IFRS™

STAFF PAPER

May 2015

REG IASB Meeting

Project	Insurance Contracts		
Paper topic	Cover note		

CONTACT(S)	Andrea Pryde	apryde@ifrs.org	+44 (0)20 7246 6957
	Joanna Yeoh	jyeoh@ifrs.org	+44 (0)20 7246 6481

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. This cover note:

   (a) introduces the papers for this meeting (paragraphs 2-3);

   (b) provides an overview of project progress (paragraphs 4-6);

   (c) summarises the previous discussion on the account for contracts with participation features (paragraphs 7-17); and

   (d) describes next steps (paragraphs 18-19).

Papers for this meeting

2. The papers for this meeting continue the discussion began at the March 2015 meeting by considering the application of the variable fee approach discussed in the March papers to other aspects, as follows:

   (a) Agenda Paper 2A *Application of the variable fee approach: Mutualisation*;

   (b) Agenda Paper 2B: *Application of the variable fee approach: Revenue*; and

   (c) Agenda Paper 2C: *Application of the variable fee approach: Transition*.

3. In addition:

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

(a) Agenda Paper 2D *Proposed accounting for indirect participation contracts* considers the accounting model that would apply to contracts that would not be eligible for the variable fee approach, but for which the cash flows vary with underlying items.

(b) Agenda Paper 2E *Presentation of interest expense for contracts with participation features—whether to provide an accounting policy choice* considers the presentation of changes in discount rate in OCI or profit or loss for both direct and indirect participation contracts.

(c) Agenda Paper 2F *Update on the interaction between IFRS 9 Financial Instruments and Insurance Contracts project* provides an update to the IASB on the interaction between IFRS 9 *Financial Instruments* and the Insurance Contracts project. This paper is for information only.

Overview of project progress

4. Since January 2014, the IASB has been deliberating issues raised in its third consultation document, a revised Exposure Draft issued in June 2013. The 2013 ED *Insurance Contracts* builds on the proposals previously set out in:

   (a) the Discussion Paper *Preliminary Views on Insurance Contracts*, published in May 2007, which explained the IASB's initial views on insurance contracts; and

   (b) the Exposure Draft *Insurance Contracts,*, published in July 2010, which developed those initial views into a draft Standard.

5. In its deliberations, the IASB has sought to balance many diverse views and develop an approach that provides useful financial information and that can be applied in all jurisdictions that apply IFRS.

6. So far, the IASB has completed its discussions on the model for insurance contracts without participation features, and is now developing proposals for the application to the general model to contracts with participation features. Appendix B provides an overview of the tentative decisions made to date.

Previous discussions on contracts with participation features

7. A significant challenge for the IASB has been the accounting approach for contracts with participation features. A participation feature causes the cash flows to the policyholder to vary with the returns on assets. The IASB is considering the accounting for contracts with participation features in the context of adaptations that might be needed to the general model for contracts with no participation features. So far, the IASB has not made tentative decisions, but has held several education sessions during which the IASB directed the staff in developing proposals for the application of the general model to contracts with participation features.

8. At its March 2015 meeting, the IASB noted that, if its general model were to be applied to the participation features of insurance contracts, the entity's interest in the underlying items would be treated in the same way as a share of economic returns from the underlying items. The IASB also considered an alternative view, in which the entity's interest in the underlying items can be viewed as a variable fee for service. The IASB indicated that such a view would be appropriate only if the following conditions were met:

   (a) the contract specifies that the policyholder participates in a clearly identified pool of underlying items;

   (b) the entity expects that a substantial proportion of cash flows from the contract will vary with changes in underlying items; and

   (c) the entity expects the policyholder to receive an amount representing a substantial share of the returns from underlying items.

9. These papers refer to the contracts that meet the conditions in paragraph 8 as '**direct participation contracts**'.

10. March Agenda Paper 2B *Adaptations for insurance contracts that provide policyholders with investment returns: proposed accounting for CSM and OCI* described a proposed accounting approach for the measurement of such direct participation contracts (referred to in these papers as the 'variable fee approach') and the determination of interest expense for some of these contracts (referred to

as the 'current period book yield' approach). These approaches are summarised in paragraphs 13-17.

11. This paper refers to contracts with participation features that do not meet the criteria in paragraph 8 as '**indirect participation contracts**'. Agenda Paper 2D *Accounting approach for Indirect Participation Contracts* for this meeting discusses how the tentative decisions made by the IASB to date would be applied to indirect participation contracts and considers the implications from the variable fee approach for such contracts.

12. Appendix A summarises the differences in how the insurance contracts model as a whole would be applied to direct participation contracts, indirect participation contracts and non-participation contracts (for which the cash flows do not vary with the returns on assets).

The variable fee approach for direct participation contracts

13. March Agenda Paper 2B *Adaptations for insurance contracts that provide policyholders with investment returns: proposed accounting for CSM and OCI* described a variable fee approach that could apply to direct participation contracts. The variable fee approach views the insurance contract as creating an obligation to pay to the policyholder an amount equal to the value of the underlying items less a variable fee for service. That fee is the amount the entity charges in exchange for the service to be provided by the insurance contract, and is determined at an amount that incorporates the entity's share of returns from underlying items less the other costs of providing the contracts, in particular the costs of providing guarantees. The policyholder pays the fee by foregoing part of the proceeds on the underlying items.

14. Viewing the entity's interest in underlying items as a variable fee for service does not affect the measurement of the fulfilment cash flows or the determination of the contractual service margin at initial recognition of the contract. However, this view has the following consequences after initial recognition:

    (a) Changes in the estimate of the obligation to pay to the policyholder an amount equal to the value of the underlying items should be accounted for in a way that reflects changes in the value of the underlying items.

(b) Changes in the estimate of the variable fee for future services should be accounted for in a way consistent with other changes in estimate relating to future service. Accordingly, such changes in estimates would be adjusted in the contractual service margin so that they would be recognised in future periods, rather than in the period in which they occur.

(c) Changes in estimates of the variable fee for future services include changes in estimates relating to the guarantees. At inception, the variable fee for service comprises the entity's share of the returns on underlying items less the expected outflows that relate to any non-investment cash flows or that are used to pay for guarantees. As a consequence, this approach would mean that changes in the value of any options or guarantees in the contract would be adjusted against the contractual service margin

The current period book yield approach for determining interest expense

15. March Agenda Paper 2B *Adaptations for insurance contracts that provide policyholders with investment returns: proposed accounting for CSM and OCI* described a current period book yield approach for determining the amount presented in profit or loss and OCI.

16. Applying the current book yield approach, the entity would determine the insurance investment expense in profit or loss on the insurance contract liability as equal and opposite in amount to the investment income on the underlying items. Any difference between the interest expense reported in profit or loss and the interest expense determined on a current basis would be reported in OCI. This would ensure that the accounting basis for the underlying items and the accounting basis for the obligation to pay to the policyholder an amount equal to the value of the underlying items results in equivalent and opposite effects in profit or loss.

17. The current period book yield approach would apply only to direct participation contracts where the entity also holds the underlying items. This is because the current period book yield approach assumes that all mismatches between the

interest expense reported in profit or loss for the insurance contract and the investment income on underlying items are accounting mismatches and not economic mismatches.

Next steps

18. The staff expects to ask the IASB for the remaining technical decisions, including on the accounting for direct and indirect participation contracts during the remainder of the 2015. However, the staff do not expect to consider the mandatory effective date of the new insurance contracts Standard until after the IASB has otherwise concluded its deliberations.
19. The staff expect that the new Standard will not be published before the end of 2015.

Appendix A: Proposed accounting for contracts with participation features

<table>
<tr><th></th><th>Non-participation contracts
Promise is to make payments that do not vary with underlying items</th><th>Indirect participation contracts
Promise is of a fixed amount plus the possibility of additional payments at discretion of entity</th><th>Direct participation contracts
Promise is to pay an amount equal to the value of underlying items</th></tr>
<tr><td>1. Cash flows</td><td colspan="3">Include in measurement all cash flows that related directly to fulfilment of insurance contract, reflecting expectations about how any discretion would be exercised.</td></tr>
<tr><td>2. Discount rate</td><td colspan="3">Adjust cash flows to reflect the time value of money using a rate that reflects the extent of any asset dependency. When there is no asset dependency, the appropriate rate is risk-free rate plus liquidity premium.
Different techniques could be used to meet this objective including eg risk neutral modelling, real world modelling (using the deflators approach), stochastic approaches, etc.</td></tr>
<tr><td>3. Risk adjustment</td><td colspan="3">Adjust cash flows to reflect compensation for bearing the uncertainty about the amount and timing of cash flows.
The risk adjustment reflects all risks associated with the insurance contract, other than those reflected through the use of market consistent inputs. It does not reflect the risks that do not arise from the insurance contract, such as investment risk relating to the assets that an entity holds (except when that investment risk affects the amounts payable to policyholders), asset-liability mismatch risk or general operational risk that relates to future transactions.</td></tr>
<tr><td>4. CSM at inception</td><td colspan="3">Determined at an amount that is equal and opposite to the sum of the amount of the fulfilment cash flows for the insurance contract at inception.</td></tr>
<tr><td>5. CSM at subsequent measurement (unlocking) – asset share</td><td colspan="2">When:
• there is no clearly identified pool of underlying items;
• the policyholder does not retain a share of the returns from underlying items; or
• policyholder does not expect a substantial proportion of cash flows the contract to vary with changes in underlying items.
Then changes in estimates that arise because of changes in financial assumptions (changes in discount rates) would be recognised in profit or loss or OCI.</td><td>When:
• there is a clearly identified pool of underlying items;
• policyholder expects a substantial proportion of cash flows the contract to vary with changes in underlying items; and
• the policyholder expects to retain a substantial share of the returns from underlying items.
Then the CSM would be adjusted for the following:
• changes in the expected net variable fee for service (ie change in the PV of share of the returns of underlying items); and
• changes in the expected present value of the cost of guarantees.
This approach treats all changes in estimates arising from changes in financial assumptions as an underwriting effect.</td></tr>
<tr><td>6. CSM at subsequent measurement (unlocking) –changes in estimates from non-financial assumptions</td><td colspan="3">Adjust CSM to reflect changes in estimates of cash flows and risk adjustment that relate to future service, other than those that arise because of changes in financial assumptions. Changes in estimates that adjust the CSM include those that arise as a result of the application of any discretion.</td></tr>
</table>

<table>
<tr>
<th></th>
<th>Non-participation contracts
Promise is to make payments that do not vary with underlying items</th>
<th>Indirect participation contracts
Promise is of a fixed amount plus the possibility of additional payments at discretion of entity</th>
<th colspan="2">Direct participation contracts
Promise is to pay an amount equal to the value of underlying items</th>
</tr>
<tr>
<td>7. Allocation of CSM</td>
<td colspan="4">Allocate on basis of passage of time. As a consequence of the level of aggregation principles, the CSM recognised in profit or loss would reflect the number of contracts remaining in force.</td>
</tr>
<tr>
<td>8. Discount rate for accretion of CSM and unlocking</td>
<td colspan="2">View 1: Reflects that the consideration for the contract is not affected by current value of underlying items.
• Accrete interest on the CSM using a locked-in rate at inception of contracts.
• Determine the PV of changes that estimate that unlock the CSM using a locked-in rate.

View 2: Treat consistently with direct participation contracts.
• Accrete interest on the CSM using a current rate.
• Determine the PV of changes that estimate that unlock the CSM using a current rate.</td>
<td colspan="2">Reflects that the consideration for the contract varies according to the current value of underlying items.
• No need to accrete interest on the CSM as the measurement of the value of the underlying items already reflects the time value of money in the obligation.
• Determine the PV of changes that estimate that unlock the CSM using the current liability rate at reporting date.
• Opening balance of CSM implicitly remeasured to current interest rates</td>
</tr>
<tr>
<td rowspan="2">9. OCI</td>
<td colspan="4">If using an OCI accounting policy, the objective is to eliminate accounting mismatch in profit or loss between insurance investment expense on the liability and the investment income on related assets.</td>
</tr>
<tr>
<td colspan="2">When:
• contracts not in scope of unlocking for asset share; or
• the entity does not holds the underlying items
the entity may choose as its accounting policy to determine insurance investment expense in profit or loss using an effective yield approach.

In the effective yield approach, the following amounts are recognised in OCI:
• the effect of changes in discount rates on all cash flows in the contract; and
• changes in cash flows that vary with changes in interest rates and the effect of any discount rate changes on those cash flows (if any) .</td>
<td>When:
• contracts in scope for unlocking asset share; and
• The entity has not held the assets in each reporting period.
the entity may choose as its accounting policy to determine insurance investment expense in profit or loss using an effective yield approach.</td>
<td>When:
• contracts in scope for unlocking asset share; and
• The entity expected at inception to hold the assets and has held the assets in each reporting period.
the entity may choose as its accounting policy to determine insurance investment expense in profit or loss using either a current period book yield approach or an effective yield approach.

In the current book yield approach, the entity recognises in profit or loss an amount of insurance investment expense determined so that there is no net investment margin on the underlying items in profit or loss.

The difference between the current value interest expense and the current period book yield is recognised in OCI.</td>
</tr>
<tr>
<td>10. Reassessment of eligibility</td>
<td colspan="4">Determine accounting approach at inception with no reassessment.</td>
</tr>
</table>

Appendix B: Tentative decisions to date

A1. The following table presents a summary of tentative decisions made in the redeliberations phase in 2014 and 2015:

	Tentative decisions	Change from 2013 Exposure Draft
1	***Targeted issue: Unlocking the contractual service margin*** (a) Differences between the current and previous estimates of the present value of expected cash flows and the risk adjustment related to future coverage and other future services should be added to, or deducted from, the contractual service margin, subject to the condition that the contractual service margin should not be negative. (b) Differences between the current and previous estimates of the present value of cash flows and the risk adjustment that do not relate to future coverage and other future services should be recognised immediately in profit or loss. (c) 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 related to coverage and other services to be provided in the future. (d) An entity should use the locked-in rate at inception of the contract for accreting interest and for determining the change in the present value of expected cash flows that offsets the contractual service margin.	The 2013 Exposure Draft would: • recognise all changes in estimates of risk adjustment immediately in profit or loss. • rebuild the contractual service margin from zero without first reversing previously recognised losses in the profit or loss.

<table>
<tr><th></th><th>Tentative decisions</th><th>Change from 2013 Exposure Draft</th></tr>
<tr><td>2</td><td>Targeted issue: Presentation of interest expense in the Statement of Comprehensive Income
(a) An entity should choose to present the effect of changes in discount rates in profit or loss, or in other comprehensive income as its accounting policy and should apply that accounting policy to all contracts within a portfolio
(b) If the entity chooses to present the effect of changes in discount rates in other comprehensive income, the entity should:
(i) Recognise in profit or loss, the interest expense determined using the discount rates that applied at the date that the contract was initially recognised; and
(ii) Recognise in other comprehensive income, the differences between the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date and the carrying amount of the insurance contract was initially recognised.
(iii) Disclose an analysis of total interest expense included in total comprehensive income disaggregated at a minimum to:
1. interest accretion at the discount rate that applied at initial recognition of insurance contracts reported in profit or loss for the period; and
2. the movement in other comprehensive income for the period.</td><td>The 2013 Exposure Draft proposed that the effect of changes in discount rates should be required to be presented in OCI.</td></tr>
</table>

	Tentative decisions	Change from 2013 Exposure Draft
	(c) An entity should disaggregate total interest expense included in total comprehensive income to: (i) the amount of interest accretion determined using current discount rates; (ii) the effect on the measurement of the insurance contract of changes in discount rates in the period; and (iii) the difference between the present value of changes in expected cash flows that adjust the contractual service margin in a reporting period when measured using discount rates that applied on initial recognition of insurance contracts, and the present value of changes in expected cash flows that adjust the contractual service margin when measured at current rates. (d) For contracts without participation features, an entity should use the locked-in rate at inception of the contract for accreting interest and for determining the change in the present value of expected cash flows that offsets the contractual service margin. (e) An entity should apply the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to changes in accounting policy relating to the presentation of the effect of changes in discount rates.	
3	***Targeted issue: Insurance contracts revenue*** (a) An entity should present insurance contract revenue and expense in the statement of	The 2013 Exposure Draft did not explicitly prohibit presenting premium information in the

	Tentative decisions	Change from 2013 Exposure Draft
	comprehensive income, as proposed in paragraphs 56–59 and B88–B91 of the 2013 Exposure Draft; and (b) An entity should disclose the following: (i) a reconciliation that separately reconciles the opening and closing balances of the components of the insurance contract asset or liability (paragraph 76 of the 2013 Exposure Draft); (ii) a reconciliation from the premiums received in the period to the insurance contract revenue in the period (paragraph 79 of the 2013 Exposure Draft); (iii) the inputs used when determining the insurance contract revenue that is recognised in the period (paragraph 81(a) of the 2013 Exposure Draft); and (iv) the effect of the insurance contracts that are initially recognised in the period on the amounts that are recognised in the statement of financial position (paragraph 81(b) of the 2013 Exposure Draft). (c) An entity should be prohibited from presenting premium information in the statement of comprehensive income if that information is not consistent with commonly understood notions of revenue.	statement of comprehensive income if that information is not consistent with commonly understood notions of revenue.
4	**Targeted issue: Transition** **(for contracts without participation features)** (a) an entity should apply the Standard retrospectively in accordance with IAS 8 unless	For contracts without participation features: • Simplified the practical

	Tentative decisions	Change from 2013 Exposure Draft
	impracticable; and (b) if retrospective application of the Standard is impracticable, an entity should apply the simplified approach proposed in paragraphs C5 and C6 of the 2013 Exposure Draft with the following modification: instead of estimating the risk adjustment at the date of initial recognition as the risk adjustment at the beginning of the earliest period presented, an entity should estimate the risk adjustment at the date of initial recognition by adjusting the risk adjustment at the beginning of the earliest period presented by the assumed release of the risk before the beginning of the earliest period presented. The assumed release of risk should be determined by reference to release of risk for similar insurance contracts that the entity issues at the beginning of the earliest period presented.	expedients when retrospective application in accordance with IAS 8 is impracticable. • In addition, added a way for the entity to estimate the contractual service margin on transition when neither retrospective application nor the simplified approach are impracticable.
	(c) if the simplified approach described in paragraph (b) above is impracticable, an entity should: (i) determine the contractual service margin at the beginning of the earliest period presented as the difference between the fair value of the insurance contract at that date and the fulfilment cash flows measured at that date; and (ii) determine interest expense in profit or loss, and the related amount of other comprehensive income accumulated in equity, by estimating the discount rate at the date of initial recognition using the method in the simplified approach proposed in paragraph C6(c) and (d) the 2013 Exposure Draft. (d) for each period presented for which there are contracts that were measured in	For initial application of the new standard after implementation of IFRS 9, the 2013 Exposure Draft did not allow or require an entity to reassess the business model for financial assets at the date of initial application of the new insurance contracts Standard.

	Tentative decisions	Change from 2013 Exposure Draft
	accordance with the simplified approach or the fair value approach, an entity should disclose the information proposed in paragraph C8 of the 2013 Exposure Draft (ie the disclosures for contracts for which retrospective application is impracticable) separately for: (i) contracts measured using the simplified approach; and (ii) contracts measured using the fair value approach. **(On initial application of the new insurance contracts Standard after implementation of IFRS 9 Financial Instruments)** (a) An entity is permitted to newly designate financial assets under the fair value option as measured at fair value through profit or loss to eliminate (or significantly reduce) an accounting mismatch according to paragraph 4.1.5 of IFRS 9; (b) An entity is required to revoke previous fair value option designations for financial assets if the accounting mismatch that led to the previous designation according to paragraph 4.1.5 of IFRS 9 no longer exists; and (c) An entity is permitted to newly designate an investment in an equity instrument as measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 and is permitted to revoke previous designations. (d) To provide further transition relief to permit or require an entity to reassess the business model for financial assets at the date of initial application of the new insurance contracts	

	Tentative decisions	Change from 2013 Exposure Draft
	Standard. This reassessment would be based on the conditions for assessing the business model in paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9 and the facts and circumstances that exist at the date of the first application of the new insurance contracts Standard.	
5	***Non-targeted issue: Level of aggregation and portfolio definition*** (a) Clarify that the objective of the proposed insurance contracts Standard is to provide principles for the measurement of an individual insurance contract, but that in applying the Standard an entity could aggregate insurance contracts provided that it meets that objective. (b) Amend the definition of a portfolio of insurance contracts to be: "insurance contracts that provide coverage for similar risks and are managed together as a single pool". (c) Add guidance to explain that in determining the contractual service margin or loss at initial recognition, an entity should not aggregate onerous contracts with profit-making contracts. An entity should consider the facts and circumstances to determine whether a contract is onerous at initial recognition.	The definition of a portfolio in the 2013 Exposure Draft is modified to eliminate the reference to "priced similarly relative to the risk taken on". The definition of portfolio now applies more narrowly than the 2013 Exposure Draft. Added additional guidance and clarification
6	***Non-targeted issue: Discount rate for long-term contracts when there is little or no observable market data*** (a) Confirm the principle that the discount rates used to adjust the cash flows in an insurance contract for the time value of money should be consistent with observable current market prices for instruments with cash flows whose characteristics are	Added clarification of how the principle should be applied in determining discount rates for insurance contracts.

	Tentative decisions	Change from 2013 Exposure Draft
	consistent with those of the insurance contract. (b) Provide additional application guidance that, in determining those discount rates, an entity should use judgement to: (i) ensure that appropriate adjustments are made to observable inputs to accommodate any differences between observed transactions and the insurance contracts being measured. (ii) develop any unobservable inputs using the best information available in the circumstances, while remaining consistent with the objective of reflecting how market participants assess those inputs. Accordingly any unobservable inputs should not contradict any available and relevant market data.	
7	***Non-targeted issue: Asymmetric treatment of contractual service margin between insurance contracts issued and reinsurance contracts held*** (a) After inception, an entity should recognise in profit or loss any changes in estimates of fulfilment cash flows for a reinsurance contract that an entity holds when those changes arise as a result of changes in estimates of fulfilment cash flows for an underlying direct insurance contract that are recognised immediately in profit or loss.	The 2013 Exposure Draft proposed that, for a reinsurance contract that an entity holds, all changes in estimates of fulfilment cash flows relating to future service should be recognised and offset to the contractual service margin

<table>
<tr><th></th><th>Tentative decisions</th><th>Change from 2013 Exposure Draft</th></tr>
<tr><td>8</td><td>Non-targeted issue: Allocation of the contractual service margin to the profit or loss
(for contracts without participation features)
(a) Confirm the principle in the 2013 Exposure Draft that an entity should recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services that are provided under an insurance contract.
(b) Clarify that, for contracts without participation features, the service represented by the contractual service margin is insurance coverage that:
(i) is provided on the basis of the passage of time; and
(ii) reflects the expected number of contracts in force.</td><td>The 2013 Exposure Draft stated only that an entity should recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services that are provided under an insurance contract.</td></tr>
<tr><td>9</td><td>Non-targeted issue: Significant insurance risk
(a) Clarify the guidance in paragraph B19 of the 2013 Exposure Draft that significant insurance risk only occurs when there is a possibility that an issuer will incur a loss on a present value basis.</td><td>The 2013 Exposure Draft referred more specifically to the need for a scenario with commercial substance in which the present value of the net cash outflows can exceed the present value of the premiums.</td></tr>
<tr><td>10</td><td>Non-targeted issue: Portfolio transfers and business combinations</td><td>Clarification of requirements in the</td></tr>
</table>

	Tentative decisions	Change from 2013 Exposure Draft
	(a) Clarify the requirements for the contracts acquired through a portfolio transfer or a business combination in paragraphs 43-45 of the 2013 Exposure Draft, that such contracts should be accounted for as if they had been issued by the entity at the date of the portfolio transfer or business combination.	2013 Exposure Draft to avoid difference in interpretation.
11	***Non-targeted issue: Fixed fee service contracts*** (a) Entities should be permitted, but not required, to apply the revenue recognition Standard to the fixed-fee service contracts that meet the criteria stated in paragraph 7(e) of the 2013 Exposure Draft.	The 2013 Exposure Draft excluded all fixed fee service contracts from its scope.
12	***Non-targeted issue: Premium-allocation approach*** (a) Clarify that when an entity applies the premium-allocation approach to account for an insurance contract, it should recognise insurance contract revenue in profit or loss: (i) on the basis of the passage of time; but (ii) if the expected pattern of release of risk differs significantly from the passage of time, then on the basis of expected timing of incurred claims and benefits. (b) When an entity applies the premium-allocation approach to contracts for which the entity: (i) discounts the liability for incurred claims; and (ii) chooses to present the effect of changes in discount rates in OCI;	The 2013 Exposure Draft required that an entity should allocate the expected premium receipts as insurance contract revenue to each accounting period in the systematic way that best reflects the transfer of services that are provided under the contract. The 2013 Exposure Draft required that interest expense on

	Tentative decisions	Change from 2013 Exposure Draft
	the interest expense in profit or loss for the liability for incurred claims should be determined using the discount rate that is locked in at the date the liability for incurred claims is recognised. This tentative decision also applies to the presentation of interest expense for any onerous contract liability that is recognised when the entity applies the premium-allocation approach.	insurance liabilities should be determined using the discount rates that applied at the date that the contract was initially recognised.
13	***Non-targeted Issues that will not be addressed*** (a) In April 2014 the IASB tentatively decided not to consider in future meetings other non-targeted issues, including those relating to: (i) disclosures; (ii) combination of insurance contracts; (iii) contract boundary for specific contracts; (iv) unbundling—lapse together criteria; (v) treatment of ceding commissions; (vi) discount rate—top-down and bottom-up approaches; (vii) tax included in the measurement; and (viii) combining the contractual service margin with other comprehensive income.	None