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What is this paper about?

1. This paper:

   (a) describes the methodology of the fieldwork on the 2013 Exposure Draft *Insurance Contracts* (the '2013 ED') (see paragraphs in 5–13); and

   (b) discusses the results and observations on:

      (i) the five targeted areas on which the IASB sought feedback on the 2013 ED (see paragraphs 14–64); and

      (ii) areas other than the five targeted areas (see paragraphs 65–89).

2. This is the third round of fieldwork conducted in this project. Appendix A contains a summary description of the two previous rounds of fieldwork.

3. This 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 they ask the IASB for decisions.

Summary

4. The following is a high level summary of staff's observations from the fieldwork:

Overall

(a) there is wide divergence in existing practices for the accounting for insurance contracts between jurisdictions and sometimes between contracts that have similar features within a jurisdiction. Some participants continued to question whether the proposals as a whole are an improvement to their existing practices.

(b) the fundamental proposals of the model (ie present value of cash flows, an explicit risk adjustment, a discount rate and a contractual service margin) can be applied. While those proposals build on existing requirements of different jurisdictions, no single jurisdiction applies the proposals in the 2013 ED in their entirety.

(c) the proposals will result in significant implementation costs. Because of the disparity of existing practices, the costs will differ between entities.

(d) the amounts reported in the financial statements are affected by the assumptions used to estimate them. Some participants believed that the costs of applying some proposals outweighed the benefits of that proposal because differences in the assumptions may lead to a lack of comparability between entities. Different participants believed this to be the case for different proposals.

Targeted proposals

(e) participants provided mixed responses on whether the benefits outweighed the costs on the five targeted proposals in the 2013 ED. The following is a summary with further details in paragraphs 14–64:

(i) generally, participants found the five proposals could be made operational with differing levels of complexity reported for each participant. In contrast, the majority of the participants from the European Union did not believe that two of the proposals were operational. These proposals were (1) on the presentation of interest revenue and expenses for long-term contracts, and (2) for contracts that require the entity to hold underlying items and that specify a link to returns on those underlying items.

(ii) some participants recommended narrowing the scope of three proposals due to operational concerns for specified types of insurance contracts, providing an option or reverting to the 2010 Exposure Draft *Insurance Contracts* (the '2010 ED') proposals. These were the proposals (1) the presentation for interest expense, (2) the presentation of interest revenue and expenses, and (3) for contracts that require the entity to hold underlying items and that specify a link to returns on those underlying items.

(iii) no single participant recommended reverting to two of the previous proposals in the 2010 ED. These were the proposals on (1) adjusting the margin and (2) retrospectively estimating the margin on transition.

(iv) some participants requested further simplifications or a suggested a different approach for all of the five proposals. They did so because they were concerned about the complexities of the 2013 ED proposals. In addition, some believed that their approach would result in better information.

(v) some proposed further changes that would increase complexity on all but the proposal to retrospectively estimate the margin. They recommended those changes because they thought that the benefits would increase beyond the additional costs.

Methodology

5. This section provides the following information on the methodology of the fieldwork conducted on the 2013 ED:

(a) the objective of the fieldwork (see paragraphs 6–7);

(b) the population of the fieldwork participants (see paragraphs 8–10); and

(c) a description of the fieldwork conducted (see paragraphs 11–13).

Objective

6. Consistent with the IASB's reasons for issuing the 2013 ED, the objective of the fieldwork was to determine whether the proposals in the 2013 ED resulted in a more faithful representation and more relevant and timely information about insurance contracts compared to the proposals in the 2010 ED. The fieldwork was also designed to provide an understanding of how the revised proposals may be implemented and about the effect of the proposals on the amounts reported in the financial statements.

7. The specific feedback and supporting material, including examples of financial statements, provided by the participants will be used by the staff to:

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

   (b) develop Board Papers on the specific issues addressed in the fieldwork.

Population of fieldwork participants

8. We undertook fieldwork with 17 entities from jurisdictions other than the European Union. This population was assembled by inviting entities that participated in previous rounds of fieldwork, by inviting national standard-setters to assist in identifying possible fieldwork participants and by posting a notice on our public website. This paper primarily describes the methodology used for, and the findings from, the fieldwork conducted by the IASB among entities from jurisdictions other than the European Union.

9. In addition, for countries within the European Union, we co-ordinated fieldwork with EFRAG and French, German, United Kingdom and Italian National Standard-Setters (ANC, ASCG, FRC and OIC) to avoid undue costs to preparers. That fieldwork was undertaken by 13 entities. The participants were asked

questions relating to the 2013 ED's five targeted proposals that was the same as the questions asked to the entities that were not in the European Union. In addition, they were asked further questions on other areas of the 2013 ED. The report outlining the methodology and the findings of that fieldwork will be available from www.efrag.org.

10. This paper highlights where there are significant differences in the findings between that fieldwork, and the fieldwork conducted among entities from the European Union. Appendix B provides more detail about the fieldwork participants and the portfolios tested for both sets of fieldwork.

Description of the fieldwork

11. Fieldwork participants were asked to apply the proposed measurement model to selected portfolios of insurance contracts over two annual periods. Eight entities tested portfolios that represent the majority of their business. Out of these, a few tested most of their in-force portfolios. Nine entities chose selected portfolios based on availability of data, ease of comparison to their existing reporting and/or significance to their business.

12. Entities typically tested the proposals over one or two annual periods. Some entities tested longer periods (for example, 3–6 annual periods). In addition, some of the participants did some stress testing over the periods chosen. There was also a mixture of onerous and profitable portfolios chosen, with more portfolios being profitable.

13. Participants used some or all of the following simplifications:

    (a) applied different discount rates than those required by the proposals (for example, existing discount rates, risk-free rates or approximation of historic yield curves);

    (b) used the portfolios as defined under existing GAAP or for non-GAAP reporting (for example, for embedded value reporting); and

    (c) applied the risk adjustment that was calculated using existing requirements or by ignoring diversification benefits.

These simplifications may result in differences in the amounts reported compared to the amounts reported when the proposals are applied without the simplifications.

Fieldwork results

14. This section discusses the results of the fieldwork as follows:

 (a) the overall benefits and costs of the 2013 ED as compared to the 2010 ED (see paragraphs 15–21);

 (b) a discussion of the benefits and costs of each of the five targeted areas of the 2013 ED (see paragraphs 22–64); and

 (c) observations on issues other than the five targeted areas (see paragraphs 65–89).

Overall benefits and costs of the 2013 ED compared to the 2010 ED

Benefits

15. Participants were asked to consider whether the proposals in the 2013 ED as a whole would improve the transparency of reporting the effects of insurance contracts and reduce diversity in the accounting for insurance contracts as compared to those in the 2010 ED. Of those that responded to this question, mixed views were expressed:

 (a) some agreed that the proposals were an improvement to the 2010 ED in reflecting the effects of insurance contracts on the financial statements. In addition, some noted that the 2013 ED as a whole resulted in more useful and transparent information than existing reporting practices.

 (b) some believed that further changes to the 2013 ED were needed before the proposals could be seen as an improvement to the 2010 ED. There were no consistent views on which areas, if improved, would change their assessment on whether the 2013 ED as a whole could be seen as an improvement to the 2010 ED. These participants suggested changes to different proposal(s) out of the five targeted (see paragraphs 22–65).

(c) some participants did not think that the proposals in the 2013 ED nor the 2010 ED are significant improvements to their existing practice, because they disagreed that the core principles of the proposals portray a faithful representation of the entity's financial performance. They believe that their existing practices (for example, existing financial reporting requirements, non-GAAP measures) are superior or that the benefits from changing from their existing practices do not outweigh the costs. Specifically:

   (i) their existing practice of using a discount rate that reflects the assets held by the entity, or that is not market-consistent, is better than the model's core principle of using a market-consistent discount rate that reflects the characteristics of the liability. The aim of this principle is that the insurance contracts would be more consistently measured among entities. If discount rates were to reflect the assets held, than differences in the entity's investment strategy would create differences in the measurement of insurance contracts that have the same obligation that is not dependent on the performance of assets.

   (ii) the existing practices for non-life insurance contracts held by non-life insurers in some jurisdictions is better than the model's objective of providing comparable information by having a consistent measurement model for insurance contracts.

(d) most did not comment on the reduction of diversity that would result from the 2013 ED as compared to the 2010 ED. Some acknowledged that any reasonable Standard that is consistently applied will result in increased comparability because of the existing diverse practices around the world.

Costs

16. Participants were asked to identify the costs of applying the five targeted proposals and to compare these with the costs of applying the equivalent proposals in the 2010 ED.

17. Overall, the participants noted that the following costs would apply for implementing all of the five proposals:

    (a) changes to the actuarial, financial reporting and information technology systems to store additional data items and perform additional calculations and analysis to disaggregate changes in the liability.

    (b) additional human resources needed to implement the changes at transition (for example, training and additional employees). Some believed that those additional resources might be needed on an ongoing basis.

    (c) explanations to external stakeholders on their results when they are different from existing practices.

    (d) possibly higher audit fees.

    The costs reported on the five targeted areas overlap with the costs of implementing the other requirements in the 2013 ED on which the IASB did not specifically seek feedback. For some entities, some or most of the fundamentals of the proposals are significantly different from existing practices and, therefore, the type of additional costs may be the same for both implementing the targeted and other proposals. However, there may be differences in the quantum of those costs.

18. These costs would be further magnified if the entity were required to prepare financial reports more frequently than on an annual basis (for example, quarterly, monthly). This is especially an issue for jurisdictions that have particularly tight reporting time frames.

19. In addition, participants that did not think that the proposals faithfully represented their business were concerned that additional systems would need to be developed for internal and external reporting.

20. There was also a marked difference between jurisdictions in which prudential supervision had determined, or significantly influenced, external financial reporting requirements compared to jurisdictions in which the regulatory requirements were separate from the financial reporting requirements. For most of the jurisdictions that use financial reports for prudential supervision, there were

concerns that the Standard, when finalised, would result in additional prudential requirements (for example, a separate regulatory filing).

21. Participants that have to report in accordance with US GAAP and IFRS are concerned that they will need to continue to doing so. Consequently, the proposals will not reduce the costs of reporting using two sets of requirements.

Targeted areas

22. The following sections discuss the specific costs and benefits of each of the five proposals and whether the participants believed that the benefits outweighed the costs of the proposals:

(a) adjusting the contractual service margin (see paragraphs 24–33);

(b) contracts that require the entity to hold underlying items and specify a link to returns on those underlying items (see paragraphs 34–42);

(c) interest expense (see paragraphs 43–46);

(d) presentation of insurance contract revenue and expenses (see paragraphs 47–53); and

(e) effective date and transition (see paragraphs 54–64).

23. In general, participants held different views on whether benefits outweighed the costs of the five proposals. For example, the IASB's proposal in one area was seen as a major improvement to the 2010 ED for some participants, while other participants saw the same change as too complex.

Adjusting the contractual service margin (unlocking)

Overall comments

24. This section discusses the proposal to adjust the margin. The following tables outline the responses received on the extent and nature of the costs and benefits of that proposal and whether the benefits outweighed the cost. Some of the participants did not test that proposal because they issue mostly, or only, contracts that will be accounted for under the premium allocation approach.

Nature of the costs[1]	Nature of the benefits
Changes to the assumption management process: • to track changes in assumptions related to past and current incurred claims and at a more detailed level; and • to shorten the cycle during which information is collected.	• Faithfully represents the changes, the assumptions on profitability (for example, between past and future service) and how the products are managed. • Better represents the profit from providing service. • Removes artificial volatility/reflects long-term nature of the business.

Adjusting the contractual service margin compared to recognising those changes in profit or loss when the changes occur		
High/medium/low costs	**High/medium/low benefits**	**Will expected benefits outweigh costs to be incurred?**
High	High	Yes
Low	High	Yes
Low	Medium	Yes
Medium	High	Yes
Medium	High	Yes
High	Medium	Maybe (qualified)
High	High	Maybe (qualified)
High	Low	Maybe (qualified)
Medium	Low	No
High	Medium	No

(Each row represents the response received from a participant. Some participants did not complete this part of the questionnaire.)

25. Overall, most participants believed that the benefits outweighed the costs for adjusting the margin. They believed that the proposals for adjusting the margin resulted in a better representation than the 2010 ED proposal to present all of the effects of changes in assumptions in profit or loss. Those who qualified their assessment or believed that the costs outweighed the benefits did not support reverting to the 2010 ED proposal to present the effect of all assumption changes in profit or loss. Instead, they recommended changes to the mechanics of adjusting the margin, or an alternative approach, to either reduce the complexity or increase the benefits of the proposal (see paragraphs 27–35).

[1] The following costs raised were specific to the targeted proposal and are in addition to the generic costs discussed in paragraphs 17–20.

26. Factors that were observed in the fieldwork that affected the estimate of the margin and of the amounts that were recognised in profit or loss were:

    (a) the sequence of the different calculations for estimating the margin (for example, accretion, recognition of claims incurred in profit or loss, determining the amounts that adjust the margin, allocating the margin); and

    (b) the discount rate used to determine the adjustments to the margin.

Complexity

27. The 2013 ED proposed that the margin should be adjusted for differences between current and previous estimates of the present value of cash flows that relate to future services. Some fieldwork participants did not encounter any difficulty with the proposals. Of these, some noted that the proposals were similar to current financial or solvency requirements. Some non-life participants reported that it was challenging to apply the proposals to relevant non-life contracts, because it was difficult to track incurred claims by when the contract was written using existing systems.

28. Fieldwork participants recommended amending the mechanics to reduce the complexity of adjusting the margin:

    (a) to adjust the margin only when the future lapse assumptions, and other assumptions, change for the whole portfolio. For some participants, assumptions are reviewed and changed annually and maybe at a more aggregated level. The 2013 ED required that any net effect of the delay or acceleration on the eventual cash flows for amounts not repayable on an insured event to adjust the margin (for example, any difference between lower repayments in one period and consequently higher repayments in future periods). Consequently, for some products, the margin would be adjusted for changes between actual and expected changes of contracts that have lapsed in that period when the lapse assumption for the whole portfolio is unchanged.

    (b) to treat all cash flows in the same manner for non-participating contracts. The 2013 ED proposed to recognise changes in incurred claims in profit or loss and proposed that any net effect of the delay or acceleration on the eventual cash flows for amounts not repayable on an insured event (for example, any difference between lower repayments in one period and consequently higher repayments in future periods) adjusted the margin.

(c) using the present value of cash flows calculated using a current discount rate (see paragraph 46).

(d) using information captured in a participant's existing reporting for external and non-GAAP reporting.

29. Some participants interpreted the requirements of the 2013 ED as requiring the margin to be adjusted by grouping contracts at a much more limited level than for their existing portfolios. The staff noted that such an interpretation affected their view of the costs of the other proposals relating to the margin (see paragraphs 66–69 for issues raised on the definition of a portfolio).

Recommendations to increase the faithful representation of the margin

30. Participants suggested the following recommendations for increasing the faithful representation of the margin as unearned profit of the contract. They believed that the benefits of their proposed revisions outweighed the increase in complexity as follows:

(a) the 2013 ED proposed that all changes in the risk adjustment should be recognised in profit or loss. Some participants recommended adjusting the margin for changes in the risk adjustment relating to future service. They believed that the risk margin represents unearned profit from the bearing of risk and they therefore thought that changes in the risk margin relating to the future should adjust the margin consistently with the cash flows. Adjusting the margin would require decomposing changes in the risk adjustment into

(i) a release from risk during the period;

(ii) changes in risk relating to future periods; and

(iii) changes in risk relating to incurred claims.

Of those that recommended adjusting the contractual service margin for changes in risk, one participant stated that this decomposition is consistent with existing practices. Most of the participants that recommended this did not test the operationality of their recommendations. In contrast, a few participants attempted to decompose the changes in risk adjustment but reported that they were unable to do so. Another participant noted that the costs did not outweigh the benefits from adjusting the margin in this manner because the risk adjustment was not material for its contracts.

The staff noted that if the changes in the risk adjustment for future services were adjusted in the margin, the margin may more quickly be reduced to zero (and subsequently build up again), because, for some contracts, the risk adjustment would be significant and changes in the risk adjustment could be volatile. (Observations on the risk adjustment that arose in the fieldwork are in paragraphs 79–80.)

(b) the 2013 ED proposed that the effects of the changes of discount rate under the general approach should be presented in other comprehensive income (OCI). One participant recommended adjusting the margin for discount rate changes. They argued that doing so increases the alignment on amounts reported in the statement of comprehensive income between the premium allocation and the general approach.

(c) the 2013 ED proposed that once the margin was zero, any subsequent favourable changes in the present value of future cash flows would build up the margin. Some participants recommended that those favourable changes should be presented and recognised in profit or loss to the extent that they represent a reversal of previous losses recognised. To do so would be consistent with the principle that the margin represents unearned future profits. Entities would need to track the losses relating to future services once the margin is zero as if the margin is positive (for example, accreting interest and subsequent allocations). Although the participants did not do so in the fieldwork, they thought that tracking the losses in this manner would not be complex, because the systems could be set up to track the margin both when it would be negative and positive.

Participating contracts

31. The majority of participants from the European Union recommended adjusting the margin for more cash flows than proposed by the ED (for example, the effects of cash flow changes due to changes in the returns of underlying items). They believed that this would result in a more faithful representation of the economics of participating contracts because it would include unearned profit from both financial and service elements.

32. This was not reflected in the views of participants outside the European Union. Among those participants, for participating contracts in which the insurer's share in the investment returns in the underlying assets was restricted until the insurer passed the investment returns to the policyholder, one recommended that the insurer should adjust the margin for its share in the investment returns that was still subject to restrictions. This would align with existing practice for these contracts in their particular jurisdiction. A few participants recommended presenting changes in the cash flows credited to the policyholder in OCI.

Issues that require more clarity or guidance

33. The following are issues that may be useful to clarify or provide more guidance on:

    (a) how to treat the change in the actual and expected premiums paid in the reporting period; and

    (b) the type of cash flows that adjust the margin for participating contracts.

Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items

Overall comments

34. This section discusses the proposal for contracts that require the entity to hold underlying items and specify a link to returns on those underlying items (termed 'the mirroring approach'). The following tables outline the responses received on the extent and nature of the costs and benefits of that proposal and whether the benefits outweighed the cost. Because that proposal applied to specified

participating contracts, it was not applicable to some of the participants. Of those that applied the proposal, two were not able to model the options and guarantees as part of their fieldwork. In addition, some participants from the European Union reported that they were not able to test the proposal because of the operational difficulties they encountered (see paragraphs 4(e)(i) and 35(c)).

Description of costs[2]	Description of benefits
• Changes needed to decompose the cash flows according to those that vary directly, indirectly and with other factors. • Lack of reliable and understandable information because of the subjectivity of decomposing the cash flows.	• Reduction of accounting mismatch. • Theoretically sound concept. • Changes in options and guarantees presented in profit or loss are consistent with derivatives that are used to economically hedge them.

Measurement of contracts that require the entity to hold underlying items and specify a link to returns on those underlying items compared to measuring those contracts under the general approach		
High/medium/low costs	**High/medium/low benefits**	**Will expected benefits outweigh costs to be incurred?**
Low	High	Yes
High	Low	No
High	Low	No
High	Low	No
High	Low	No
High	Medium	No

(Each row represents the response received from a participant. Some participants did not complete this part of the questionnaire)

35. Overall, while participants agreed with the elimination of accounting mismatches, most believed that the costs outweighed the benefits of mirroring because:

(a) they did not believe that there should be a difference in treatment between participating contracts that were within the scope of mirroring and those that were outside it. In their view, all participating contracts are economically similar because the policyholders are provided with an explicit return from their share in the asset risks (and sometimes, also other operating risks). The insurer's asset liability management

2 The following costs raised were specific to the targeted proposal and are in addition to the generic costs discussed in paragraphs 17–20.

(ALM) practice is to hold the specified underlying items regardless of whether contractual or regulatory terms requires the insurer to hold specified items.

(b) some disagreed with recognising the changes in the value of the embedded options and guarantees in profit or loss. They believed that this introduced short-term accounting volatility in profit or loss when the products were managed on a longer-term economic perspective. In contrast, participants that used derivatives to manage the economic risk of those options and guarantees commented that recognising them in profit or loss would be an improvement on existing practice, because it would reduce accounting mismatch.

(c) some, especially those from the European Union, had significant operational concerns about the complexity of the decomposition of cash flows, especially for insurance contracts held in non-segregated funds. Participants from the European Union reported that they were unable to test these proposals due to the operational difficulties. The decomposition of cash flows applied by participants that were able to model the proposals is discussed in paragraphs 38–42.

36. Participants who tested the mirroring approach also applied the general approach to participating products outside the scope of the mirroring approach. Those participants had differing views on their preferred approach for participating contracts:

(a) some believed that the model proposed in the 2010 ED for participating contracts outside the scope of mirroring could equally be applied to participating contracts within the scope of mirroring;

(b) some believed that a less complex approach to address accounting mismatch would be to allow the changes in discount rate of the liability to be recognised in profit or loss, because the assets backing their contracts are mostly measured at fair value through profit or loss; and

(c) to address the issues of complexity, some recommended that mirroring should be optional or limited to segregated fund insurance contracts.

37. In addition, some proposed modifications to increase the faithful representation of those contracts:

(a) one participant recommended adjusting the margin for the insurer's share of investment returns that are restricted (see paragraphs 32);

(b) two participants had alternative recommendations for the presentation of interest expense (see paragraph 45(c)); and

(c) some participants from the European Union recommended an alternative industry proposal developed by the European insurance industry.

Application of the proposals

38. The 2013 ED proposed that the entity decompose cash flows as follows:

(a) cash flows that are expected to vary directly with returns on underlying items. Measure and present these cash flows on the same basis as the underlying items.

(b) cash flows that are expected to vary indirectly with returns on underlying items (for example, embedded financial options and guarantees). Measure these cash flows according to the general requirements of the 2013 ED and recognise changes in profit or loss.

(c) cash flows that are not expected to vary with returns on underlying items (for example, fixed-type cash flows). Measure and present these cash flows according to the general requirements of the 2013 ED.

39. Some participants noted that the approach could be applied to, and would result in understandable results for, contracts in which:

(a) there is a clear contractual linkage between the performance of the underlying items and the performance passed on to the policyholder; and

(b) the underlying items are held in a segregated-type fund.

40. The participants that applied the proposals to decompose the cash flows did so as follows:

(a) cash flows that were expected to vary directly with returns on underlying items were represented by the policyholder's share in the segregated fund. These cash flows were measured and presented by reference to items in the segregated funds.

(b) cash flows that varied indirectly were represented by the embedded options and guarantees and any explicit fees associated with those options and guarantees (for example, guaranteed minimum death benefit, guaranteed minimum income benefit, etc). These cash flows were measured in accordance with the general requirements and presented in profit or loss.

(c) changes in the present value of explicit future asset management fees, and relevant costs, were adjusted against the margin. The asset management fees charged were typically based on the performance of the segregated fund. Consequently, if the assets in the segregated fund were volatile, then the changes in those fees were also volatile. In some cases, this may have caused the margin to be exhausted and, once exhausted, to be reversed in later periods.

(d) They did not decompose any cash flows that were not expected to vary with returns on underlying items (for example, fixed-type cash flows). Instead, all cash flows that remained under the general approach were discounted using the same discount rate, which reflected that the policyholder had a share in the asset returns.

Issues that require more clarity or guidance

41. Others noted that it was unclear which contracts should be within the scope of proposals when contracts have the following features and how those features are to be accounted for:

(a) when there is some discretion on the amounts paid to the policyholder; and

(b) when the policyholder participates:

(i) in the performance of assets in both a segregated fund and general funds, or solely from general funds; and/or

(ii) in the performance of a portfolio of insurance contracts and/or in the entity itself.

42. In addition, some requested the following guidance on the application of mirroring:

(a) how to interpret the criteria to determine the contracts that are required to apply mirroring;

(b) how to decompose the cash flows;

(c) the valuation of the options and guarantees (ie cash flows that vary indirectly);

(d) how future premiums are treated; and

(e) when the underlying items are items held by another entity within the group (for example, underlying investment vehicles may eliminate on consolidation).

Interest expense

Overall comments

43. This section discusses the proposal for the presentation interest expense on an amortised cost basis in profit or loss. The following tables outline the responses received on the extent and nature of the costs and benefits of that proposal and whether the benefits outweighed the cost. These proposals affect all insurance contracts.

Description of costs[3]	**Description of benefits**
• Systems needed to track the locked-in discount rates, or to track them on a more frequent basis than at present. • Method must be developed to lock-in	• Reports a net profit or loss that more faithfully represent how the business is managed (for example, with a long-term aim). Short-term volatility that is not

[3] The following costs raised were specific to the targeted proposal and are in addition to the generic costs discussed in paragraphs 17–20.

the discount rates for stochastic modelling. • Does not remove all market effects and the remaining market effects are difficult to explain. • Reduces understandability by introducing accounting mismatches when assets are not at fair value through other comprehensive income (FVOCI).	reflective of the business is excluded. • Addresses accounting mismatch because financial assets are mostly at FVOCI. • Transparent reporting of the changes in discount rates.

Presentation of interest expense in profit or loss compared to presenting all changes in the insurance liabilities arising from changes in discount rates in profit or loss		
High/medium/low costs	**High/medium/low benefits**	**Will expected benefits outweigh costs to be incurred?**
Low	High	Yes
Low	High	Yes
Medium	High	Yes
Low	Medium	Yes
Low	Low	Yes
High	Medium	Maybe (qualified)
Medium	Medium	Not sure
High	Low	No
High	None	No
Medium	Low	No
High	None	No

(Each row represents the response received from a participant. Some participants did not complete this part of the questionnaire.)

44. Overall, participants provided mixed responses. Participants that thought that the costs outweighed the benefits:

(a) were from jurisdictions that at present reported insurance contracts using current discount rates and measure, when permitted under IFRS, assets at fair value through profit or loss. Consequently, they saw little benefit in the proposals, because they were used to explaining the effect of discount rate changes. However, they foresaw huge complexity, because the proposals required the calculation and storage of multiple yield curves for each year and per currency. In addition, to reduce accounting mismatch they would have to report assets at FVOCI when they currently do not do so.

(b) included the majority of non-life insurers that participated. There was a mixture of reasons why non-life insurers thought that the costs outweighed the benefits of the proposals:

(i) some had the same issues as (a);

(ii) as discussed in paragraph 15(c)(ii), some non-life insurers did not think that there should be any significant changes from their existing practices; and

(iii) tracking the discount rates at inception required significant system changes. Most non-life insurers recognise a claims liability when incurred, which means that they do not track the emergence of the incurred claim liability on the basis of when the contracts were written.

45. Some believed that the benefits outweighed the costs of the proposals. However, they still recommended the following changes:

(a) for contracts accounted under the premium allocation approach, to use the locked-in discount rate when the incurred claim liability was recognised instead of when the contract was written (see paragraph 44(b)(iii)). This would reduce complexity.

(b) to use different mechanics for locking-in the discount rate (for example, the effective interest method). They believed that their recommendations increased the representational faithfulness of the presented interest expense in profit or loss. This benefit would outweigh the additional costs of their recommendations.

(c) to use a different approach for resetting the discount rate for participating products. Participants preferred to use a single discount rate to measure all the cash flows and to present interest expense in profit or loss to reduce complexity. Some participants would prefer different mechanics to determine the locked-in rate, as discussed in paragraph 45(b), because it would increase representational faithfulness.

(d) different proposals to further address accounting mismatch. They are (i) an option to present all the effects of changes in discount rates in profit or loss for some portfolios and/or (ii) an option to treat more assets at FVOCI.

46. Participants who did not believe that the benefits outweighed the costs of the presentation of interest expense proposals also wanted to reduce the complexity in the model by requiring the margin to be adjusted using the present value of cash flows determined using current discount rates and accreted using current discount rates. The staff noted that such a proposal would increase the difficulty in retrospectively estimating the contractual service margin on transition, unless further simplifications were made, because the margin on contracts issued pre-transition would be affected by the discount rates that were applicable for when the adjustments were made and for every reporting period prior to the transition.

Presentation of insurance contract revenue and expenses

Overall comments

47. The following section discusses the presentation of insurance contract revenue and expenses. The following tables outline the responses received on the extent and nature of the costs and benefits of that proposal and whether the benefits outweighed the cost. These proposals affect all insurance contracts.

Description of costs[4]	Description of benefits
• System changes needed to exclude the investment components. • Revenue, and also the acquisition costs recognised for long-term business, may be misleading or not useful for industry specialists.	• Revenue will provide a transparent indicator of protection business versus investment business that has been written. • Easier to understand than summarised margin. • Provision of volume information. • Increase of consistency between industries (for example, financial institutions).

[4] The following costs raised were specific to the targeted proposal and are in addition to the generic costs discussed in paragraphs 17–20.

Presentation of insurance contract revenue and expenses compared to the summarised margin approach		
High/medium/low costs	**High/medium/low benefits**	**Will expected benefits outweigh costs to be incurred?**
Low	Medium	Yes
Medium	High	Yes
Low	Low	Yes
None	High	Yes
Medium	Medium	Yes
High	Medium	Maybe (qualified)
High	Low	No
High	Low	No
Medium	Low	No
Medium	Medium	No
High	Low	No

(Each row represents the response received from a participant. Some participants did not complete this part of the questionnaire.)

48. There were differences in the assessment of the costs and benefits depending on whether the contracts were accounted for under the general or the premium allocation approach. Participants that believed that the benefits outweighed the costs were:

(a) non-life insurers. The proposals allowed non-life contracts accounted under the general approach to be compared with contracts accounted for under the premium allocation approach. In addition, the proposals were similar to the existing practice for most non-life contracts (see paragraph 50); and

(b) some life insurers (applying the general approach). It was notable that these life insurers did not support the summarised margin approach in the 2010 ED and/or were part of conglomerates that had businesses other than insurance.

49. There was a marked difference between participants from the European Union and other jurisdictions in the assessment of the benefits and costs of the proposals for long-term contracts. Many participants in the European Union thought that the costs outweighed the benefits of the proposal. As noted in paragraph 4(e)(i), some reported that they were not able to test the proposals because of the operational complexity. In particular, this complexity arose from the proposal to exclude investment components (see paragraph 52(a)).

Premium allocation approach

50. For contracts accounted for under the premium allocation approach participants, in general, thought that the benefits outweighed the costs. This was because:

(a) the presentation proposal was similar to the existing practice of recognising claims and expenses on an incurred basis and recognising premiums received over the coverage period; and

(b) there was little additional complexity introduced to exclude deposit components because these contracts typically contained no deposit components.

51. The following are issues that some participants believed should be clarified:

(a) the proposal to recognise revenue according to the transfer of services provided under the contract. For example, should revenue be recognised consistently with the reduction of risks arising from the claims pattern or in a straight-line pattern?

(b) the treatment of premium refunds and other cash flows that return to the policyholder on an event other than an insured event (for example, profit commissions).

(c) the treatment of acquisition costs in the measurement of the liability of remaining coverage under the premium allocation approach.

General approach

52. For contracts accounted for under the general approach, the complexities noted arose from:

(a) excluding investment components, particularly for traditional non-account-driven products. The 2013 ED proposed that the entity should estimate, for contracts expected to lapse/be terminated in the reporting period, how much would have been paid regardless of an insured event (for example, the cash surrender values). Currently, that information is in a system other than the financial reporting and actuarial systems, and may be difficult to retrieve. Some participants can track actual payments made due to cash surrenders in a reporting period or because the contract has matured.

(b) recognising acquisition costs over the coverage period instead of when they were incurred. Participants noted that this required additional tracking in addition to those required for measurement of amounts on the statement of financial position.

(c) requiring additional tracking when the contract margin was no longer positive. However, the staff noted that these concerns might be reduced if the IASB supported the recommendations in paragraph 30(c) to track the margin when it was negative, to reverse previous losses in profit or loss.

Issues that require more clarity or guidance

53. The following are issues that may be useful to clarify:

(a) the treatment of the investment component in the recognition of claims incurred and of revenue; and

(b) the presentation of dividends or amounts credited to a participating contract holder.

Effective date and transition

Overall comments

54. This section discusses the proposal to retrospectively apply the proposals on transition. The following tables outline the responses received on the extent and nature of the costs and benefits of that proposal and whether the benefits outweighed the costs. These proposals affect all insurance contracts.

Description of costs[5]	Description of benefits
• Identifying and gathering historical data. • Building one-time models to estimate the contractual margin for contracts	• Comparability between contracts issued pre- and post-transition. • More faithful representation of earnings from contracts prior to

[5] The following costs raised were specific to the targeted proposal and are in addition to the generic costs discussed in paragraphs 17–20.

for which retrospective application is impracticable. • Estimating the historical discount rates for jurisdictions with limited data. • Additional costs for users because (i) there is a reduction in the comparability for the margin in contracts prior to and post-transition; and (ii) there is lack of reliable/verifiable information for contracts pre-transition. • For contracts using the premium allocation approach, identifying the policies with outstanding incurred claims to determine the locked-in discount rate for the presentation of interest expense. • Mismatches with assets due to different implementation date than IFRS 9 *Financial Instruments*.	transition.

Effective date and transition compared to resetting the contractual service margin to zero		
High/medium/low costs	**High/medium/low benefits**	**Will expected benefits outweigh costs to be incurred?**
Medium	High	Yes
Medium	High	Yes
High	High	Yes
High	High	Yes
Low	High	Yes
High	High	Yes
High	Medium	Not sure
High	Medium	Low
High	Low	No

(Each row represents the response received from a participant. Some participants did not complete this part of the questionnaire.)

55. Most believed that the benefits outweighed the costs of applying the Standard retrospectively. Some thought that it was counterintuitive that retrospective application of the proposals would result in significantly lower equity of the entity and for contracts to have a margin representing unearned profit on transition. This occurred, for example, for portfolios of insurance contracts that were written with

an implicit interest rate guarantee that was significantly higher than current discount rates.

56. Most participants supported the IASB's approach that there should be retrospective application if practicable. Most participants also believed that the simplifications proposed to modify retrospective application when it was not practicable would reduce the costs of transition. However, many asked for further simplifications.

57. Participants that did not think that the benefits outweighed the costs of the proposals did not support reverting to the 2010 ED proposal of resetting the margin to zero. Instead, they suggested a different approach to determine the margin instead of retrospectively applying the Standard.

Application of the proposals

58. Of the five targeted areas, the proposal to apply the Standard retrospectively was the least tested, because of the amount of resources needed to test the proposals in the time permitted for the fieldwork. In addition, the effect of these proposals on an entity's financial statements depended on the features of the contracts that were in-force. The following are contracts that would incur implementation costs to retrospectively apply the proposals:

(a) most life insurance contracts, because they have long coverage periods; and

(b) some non-life contracts with long coverage periods and/or settlement periods.

Consequently, some non-life insurers did not test these proposals because it had minimal effect on the contracts that were in-force.

59. Of the participants that modelled the retrospective adjustment of the margin, the following was observed:

(a) participants applied the proposals retrospectively using the portfolios that were defined on the systems at that time. For some entities, portfolios might not have been available after a particular date (for example, because of previous system changes); hence, they modelled the retrospective adjustment of the margin by aggregating cash flows for contracts after that particular date.

(b) past cash flow data might not have been available (for example, acquisition costs and assumption changes) for earlier periods. To overcome this, some participants estimated the margin for contracts for which retrospective application was impracticable by using the results determined for when retrospective application was possible. For example, this was done by determining a ratio of the margin to the cash flows from contracts for which retrospective application was possible and then using that ratio to estimate the margin for contracts for which retrospective application was impracticable, based on cash flows on the date of transition.

(c) estimating the acquisition costs recognised in profit or loss as part of the insurance contract revenue contract proposals added another layer of complexity, because it was difficult to retrospectively establish acquisition costs considered as fulfilment cash flows and the recognition pattern of those acquisition costs prior to transition.

60. Others did not model the proposals because of a lack of resources but offered the following qualitative comments:

(a) difficulty will arise because of the lack of historic cash flows (see paragraph 59(a)), which may be more of a challenge for entities who currently measure insurance contracts on a current basis.

(b) while the 2013 ED allowed the use of estimates when there was no available objective data, some seemed to prefer more guidance on what estimates were acceptable or when estimates could be used.

(c) for some jurisdictions, there may have been a lack of market-observable information to construct the non-observable portion in the relevant currency. In some jurisdictions, this also applied to some short-term historic yield curves. However, this was less likely to be the case if the entity was part of a conglomerate that might have relevant data stored in its non-insurance businesses.

(d) some thought that it was costly to determine the grouping of contracts according to the 2013 ED's definition of portfolios. This was influenced by the entity's interpretation of the 2013 ED's portfolio definition and how different those were to the entity's established portfolios.

(e) some partcipants noted that the simplifications provided in the 2013 ED reduced the costs of applying full retrospective application.

(f) one respondent interpreted the proposals for modified retrospective application as requiring the estimation of margin for contracts that were no longer in-force on the date of transition (for example, contracts that have lapsed). The IASB's intention was to require an estimation of the margin only for contracts in-force on the date of transition.

61. The following are some of the factors that were observed to affect the size of the retrospectively estimated margin on transition:

(a) the allocation pattern for the recognition of margin in profit or loss. For example, if the margin is recognised using the pattern of claims and benefits, and for some life contracts those claims and benefits are expected to occur towards the end of the coverage period, then the margin is likely to be large at transition.

(b) the amount of acquisition costs considered as fulfilment cash flows.

62. Most participants commented on the difficulties that would arise if they were required to first apply IFRS 9 and the insurance contracts requirements at different times because of:

(a) having to make the system changes at different times for the two requirements; and

(b) the accounting mismatches that may arise before both Standards have been applied.

63. Most participants supported leaving a period of three years between when the Standard is finalised and when it becomes effective. One participant strongly supported the Standard being effective no later than 2018.

Issues that require more clarity or guidance

64. The following are issues noted by participants as being in need of clarification:

    (a) the modified retrospective requirements for determining the discount rate; and

    (b) interaction with the retrospective application proposal and existing requirements in IFRS 1 *First-time Adoption of International Financial Reporting Standards* for previous business combinations for which an entity has elected not to apply IFRS 3 *Business Combinations* retrospectively.

Other issues

65. The following issues were raised on the aspects of the 2013 ED that were not targeted for comment:

    (a) definition of a portfolio (see paragraphs 66–69);

    (b) discount rate (see paragraphs 70–70);

    (c) initial recognition (see paragraph 74);

    (d) contract boundary (see paragraphs 75–77);

    (e) acquisition costs (see paragraphs 78–80); and

    (f) premium allocation approach (see paragraphs 81–89).

Definition of a portfolio

66. Most of the participants implemented the portfolio definition by grouping contracts according to product types. Some participants believed that the 2013 ED's definition of a portfolio was clear and appropriate. Some were concerned that the portfolio definition was on a more fragmentary basis than exiting practice—that there would be several portfolios for a product type because of different pricing structures. This would have been the case, for example, if there were differences in how the policies were priced according to defined parameters

(for example, geographical region, distribution channels, risk assessments) for the same product type.

67. Some were also concerned that the portfolio definition, taken together with other requirements (for example, the tracking of discount rates, allocating the margin when contracts have terminated), would mean that different portfolios would be required to be set up by grouping contracts according to when they are issued (for example, for each month, quarter, six months or year). They were concerned about the additional costs of tracking information in more detail than they do currently. Those who saw benefits in tracking information at a more detailed level than they did were seeking to re-engineer their systems to track such information for internal or other purposes.

68. Some participating products were priced taking into consideration cross-generational subsidisation (for example, the claims and benefits of some generations of policyholders were paid out from the accumulation of surpluses from previous generations). Consequently, some were concerned that the portfolio definition required grouping of participating contracts according to when contracts were issued, which, in their view, would not have reflected the economics of the cross-generational subsidisation.

69. In addition, some participants raised the following issues about the definition of a portfolio:

(a) it is the nature of insurance to cross-subsidise the risks and profitability across many contracts and, hence, it was more representationally faithful to aggregate contracts according to how the portfolios were managed; and

(b) statistical power diminished with fewer data points. Consequently, a definition of a portfolio that resulted in grouping fewer contracts might have resulted in less robust data and estimates.

Discount rate

70. The ED proposed to clarify that both the ‘top-down’ and ‘bottom-up’ approaches are allowed to determine the discount rate. Some noted that this reduced

implementation costs because in some circumstances information may not have been available to use the bottom-up approach (for example, no available risk-free rates) or because the insurer was able to amend their existing approaches to determine the discount rate.

71. As discussed in paragraph 15(c)(i), some thought that the benefits did not outweigh the costs of the 2013 ED as a whole, primarily because of its proposals on the discount rate. When the contract was discounted using existing practices the following discount rates were used:

(a) an asset-based rate;

(b) a risk-free rate; and

(c) a rate determined by the regulator.

Existing practice either required those rates to be updated or locked-in.

Extrapolation of the yield curve

72. Some participants asked how to extrapolate the yield curve when there were no observable data or when there were observable data, but some of which may occur in an illiquid market:

(a) during the fieldwork, some interpreted the 2013 ED requirements on the discount rate to mean extrapolating the yield curve by holding the last observable point constant over the non-observable longer portions. This approach was highly sensitive to the fluctuations in the last observed point. The staff noted that while such a method may be an appropriate shortcut for fieldwork, it was likely to be consistent with the proposals in 2013 ED only in rare situations, because market-observable yield curves are rarely flat. However, they were concerned that the current drafting would mean that that auditors or regulators in the future would require the determination of the yield curve by holding the last observable point constant over the non-observable longer portions.

(b) others were using market-consistent yield curve generators or extending the yield curve using an extrapolation method that converges to a long-term term rate. They were concerned that the current drafting would prohibit them from using such approaches.

(c) In addition, some were also concerned about estimating the yield curve in the medium term in which there may have been some observable maturities but the availability of the data points were limited and/or in which the data points were highly volatile. Some participants believed that the volatility in the financial statements arising from extending the yield curve using unadjusted available data into the medium and long term would be unrepresentative of their business.

Issues that require more clarity or guidance

73. Some stated that further clarification was needed on the discount rate proposals as follows:

(a) the objective of the discount rate, especially on the objective of the liquidity characteristics.

(b) whether the proposals require risk-neutral or real-world scenarios for valuation purposes. Risk-neutral scenarios use probabilities of future outcomes that are adjusted for risk, and the probability-weighted cash flows are then discounted using the risk-free rate. Real-world scenarios use probabilities of future outcomes that are not adjusted for risk, and the probability-weighted cash flows are then discounted using a discount rate that includes the risk premia that market participants require for bearing risk. In other words, risk is reflected for risk-neutral scenarios within the probabilities, and for real-world scenarios within the discount rate. Both approaches can be used for the market-consistent valuation of assets and liabilities, if care is taken to reflect the risk premia that market participants require.

Initial recognition

74. Some participants noted that the 2013 ED proposal to recognise an insurance contract at the beginning of the coverage period was a significant reduction in complexity from the 2010 ED. One respondent requested further clarification on

the beginning of the coverage period for reinsurance contracts written and ceded (for example, the coverage period of a risk-attaching reinsurance contract).

Contract boundary

75. In response to comments received on the 2010 ED, the IASB amended the contract boundary so that the contract was measured using cash flows relating to the premiums for which the entity had the right or the practical ability to reassess the risk of the portfolio and, as a result, could set a price or level of benefits that fully reflected the risk of that portfolio. (In the 2010 ED, that determination was at the contract level.)

76. The following are examples of the results of the application of the contract boundary proposals:

    (a) some non-life insurers noted that this decision reduced the implementation costs as compared to the 2010 ED, because their contracts have a boundary under existing practices that was more consistent with the proposals in the 2013 ED (for example, health insurance).

    (b) some life insurers noted that the revised contract boundary meant that health insurance and other benefits that were sold in conjunction with a long-term life insurance (these additional benefits are typically termed 'riders') would have a shorter contract boundary than existing practices.

    (c) two participants noted that annual, renewable life insurance contracts would have one-year contract boundaries. These life products were repriced annually at a portfolio level and one also contained the ability to refuse renewal. Both believed that this reflected the economics of the contract. One participant noted that the contract boundary was shorter than existing practice.

77. The staff observed that the views on the appropriate contract boundary depended on existing practice, which normally has a different approach for life and non-life entities. Consequently, an economically similar contract could be treated differently depending on the type of entity that issued the contract. However,

some participants believed that existing practice that required a longer contract boundary for riders was a better reflection of the economics of these riders because:

(a) there were significant cross-subsidies that occurred between the riders and the primary insurance product.

(b) acquisition costs were significant and mostly incurred when the contracts were written. For example, a shorter contract boundary combined with significant acquisition costs paid when the contract is written may result in an entity reporting losses or a smaller profit in the first year followed by higher profits in subsequent years upon the renewal of the contract.

Acquisition costs

78. Acquisition costs are a significant cash flow for most insurance contracts. The staff noted that some may be interpreting the proposals on which acquisition costs qualify as fulfilment cash flows more narrowly than the IASB had intended. Because of the significance of acquisition costs and to increase comparability, some participants thought that that the IASB should provide more guidance on the acquisition costs to be treated as fulfilment cash flows.

Risk adjustment

79. Most participants did not raise issues on the application of the risk adjustment. Among the techniques applied were the cost of capital and the confidence level. The results from the fieldwork confirmed that:

(a) for some contracts, explicit measurement of the risk adjustment resulted in losses recognised at inception (ie no contractual service margin); and

(b) for some contracts, the risk adjustment could be significant, while for others the risk adjustment may be immaterial.

80. One participant believed that the IASB should specify a single risk adjustment technique and the significant inputs that would increase comparability. Other

participants welcomed the elimination of the restrictions on the risk adjustment techniques. Two participants asked the IASB to clarify whether the estimation of the risk adjustment on direct insurance contracts is gross or net of reinsurance.

Premium allocation approach

81. As discussed in paragraph 15(c)(ii), some non-life insurers continued to state that the costs outweighed the benefits of changing from their existing requirements to the proposals in the 2013 ED. Many jurisdictions today typically apply approaches similar to the unearned premium reserve method for measuring non-life insurance contracts held by non-life insurance entities. (There may be differences in the accounting for non-life contracts held by life insurance entities or the treatment of types of non-life insurance contracts by non-life insurers.) When the unearned premiums reserve method is applied, the liability is estimated using the unearned premium prior to the when the claims are incurred. When the claims are incurred, they are typically undiscounted and not risk-adjusted.

Eligibility criteria

82. Some struggled with applying principle-based eligibility criteria for the premium allocation approach (ie when the premium allocation approach produces a reasonable approximation to the general approach) for contracts with coverage periods longer than a year. Others were able to apply the eligibility criteria to determine whether contracts were eligible for the premium allocation approach. To do this, some modelled the contracts using the building block approach and the premium allocation approach to better understand when both approaches resulted in similar results.

83. However, some non-life insurers reported difficulties with applying the general approach because claims are recognised when incurred and, hence, systems do not track which policies the claims are associated with (see paragraphs 27 and 44(b)(iii)). Because of the difficulties of applying the general approach to non-life contracts previously accounted using the unearned premium reserve, some would prefer that these contracts be explicitly eligible for the premium allocation approach.

84. The following are examples of non-life contracts that were deemed ineligible for the premium allocation approach during the fieldwork:

(a) lender's mortgage insurance;

(b) fire insurance with a long-term coverage period;

(c) extended warranties in which the claims were indexed to a foreign currency and there was significant volatility in the foreign exchange rates; and

(d) health insurance with a long-term coverage period.

85. Most property and casualty contracts had a coverage period of a year or less and, therefore, could apply the practical expedients provided (for example, recognising acquisition costs as an expense).

Onerous contracts

86. Some fieldwork participants objected to the 2013 ED's proposal to recognise an onerous contract liability when facts and circumstances (for example, impending events) indicated that the portfolio of insurance contracts containing the contract was onerous. Some participants would like a higher threshold for recognising an onerous contract liability, particularly when coverage is for catastrophic risks. They did not think that it was useful to recognise an onerous contract liability before the claims were incurred, except in cases in which it was reliable to do so. They think that it is unreliable to recognise an onerous liability before the incidence of a catastrophic event. Staff noted that this issue was raised by participants not currently applying IFRS 4 *Insurance Contracts*, which requires a liability adequacy test at the end of every reporting period. The liability adequacy test is similar to the proposed onerous contract liability requirements in the 2013 ED.

Incurred claims

87. One fieldwork participant interpreted the expected value measurement objective of the cash flows (ie the statistical mean) to mean that stochastic modelling would be required. The staff noted that it was not the IASB's intention to specify the

actuarial techniques to be used, but to leave it to the entity to determine whether the actuarial technique applied met the measurement objective.

88. The 2013 ED proposed, as a practice expedient, that claims that are settled in a year or less using the premium allocation approach need not be discounted. On the basis of the fieldwork, many portfolios accounted for under the premium allocation approach typically will result in claims that are settled after one year.

Drafting

89. Some participants noted that it was difficult to determine the requirements of the premium allocation approach because the requirements were in different sections of the 2013 ED. Some noted that either additional implementation examples or educational material would be useful.

Appendix A
Background on previous fieldwork

A1. As part of the Insurance Contracts project, the IASB previously conducted two rounds of fieldwork.

Fieldwork Round I

A2. Between September and December 2009 the IASB conducted the first round of targeted fieldwork, which was summarised in the February 2010 Agenda Paper 14F. The IASB took into consideration the results from the fieldwork when it developed the 2010 ED.

A3. The overall objective of this fieldwork was to assess whether the proposals in the Insurance Contracts project were capable of being applied rigorously and consistently in practice and to gauge the costs and benefits of moving to a new measurement approach.

A4. Because of the status of the deliberations at that time, we asked questions on specific topics rather than conducting comprehensive fieldwork on the measurement model as a whole.

Fieldwork Round II

A5. The second round of fieldwork examined the proposals in the 2010 ED in order to:

(a) understand how the proposed measurement model, including specified aspects, would operate in practice;

(b) identify where more detailed implementation guidance may be required;

(c) evaluate the costs and benefits of the proposed measurement model; and

(d) assess how the measurement model will help insurers to communicate with users of their financial statements.

A6. As we described in the September 2012 Agenda Paper 16E, fieldwork participants did not raise any issues in addition to the concerns already expressed in the comment letters from the geographical areas to which they belong.

Appendix B
Description of the fieldwork conducted

A7. This Appendix provides a description of the fieldwork conducted:

(a) by entities outside the European Union (see paragraphs A8–A11); and

(b) by entities in the European Union (see paragraphs A12–A13). This information is reproduced from the report that will be available from www.efrag.org.

Fieldwork conducted with entities outside the European Union

A8. The following table describes the fieldwork participants who have consented to be identified.

Company	Type of insurer	Countries/or markets	Headquarters
AIA Group Limited	Life	17 Asia-Pacific markets	Hong Kong
Allstate Corporation	Non-life	USA and Canada	USA
AMP Limited	Financial conglomerate	Australia and New Zealand	Australia
Cathay Life Insurance Company	Life	Taiwan, China and Vietnam	Taiwan
Fubon Insurance Company	Non-life	Taiwan, China and Vietnam	Taiwan
Intact Financial Corporation	Non-life	Canada	Canada
Itau-Unibanco	Financial conglomerate	Latin America	Brazil

Liberty Holdings Limited	Life	14 African countries	South Africa
Manulife Financial Corporation	Life	20 countries	Canada
MassMutual	Life	USA, Japan and Hong Kong	USA
MetLife Inc	Life	>45 countries	USA
QBE Insurance Group Ltd	Non-life	46 countries	Australia
Sompo Japan Insurance	Non-life	29 countries	Japan
Sumitomo Life Insurance Company	Life	Japan	Japan
Swiss Re Group	Reinsurer, non-life and life insurer	>20 countries	Switzerland
UnitedHealth Group	Non-life	USA, Brazil	USA

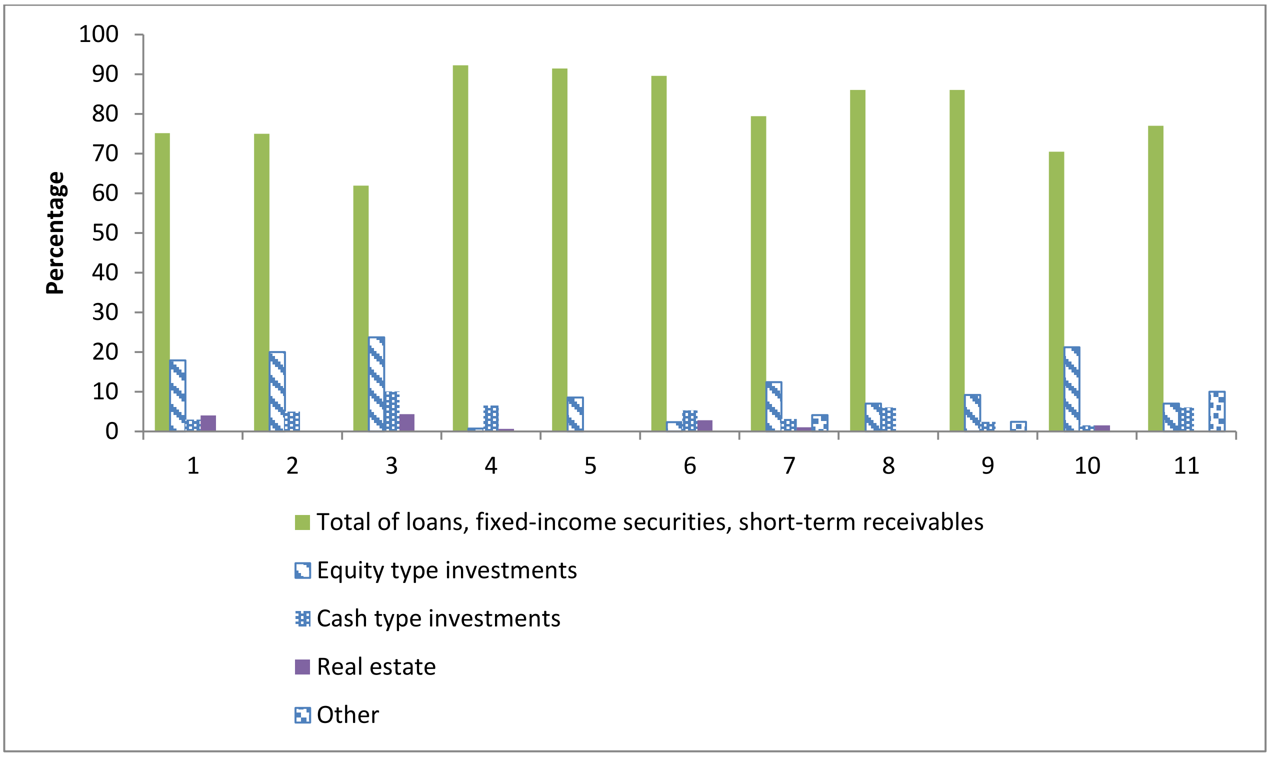
A9. The following is a list of the types of insurance contracts included in the fieldwork according to the number of participants. Some participants tested more than one portfolio in the type of insurance contracts listed below.

Types of insurance contracts that were included in the fieldwork	**Number of participants**
Endowments: • non-participating (ie fixed schedule of payments) • participating with restrictions of distributions of profits between the policyholders and the insurer • participating with **no** restrictions of distributions of profits between the policyholders and the insurer	 4 6 2
Whole life	4
Annuities: • non-participating • provides additional returns that is interest-like • variable (return is paid based on the performance of segregated fund)	 5 2 3
Universal life	3
Unit-linked/variable life contracts (that are not annuities)	3
Term life insurance: • that qualify for the premium allocation approach • that do not qualify for the premium allocation approach	 2 2
Health/medical insurance: • that qualify for the premium allocation approach • that do not qualify for the premium allocation approach	 3 2
Other non-life contracts: • that qualify for the premium allocation approach (for example, personal and commercial products) • that do not qualify for the premium allocation approach	 4 4

A10. The following is the number of portfolios included in the fieldwork per participant.

Total number of portfolios tested	**Number of participants**
9	1
8	1
6	3
5	1
4	3
3	2
2	3
1	3
Total = 38	Total = 17

A11. The following table shows an approximate breakdown of the asset types held by some of the participants in the fieldwork. The majority of assets held by these participants are in the form of loans and fixed-income type securities.



Fieldwork conducted in the European Union in coordination with EFRAG and National Standard Setters (ANC, ASCG, FRC and OIC)

A12. The following table summarises the number of participants by country and the number of portfolios tested by type.

		Number of portfolios:		
Participants by country:		*Life*	*Non-life*	*Reinsurance*
France	*2*	3		
Germany	*4*	3	3	1
Italy	*3*	3		
Spain	*1*	2		
UK	*2*	7		
	12	*18*	*3*	*1*

A13. In addition, one participant did not select portfolios to perform the field testing, but spent considerable time analysing the 2013 ED and has provided comments on the corresponding questions.