allow entities to use the existing definition of a portfolio immediately before the date of transition, rather than determine the portfolios for the contracts at the date of transition.

(c) Many suggest that entities should determine the contractual service margin on transition as the difference between the fulfilment cash flows and the previous GAAP amounts or statutory reserves. They state that this will improve comparability and understandability.

(d) Some suggest that the contractual service margin on transition should be determined using the consideration that the entity would require to undertake to fulfil the remaining obligations. This would be similar to the approach used for portfolio transfers and contract modification.

(e) Some suggest that the contractual service margin on transition should be determined as the difference between the amount of insurance liabilities at the date of transition calculated using assumptions locked in at the level not to recognise any gain at inception (the present value of future cash flows) and the amount of future cash flows remeasured at the date of transition.

(f) Some have specific suggestions to address the issue of determining the amount of accumulated other comprehensive income at the date of transition. These include:

   (i) Setting the cumulative amount of other comprehensive income for insurance contracts equal to the accumulated amount of other comprehensive income on the assets backing insurance contracts.

   (ii) Setting the cumulative amount of other comprehensive income equal to zero.

(g) Some propose that the IASB should not be prescriptive and merely state the principle that the contractual service margin should be the unearned profit at transition.

110. Some noted that determining whether retrospective application is impracticable was subjective, and suggested that the IASB should require disclosure of the extent to which the entity used objective information that is reasonably available.

Other transition issues

Alignment with IFRS 9 effective date

111. Most constituents believe that it would be ideal if the effective dates of the new insurance contracts Standard and IFRS 9 were aligned. This is because it would avoid imposing two rounds of substantial accounting changes on entities that issue insurance contracts and on users of financial statements. In addition, they are concerned that the designations and assessments made on initial application of IFRS 9 might not be those that would have been made if the new insurance contracts Standard had already been effective.

112. Some constituents, mostly preparers, state that it is imperative to align effective dates in this way. However, most constituents recognise that IFRS 9 should not be delayed only because of the new insurance contracts Standard. Thus, if the dates cannot be aligned they suggest:

(a) entities that apply the new insurance contracts Standard should be given an option to defer application of IFRS 9;

(b) entities that apply IFRS 9 before applying the new insurance contracts standard should be permitted a more wholesale opportunity to redesignate accounting treatments for financial assets and to reassess the business model in which the entity holds financial assets; and

(c) if the IASB decides to finalise IFRS 9 before finalising the insurance contracts Standard, that it should delay the mandatory effective date of the insurance contracts Standard so that it is at least three years after the mandatory effective date of IFRS 9, to avoid entities having to make two fundamental changes close to each other.

Supporting implementation

113. Many constituents commented that the proposals would be a significant effort for preparers, and that the existing diversity in practice increases the need to provide support for their implementation.

114. Some suggest that the IASB should provide some non-authoritative guidance to accompany the new Standard, or carry forward some of the Guidance on Implementing IFRS 4 that accompanied IFRS 4. They suggest including additional examples on the application of some concepts, especially in the areas such as:

(a) measurement of the liability under the premium allocation approach;

(b) separation of cash-flows;

(c) variable application of discount rates for the different products;

(d) recognition of ‘pre-coverage’ cash flows;

(e) classification of ‘directly attributable’ acquisition costs;

(f) treatment of benefit payments of endowment policies as deposits;

(g) services rendered by non-insurers; and

(h) recognition of revenue from investment-linked contracts.

115. In addition, some suggest further measures, including:

(a) providing a Review Draft that would enable interest parties to assess the final wording;

(b) forming an implementation group to provide guidance and encourage consistent interpretation if necessary; and

(c) further field work.

Implementation period

116. Many note that implementation would require significant system enhancements and data gathering. Accordingly, many preparers are anxious for sufficient time to be allowed for them to implement the proposals.

117. Most constituents appeared to agree that three years is a sufficiently long implementation period. However some constituents think that longer is needed. Some suggest that small and medium-sized companies should be allowed more time for implementation.

Effects of the Standard as a whole (Question 6)

Summary

Many constituents supported the proposal for a single accounting model that would apply to all types of insurance contracts. Most also agreed that the benefits of the proposals would outweigh the costs of implementation, particularly if the critical issues of accounting mismatch and participating contracts are resolved. Nonetheless, there remain concerns about the impact of changing from existing accounting practices.

Changes to existing accounting

118. Many constituents supported the proposal for a single accounting model that would apply to all types of insurance contracts as this would increase comparability between the financial statements of different entities that issue insurance contracts. Many also commented that there is an urgent need for the IASB to finalise its project because of the diversity of existing accounting practices that results from applying IFRS 4.

119. Nonetheless, almost all preparers were concerned about changing their existing practices, especially:

    (a) Preparers in jurisdictions that welcome an IFRS for insurance contracts because it will increase comparability around the world, even though they believe the proposals in the ED would be a backward step for their own jurisdiction. These jurisdictions include Canada, South Africa, Australia and New Zealand.

    (b) Those in jurisdictions where the regulatory requirements have historically driven the accounting requirements. Some believe that any divergence between financial and regulatory reporting will create operational complexity and reduce reliability of financial statements.

    (c) Many non-life insurers, predominantly in the US, believe there is no need to change the current accounting and reporting for non-life insurance contracts. They state that the existing accounting for non-life insurance contracts and related key performance indicators is well accepted and understood by both internal and external stakeholders. They claim that the only justification for change to existing US GAAP would be to eliminate differences between US GAAP and IFRS. Because it appears that a single converged Standard is now unlikely, some question the benefits of changes to US GAAP.

Differences between IASB and FASB Exposure Drafts

120. Many note their concerns that there are differences between the IASB and FASB Exposure Drafts. Almost all constituents agree that there would be much benefit if there was a single accounting standard for insurance contracts. Some believe that high level convergence is sufficient, but many preparers who commented on this issue believe that any differences between the two standards would create operational cost and complexity.

121. Views on how the IASB should proceed differ:

    (a) Some believe that, while further convergence would be desirable, the IASB should not allow efforts to reconcile differences with the FASB to unduly delay the publication of a final IFRS on insurance contracts. Those with this view are mostly from Europe, but include all the accounting firms that commented. They observe that there is an urgent need for the IASB to finalise its project because of the extent of diversity of existing accounting practices.

    (b) Some urge the IASB and FASB to work together to eliminate remaining differences, even if it takes longer to finalise an IFRS on insurance contracts. Those with this view are mostly from the US and Canada. They believe that much of the benefit of revised accounting for insurance contracts would have arisen from a single worldwide accounting standard. Failing that outcome, some in the US would prefer accounting based on targeted improvements to US GAAP.

Costs and benefits

122. Most constituents are concerned about the complexity of the proposals. In some cases, this concern is about specific proposals, usually the mirroring exception, other comprehensive income or insurance contracts revenue. In some cases, there

is concern about an approach that measures the insurance contract on the basis of probability-weighted cash flows. Some comment that the complexity of the proposals would require an extensive education effort by management to ensure that all stakeholders understand the outcome of the proposals.

123. Most acknowledge that implementing the proposals in the Exposure Draft would create significant costs. The main drivers of the costs were identified as being:

(a) Data and systems changes required to collect and aggregate data to calculate cash flows, when that data is not readily available or used by management.

(b) Determination and continuous updating of yield curves required for current measurement and the simultaneous requirement to track yield curves from the inception of contracts.

(c) Need to determine estimates and apply significant judgement when there are no widely recognised techniques established or available to do so (eg in insurance contract revenue, bifurcating cash flows, unlocking the contractual service margin, retrospective approach to transition).

(d) Increased costs of professionals (actuaries, auditors, IT) resulting from a new and more complex Standard.

(e) The costs of preparing and reconciling two sets of financial statements if the parent company reports under US GAAP and the subsidiaries report under IFRS.

(f) Implementation of other major new accounting Standards over the same time period, in particular IFRS 9 *Financial Instruments*.

(g) Education of key stakeholders.

124. Some, particularly in the US, believe that those costs would outweigh any benefits that would result from the proposals. Others indicated areas that they believed contributed disproportionately to those costs, and suggested that the costs of implementing the proposals could be substantially reduced if those areas were changed. Some observed that the incremental costs would be reduced if entities were able to implement the proposals at the same time as implementing IFRS 9, or implementing systems changes required for other reasons, such as for regulatory

reporting. Some also noted that costs would not be high for particular entities or products.

125. Some question whether the proposals will result in improved comparability, because of the extent of reliance on estimates and subjective assumptions. Some also question whether there would be benefits in improving the comparability between life and non-life insurance contracts, and between insurance contracts and non-insurance contracts. Accordingly, some question whether the benefits of the proposals would be as significant as the IASB has concluded.

126. Nonetheless many constituents still believed that, provided that the critical issues of accounting mismatches and participating contracts are resolved, the benefits could outweigh the costs.

Other issues not targeted in the ED

Summary
There were a limited number of issues that were frequently raised but that fell outside the areas the IASB had targeted. The staff will consider the extent to which the IASB should redeliberate these issues in a future meeting.

127. The following table lists issues raised by constituents that relate to areas not specifically targeted in the ED. This table does not provide a complete list of every issue listed in the comment letters.

Scope—fixed fee service contracts (paragraph 7(e) of the ED)	Some constituents have raised concerns about the scope exclusion for some fixed-fee service contracts in paragraph 7(e) of the ED, as follows: • Some are concerned about the cost and disruption to non-insurance entities that would need to change the accounting for affected contracts. • Some entities that issue insurance contracts have suggested that an option should be available to apply the insurance contracts Standard to fixed-fee service contracts that meet the definition of an insurance contract.
Contract combination (paragraph 8)	Some seek clarification about whether the requirement in paragraph 8 of the ED, namely that entities should combine two or more insurance contracts that are entered into at or near the same time with the same policyholder, and account for them as a single insurance contract, was intended to apply to the classification and measurement of the combined insurance contracts, or only for the purpose of assessing the significant of insurance risk. Some have noted practical difficulties in combining the measurement of contracts within the insurance contracts Standard and potential anomalies caused by paragraph 8 only applying to insurance contracts entered into together rather than applying to all contracts.

Unbundling (paragraphs 9-11)	Some respondents do not agree with the guidance in paragraphs B31-B35 that that an investment component that lapses together with an insurance component should not be unbundled because the two components are highly interrelated. They observe that this could lead to some components not being unbundled even if separate products exist and components could be (and in current practice often are) unbundled. Other concerns noted include: • that asset management services could be unbundled even if an investment component would not be unbundled; • that the costs of unbundling some claims processing services might not outweigh the costs; and • that there should be optional unbundling to ensure that similar investment contracts could be measured in the same way, regardless of whether there is insurance risk.
Low-frequency high-impact insurance (paragraph 12)	Some respondents disagree that, in applying the general requirements of the Standard or in applying an onerous contract test for contracts accounted for using the premium allocation approach, an entity could be required to measure a liability before an insured event occurs, when both the likelihood of the event occurring and the magnitude of the event remain unknown. These respondents believe that that the proposed guidance for onerous contracts should, consistently with the FASB approach, exclude low-frequency, high-severity events unless the event is probable and reasonably estimable at the balance sheet date, using only information that theoretically existed at the balance sheet date.
Cash flows (paragraphs 22)	Some seek further guidance on the cash flows included in the measurement of the insurance contract. Some welcome the board's changes to payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, but believe that those changes were too narrow.
Contract boundary (paragraphs 23-24)	Most support the changes that the IASB made to revise the contract boundary proposal so that a substantive obligation to provide coverage ends when the entity has the right to reassess the risk and set a new price on the policy level or on the portfolio level, when the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to future periods.

	However, some seek: • additional guidance for specific types of contract; and • clarification of what is meant by "right or practical ability to reassess the risks".
Discount rate (paragraphs 25-26)	Some seek additional guidance on determining the adjustments made to the top-down discount rates or for determining illiquidity premiums. Some are concerned that there could be a lack of comparability between discount rates determined using top-down and bottom-up approaches, and are concerned that entities might change approaches to achieve an accounting effect.
Determining the discount rate at long durations (paragraphs 25-26)	Some constituents, particularly in Canada and the US, have asked how to determine the rates used to discount long-term obligations over periods of time in which there are few or no observable market interest rates. Some constituents analyse the issue into three separate components with different considerations for each: • For periods in which there are no observable rates, there appears to be agreement that fluctuations in the observable market rates in the short term should not result in changes in long-duration rates. Most agree with the statement in paragraph BCA81 that forecasts of unobservable inputs tend to put more weight on long-term estimates than on short-term fluctuations, which counteracts concerns that current-period fluctuations in discount rates exaggerate the volatility of very long-dated liabilities. • For periods in which there are some observable rates, but those rates may not reflect liquid markets, there is concern about the extent to which management can apply judgement in determining the extent to which to reflect those observable market inputs in determining rates. • For periods in which there are liquid observable rates, most accept that the current market inputs should be used, adjusted as necessary to reflect the characteristics of the liability.
Risk adjustment (paragraph 27)	Most respondents did not comment on the risk adjustment. However: • A few would prefer a single margin approach as

	proposed by the FASB • Some seek guidance on how to allocate the effect of diversification benefits to portfolios • Some seek guidance on determining the risk adjustment for reinsurance contracts
Accretion of interest on the contractual service margin (paragraph 30)	Many respondents continue to argue that the accretion of interest on the contractual service margin, while theoretically justifiable, would create costs that do not exceed the benefits of information provided. Some respondents observe that if the IASB confirms its proposal that interest should be accreted on the contractual service margin, the operational burden could be reduced if the entity were to use a current, rather than the locked-in, interest rate for accretion. However, this suggestion was made within the context of other suggestions for eliminating the use of locked-in interest rates, in particular the use of a locked-in discount rate for the presentation of interest expense (see paragraph 85).
Allocation pattern and period for the contractual service margin (paragraph 32)	Many observe that the allocation pattern and period for the contractual service margin will have a material impact on the profit reported by entities. In the light of this observation, constituents were concerned that, without further guidance, the subjectivity in determining the pattern of underlying services will create significant diversity in the pattern of recognition of the contractual service margin in profit and loss. A small number of constituents disagree with the proposal that the contractual service margin should be recognised over the coverage period. As they had stated in their comment letters on the 2010 ED, those constituents suggest that the contractual service margin should be allocated over the coverage and settlement periods, and not merely over the coverage period.
Premium allocation approach (paragraphs 35-40)	**Eligibility:** • Some suggest that additional guidance and examples are needed to understand how to satisfy the eligibility criteria that the premium allocation approach could be used if it results in an approximation to the results of applying the general model. • A few suggest that that the use of premium allocation

	approach should also be applied to contracts that are expected to have significant variability of cash flows, but those expected cash flows could not be reliably measured. As an example of such contracts they mention: mortgage insurance and catastrophe contracts. • Some suggest that the premium allocation approach should be required, rather than merely permitted, to increase comparability between similar contracts. • Some would like ensure that reinsurance contracts are eligible for the premium allocation approach if the underlying insurance contracts are measured using the premium allocation approach. **Measurement:** some US respondents suggest that the premium allocation approach proposals should be replaced with US GAAP requirements, perhaps with some limited improvements. **Presentation:** some, mostly from Australia, suggest that entities should present expected inflows and expected outflows on a gross basis, because this is consistent with existing practice. **Guidance:** a few request further guidance on application of the premium allocation approach to reinsurance contracts, business combinations and transition.
Contractual service margin in reinsurance contracts held (paragraphs 41-42)	Some do not agree with the IASB's revised proposals that contractual service margin should be recognised for reinsurance contracts. They would prefer instead that gains and losses on reinsurance contracts be recognised as day 1 gain and losses. Underlying this suggestion is the view that the purchase of reinsurance is a one-time risk mitigant for the entity. Such changes in estimates of cash flows on underlying direct contracts are recognised in P&L (because the losses exceed the contractual service margin), while the offsetting changes in estimates of cash flows for the reinsurance asset held are recognised over time when the contractual service margin is recognised. Similarly, some state that the recognition of a loss immediately in P&L on a direct insurance contract that is offset by gains reported over time from a reinsurance asset does not reflect the economic relationship between a reinsurance contract and an underlying direct insurance contract, when the reinsurance contract is written on an

	individual loss basis. Some suggest that for such reinsurance contracts, the contractual service margin should be determined in a way that reflects the measurement of the underlying direct contract, rather than by reference only to the fulfilment cash flows of the reinsurance contract, and then be recognised immediately in profit or loss. Others suggest that the accounting for the underlying contracts needs to be considered in conjunction with the reinsurance contract, so that losses on underlying contracts are not recognised if the entity will be reimbursed through reinsurance.
Treatment of ceding commission payable in respect of reinsurance contracts held (paragraph 41)	Some constituents disagreed that ceding commissions that are not contingent on the occurrence of claims of the underlying contracts should be treated as a reduction of the premiums to be paid to the reinsurer. This was because they believe this requirement would cause inconsistencies in the bases for determining premium income and reinsurance premium expense and would reduce the usefulness of the relationship between gross and ceded premiums as a measure of retained exposure to risk.
Business combinations and portfolio transfer (paragraph 43)	Some sought clarification of the principles of recognition of contracts acquired through the portfolio transfer or business combination, specifically: • Whether an insurance contract acquired in a portfolio transfer or a business combination should be treated as a new contract for the purposes of determining the accounting approach and measuring the contractual service margin. • How to account for the contractual service margin that arises in its settlement period on an insurance contract that is acquired through a portfolio transfer or a business combination. • How to apply proposals to contracts accounted for using the premium allocation approach. There were also some concerns related to the treatment of contracts acquired through business combination before the transition date. Some question whether contracts that were acquired before first time adoption of IFRS should be revalued, especially if those contracts were not previously revalued because IFRS 1 exempts entities from the need to apply IFRS3 retrospectively.
Segregated fund	Some respondents believe that a separate presentation for

arrangements (paragraphs 56-59)	unit-linked contracts, and especially of the segregated fund arrangements as is proposed by FASB, would provide more useful information to users of financial statements.
Disclosures (paragraphs 69-95)	Some state that the proposed disclosures would be excessively detailed and onerous to apply. In particular, constituents commented that it would be onerous to apply the requirement to provide detailed reconciliations and to provide information separately for portfolios in an asset position from portfolios in a liability position. Of particular note was the widespread opposition to the proposal in paragraph 84 that if an entity uses a technique other than the confidence level technique for determining the risk adjustment, it shall disclose a translation of the result of that technique into a confidence level.
Definition of acquisition costs (Appendix A)	Some seek more clarity about which acquisition costs are "directly attributable", and whether acquisition costs include only direct costs spent when acquiring the contract (ie "first acquisition costs"), or whether it also includes overhead costs relating to acquisition.
Unit of account/ definition of portfolio (Appendix A)	A common issue in the outreach and comment letters is the level of aggregation for implementing the requirements in the insurance contracts Standard. Many constituents struggle to understand the reasons for the ED proposals for the level of aggregation used to account for insurance contracts. Many preparers are also concerned that the level of aggregation is lower than they currently use for measurement, because lower levels of aggregation would be associated with higher operational costs. Some constituents ask the IASB to simplify this by providing a single unit of account and clarify the definition of a 'portfolio'. Central to these concerns is the definition of a portfolio of insurance contracts, and the unit of account. Differences between the definition of a portfolio in the FASB and IASB EDs have contributed further to the confusion and raised questions about the extent to which the IASB and FASB intended different units of account. One area of particular concern is whether the ED would permit entities to add contracts with a different profitability level to an existing portfolio of contracts. Some suggest that it should, while others suggest that the final Standard should

	explicitly require the contractual service margin to be calculated for contracts within a portfolio by similar date of inception.
Differences on consolidation	Some respondents noted that the ED may allow differing treatments depending on whether the preparer takes the perspective of the standalone entity or the consolidated group and question whether this is appropriate. Examples include: • The inception date of a contract issued by an entity that has been acquired in a business combination. • The cash flows that would be measured applying the mirroring exception, if the mirrored cash flows relate to investments in entities consolidated into the same group. • The scope of financial guarantee contracts.

Conclusions and next steps

128. Taking the feedback to the Exposure Draft as a whole, the staff believe:

(a) The critical areas for the IASB's focus should be on addressing the significant concerns relating to other comprehensive income and participating contracts. In particular, the IASB will need to consider the complexity that has been introduced through the use of locked-in discount rates and because of accounting mismatches.

(b) The IASB will need to consider the extent to which it can further simplify, clarify and refine the proposals for transition and unlocking the contractual service margin.

(c) The IASB will need to assess the benefits of the proposals for insurance contracts revenue against the perceived costs of providing the information before it comes to a decision about whether to confirm the substance of those proposals.

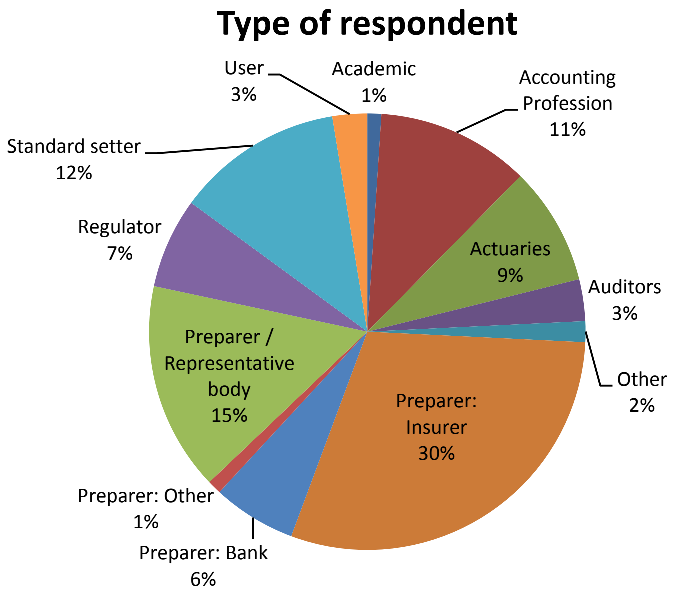
(d) The IASB will also need to determine which, if any, of the other issues raised it should redeliberate.

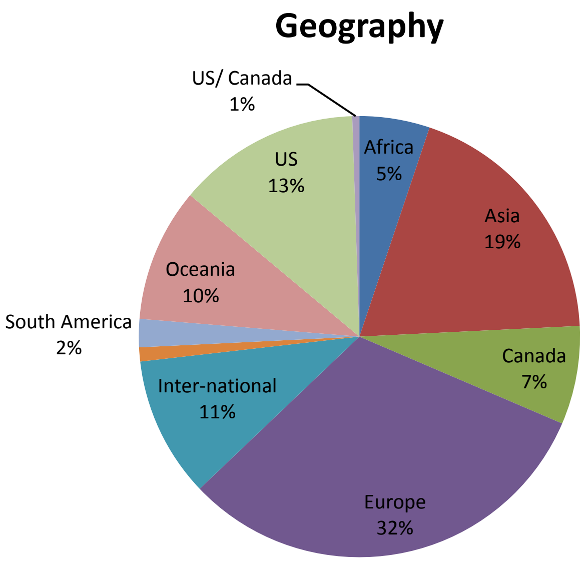
129. We plan to provide a project plan to address these priorities at a future meeting.

Appendix A: Analysis of comment letters

Comment letters

We received 194 comment letters, analysed by type of respondent and geographical region as follows:

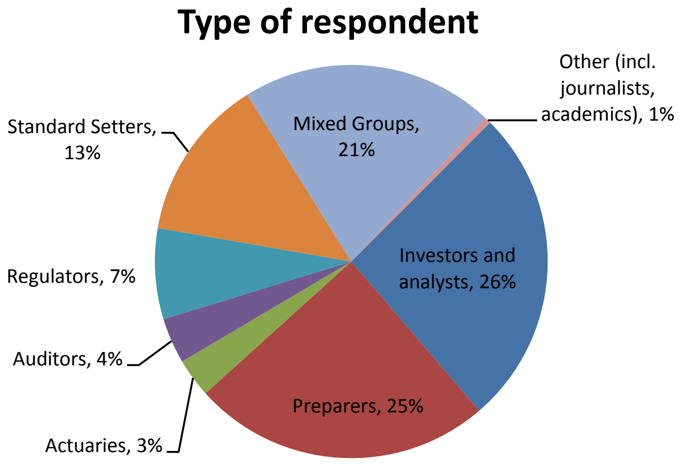


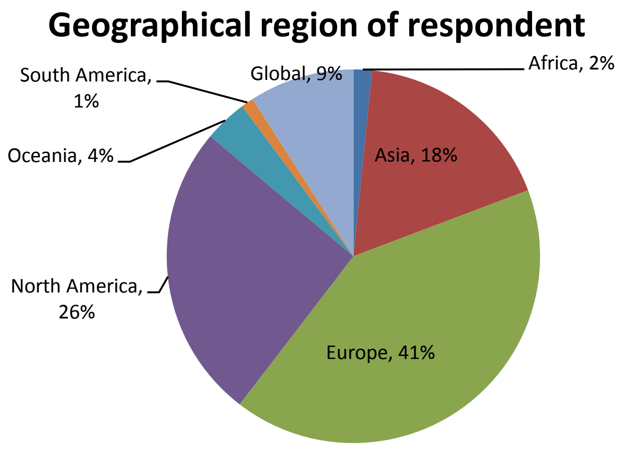


Appendix B: Summary of outreach activities

A1. In the period between May 2013 (just before the ED was finalised) and November 2013 (just after the end of the comment period) IASB members and staff undertook an extensive programme of outreach. During this period, we met with constituents in 186 individual and group meetings, including a series of discussion forums in 18 countries.

A2. Our outreach plan aimed to ensure a broad coverage of views, focused on the biggest insurance markets. However, we also sought to balance outreach in the biggest jurisdictions with outreach in smaller markets that are expected to grow, and in markets with which we have had less interaction. The statistics regarding our outreach activities are shown in the following diagrams.





A3. In addition, we summarise our outreach actvities by jurisdiction below. Our field work with entities in these jurisdictions is described in Agenda Paper 2C *Fieldwork*.

International

A4. We discussed our proposals with international bodies as follows:

(a) Standard-setters: through the Accounting Standards Advisory Forum (ASAF), the International Federation of Accounting Standard-Setters (IFASS) and the World Standard-Setters (WSS). The attendees at those meetings were able to comment on how the proposals were regarded in their jurisdictions.

(b) Regulators: through the International Association of Insurance Supervisors accounting and auditing subcommittee.

(c) Actuaries: through the International Actuarial Association.

(d) Auditors: through participation at events organised by the big 4 accounting firms, and we made ourselves available at some of their internal meetings held to formulate their global response.

(e) Users of financial statements: through the Insurance Corporate Reporting Users Forum (CRUF), which included analysts from Europe, the US and Japan.

Asia

A5. We conducted outreach in China, Hong Kong, India, Japan, Malaysia, Singapore, South Korea and Taiwan. Those countries represented more than 90 per cent of the Asian market, in terms of total premiums written.

Japan

A6. In Japan, we continued to meet with the General Insurance Association of Japan and the Life Insurance Association of Japan. Those organisations have continued to play an active role in the due process. We also met with a large non-insurer with large insurance operations in Japan.

A7. We met with Japanese users of financial statements in individual meetings and through the Japan branch of the Corporate Reporting Users Forum and the Securities Analysts Association of Japan.

China

A8. China has implemented an accounting standard for insurance contracts based on the IASB’s proposals. Accordingly, the views of Chinese companies provided a unique insight into the implementation of the proposals. IASB members and staff held discussion forums with users of financial statements, audit firms and companies. We also paid an official visit to the Chinese regulator, the Chinese Insurance Regulatory Commission,.

Korea

A9. We held a half-day discussion forum attended by preparers and regulators, covering both life and non-life insurance. We also met with the Korean regulator.

Other Asia—Hong Kong India, Malaysia, Taiwan and Singapore

A10. The remaining Asian countries have limited insurance markets (less than ten per cent of total premiums). Nonetheless, as insurance markets are growing in many of those countries, and because we sought to understand the difficulties of implementing the proposals in smaller countries, we held discussion forums and other meetings in Hong Kong, India, Malaysia, Taiwan and Singapore.

Europe

A11. In Europe, the IASB and staff have had extensive input from preparers throughout the whole process, which were largely organised through the CFO Forum and InsuranceEurope. We held discussion forums, hosted by local standard setters and other organisations, in the following countries:

(a) France

(b) Germany

(c) Italy

(d) Sweden, attended by representatives from Denmark, Finland and Sweden

(e) Switzerland

(f) UK.

A12. Those meetings were generally attended by a mix of preparers, auditors, regulators, actuaries and (sometimes) users of fianncial statements. Those meetings supplemented the active dialoague we have had with EFRAG TEG and with the EFRAG's Insurance Activities Working Group, which is made up of preparers, actuaries and auditors.

A13. We discussed our proposals with European regulators through the ESMA project group and EIOPA.

A14. In addition , we held 13 private meetings with European analysts.

Americas

US

A15. We held two discussion forums in New York, one focused on foreign private issuers and one focused on US domestic companies. In addition, we have:

(a) had an active dialogue with the American Council of Life Insurers throughout the comment letter period;

(b) held a series of meetings with US analysts, both at the beginning of the exposure period (where we specificaly discussed the interaction with the classification and measurement proposals) and at the end of the exposure period;

(c) met with the American Academy of Actuaries; and

(d) attended the FASB's round tables on the proposals in the FASB's Exposure Draft.

Canada

A16. We held formal meetings in Toronto as follows:

(a) two discussion forums on life issues;

(b) one discussion forum on non-life issues; and

(c) one discussion forum on use of financial statements.

A17. We also had private meetings with regulators, users of financial statements, and one meeting with the Canadian corporate reporting users forum.

A18. In addition, we have a regular dialogue with the Canadian integrated regulator, the Office of the Superintendent of Financial Institutions, and we have participated in meetings of the Canadian Insurance Accounting Task Force, through which the AcSB formulate their views, and held various private meetings with users of financial statements and preparers.

Latin America

A19. Insurance markets in Latin America are concentrated in Brazil and Mexico. Accordingly, we held a discussion forum in each of São Paulo and Mexico City.

Oceania

A20. 90 per cent of the insurance market in Oceania is concentrated in Australia. We held a discussion forum in Sydney by videoconference, and obtained input on another discussion forum held in Melbourne. In addition, we held a videoconference for Australian users of financial statements.

Africa

A21. The vast majority of the insurance market in Africa is concentrated in South Africa. We attended a user round table and various events arranged by the local standard-setter, SAICA.