

## International Financial Reporting Standards



# Insurance contracts

ASAF meeting, June 2014

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

# Today's topics

---

- The story so far
- Seeking ASAF views on contracts with participating features
- Next steps

# The story so far

## *ED and comment letters*

---

- Exposure Draft published 25 June 2013
- Comment letter deadline 25 October 2013
- 194 comment letters, 186 outreach meetings, including discussion forums in 18 countries
- Comment letter summaries discussed by IASB and FASB in January 2014

# The story so far

## *Tentative decisions to date (1)*

- **Unlocking:** Confirm ED proposal that change in estimates of cash flows relating to future service recognised in period when service is provided.  
Modify so that:
  - Changes in estimates of risk adjustment relating to future service also recognised in period when service is provided
  - Favourable changes in estimates that arise after losses were previously recognised in profit or loss should be recognised in profit or loss to the extent that they reverse losses that relate to coverage and other services in the future.
- **OCI:** Accounting policy choice to present the effect of changes in discount rates in profit and loss or in OCI that would apply to all contracts within a portfolio
  - Require disclosures that would disaggregate the change in interest expense into its component parts and that would allow their comparison

# The story so far

## *Tentative decisions to date (2)*

---

- **Insurance contract revenue**: required in the statement of comprehensive income
  - Prohibit premium information in the statement of comprehensive income that is not consistent with commonly understood notions of revenue

# The story so far

## *Non-targeted areas to be considered*

### To be discussed at the May 2014 meeting

Whether to provide more guidance on the allocation pattern for the contractual service margin

Whether to provide guidance for the significant insurance risk definition for a contract for which the death benefit is the lower of the premiums paid and an invested fund.

Whether the requirements for portfolio transfers and business combinations could be simplified and clarified

Whether to provide an option so that fixed-fee service contracts could be accounted for using the insurance contracts standard

### To be discussed at a future meeting

Whether it will be possible to clarify and provide more consistency in the references to 'unit of account' and 'portfolio'

Whether to provide further guidance regarding the discount rates for long-term contracts when there are few or no observable market data

Whether to mitigate possible accounting mismatches between insurance contracts and reinsurance contracts that arise because of the asymmetrical treatment of their contractual service margins

# Staff analysis of contracts with participating features

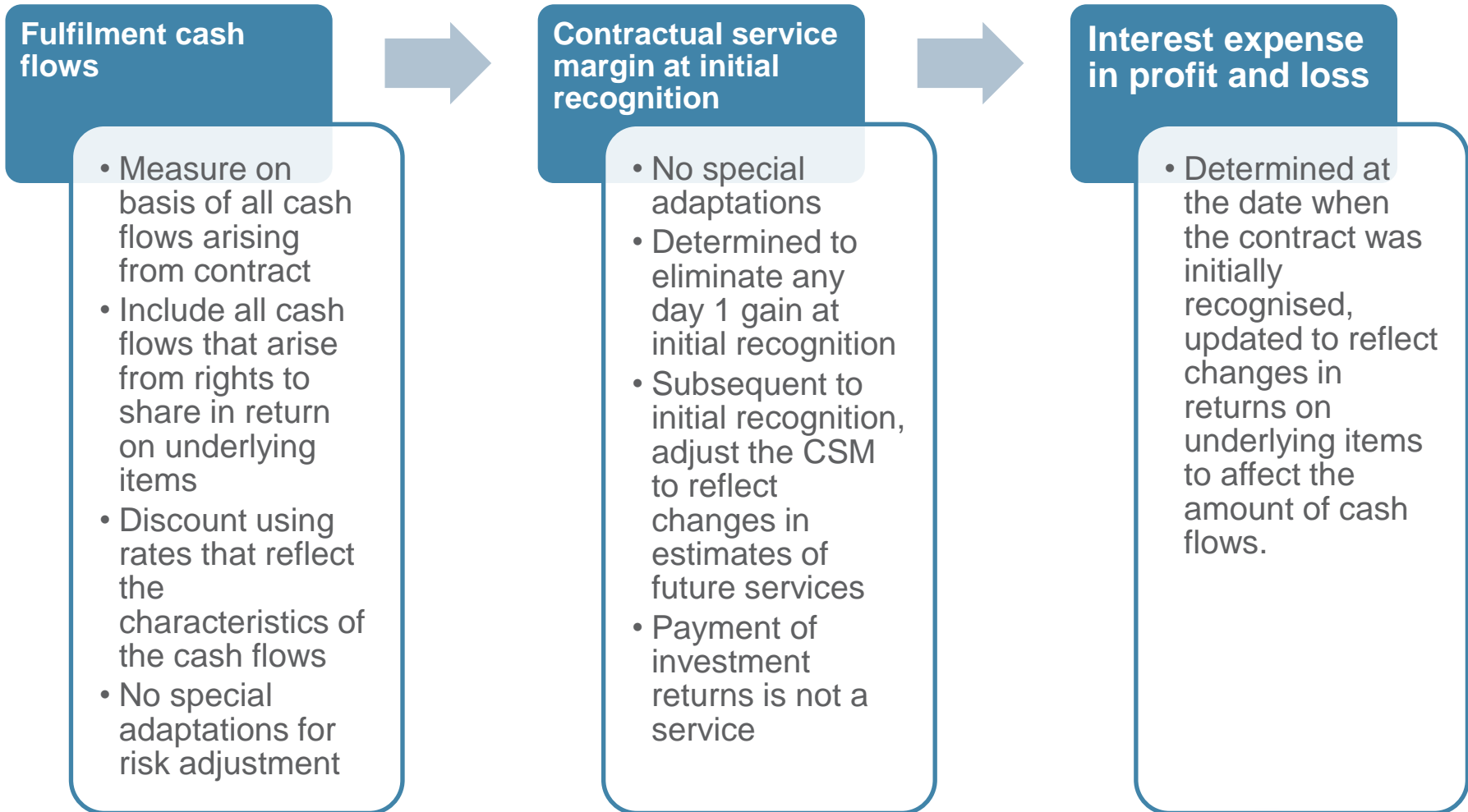
- Agenda paper 2A and 2B from the May 2014 IASB meeting set out:
  - background on contracts with participating features
  - discuss whether adaptations for contracts with participating features are needed to the IASB's previous decisions for contracts with no participating features
  - consider what those adaptations might be
- These papers have been provided to ASAF members as part of the papers for this meeting

# Background

- **Participating features** result in payments to policyholders that vary with the returns on underlying items
  - The entity shares with policyholder some of the investment risks of assets purchased with the premiums
- **Wide variety** of participating features  
(see paragraphs 4-12 of agenda paper 2A)
- **IASB approach for contracts with participating features** is to consider what adaptations are needed to its tentative decisions to date for contracts with no participating features
  - This will include assessing whether any form of the mirroring exception is necessary



# Applying general proposals in the ED to contracts with participating features



(see paragraphs 17-19 of agenda paper 2A)

# We are particularly interested in ASAF member views on....

1. Should the IASB develop a separate model for contracts with participating features? If so, what would be the principles underlying that separate model?
2. Should the entity's share of returns from underlying items unlock the contractual service margin  
(see paragraphs 34-44 of Agenda paper 2B for the May IASB meeting)
3. Do you have any comments or questions on whether there should be specific requirements for options and guarantees?  
If so, do you have any comments on how an entity should account for changes in the value of options and guarantees?  
(see paragraphs 57-77 of Agenda paper 2B for the May IASB meeting)

# Next steps

---

- Topics discussed before September ASAF meeting
  - Contracts with participating features
  - Non-targeted issues identified in the April meeting
  - The discount rate used to determine the PV of cash flows used to unlock the CSM
- Topics discussed after the September ASAF meeting
  - Transition
  - OCI follow up issues
  - Any other follow up issues
- Conclude redeliberations during 2014 and finalise a Standard in 2015