STAFF PAPER

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REG IASB Meeting

Project	**Insurance Contracts**		
Paper topic	Cover Note		
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Introduction

1. This cover note:

   (a) introduces the papers for this meeting (in paragraph 3);

   (b) provides an overview of the IASB's accounting model for accounting for insurance contracts (in paragraphs 4-25); and

   (c) sets out the next steps of the project (in paragraph 27).

2. The appendices to this paper:

   (a) summarise the accounting model for insurance contracts (in Appendix A); and

   (b) present a summary of tentative decisions made in the redeliberations phase in 2014 and 2015 (in Appendix B).

Papers for this meeting

3. The papers for this meeting are as follows:

   (a) Agenda paper 2A *Comparison of the general model and the variable fee approach* considers the similarities and differences between the general measurement model and the variable fee approach for insurance contracts, to consider to what extent they can be regarded as a single model. The paper also considers whether further specification is needed for one aspect of the general model, the treatment of discretionary changes that can arise in participating contracts.

(b) Agenda paper 2B *Consequential issues arising from the variable fee approach* considers the following three narrow issues arising from the variable fee approach.

(i) an extension of an existing exemption to permit an entity to measure some assets underlying unit-linked contracts at fair value through profit or loss so that the exemption also applies when those assets underlie direct participation contracts;

(ii) the determination of the contractual service margin for variable fee contracts on transition to the new insurance contracts Standard; and

(iii) how the option to recognise changes in the value of the guarantee embedded in insurance contract in profit or loss instead of in the contractual service margin applies on transition to the new insurance contracts Standard.

Overview of the accounting models for insurance contracts

4. This section provides an overview of the features of insurance contracts and the accounting models the IASB has developed for their recognition, measurement, presentation and disclosure.

Key features of insurance contracts

5. The IASB defines an insurance contract as “A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”

6. The defining feature of an insurance contract is therefore the transfer of significant insurance risk. It can be difficult to account for contracts with significant insurance risk because of the uncertainty associated with whether or when an insured event will occur, how much the issuer will be required to pay if

the insured event does occur, and the need to recognise profit arising from the contract.

7. Furthermore, insurance contracts generally have features other than the transfer of significant insurance risk, including:

   (a) promised payments that do not arise on the occurrence of an insured event. Such payments may provide policyholders with a combination of an investment-like return, guaranteed payments or payments that depend on the performance of specified items.

   (b) payments that are subject to the entity's discretion or constrained discretion.

   (c) options that allow the policyholder to change the basis on which payments are determined

   (d) rights and obligations that are interdependent and

   (e) renewal options that bind the issuer, but not the policyholder.

8. The interaction between all of these features adds to the complexity inherent in understanding the rights and obligations arising from insurance contracts, and their effects on an entity's financial performance.

The IASB's accounting model for insurance contracts

9. The accounting model for insurance contracts developed by the IASB is intended to provide comparable, transparent information about the effect of issuing insurance contracts on an entity's financial position and performance.

10. To achieve this, the IASB's accounting model would require an entity:

    (a) to measure the obligations that arise as a result of issuing the insurance contracts in a way that reflects the uncertainty over the timing and amount of expected future cash flows arising from the contract;

    (b) to report the profits arising from insurance contracts in a way that reflects the nature of the activity that the entity undertakes to generate that profit; and

(c) to disclose information that helps users of financial statements to understand the amounts reported in financial statements, and that provides information about the nature and extent of risks that an entity is exposed to as a result of issuing insurance contracts.

Measurement approach

11. The underlying objective of the IASB's approach is to achieve a valuation of an insurance contract in a manner that is consistent with market information. That valuation would include any options and guarantees embedded in the insurance contract. The IASB believes that the use of a market-consistent current value measurement model for the insurance contract liability is desirable for three reasons:

    (a) It provides complete information about changes in estimates, ie it incorporates all of the available information in a way that is consistent with observable market information.

    (b) It provides transparent reporting of changes in the insurance contract liability, including changes in the economic value of options and guarantees embedded in insurance contracts.

    (c) It means that the assets and liabilities of an entity can be measured on a consistent basis[1], thus reducing accounting mismatches in comprehensive income and equity.

12. The measurement of insurance contracts is a current expected value measurement rather than a fair value measurement. This reflects the IASB's conclusion that fair value would not be an appropriate measurement attribute for insurance contracts because insurance contracts are usually settled by satisfaction of the obligation, rather than traded. Consequently, the valuation approach proposed by the IASB takes into account the fact that an entity expects to fulfil the contracts, rather than transfer them.

13. The measurement approach also reflects the IASB's view that an insurance contract combines the features of both a financial instrument and a service

[111] Assuming that assets are measured at fair value

contract. Because the financial instrument and the service component of the contract are interrelated, the IASB does not propose that the components should be unbundled and accounted for separately.

At initial recognition

14. At initial recognition, the whole insurance contract is measured in a way that incorporates the following:

    (a) a current, unbiased estimate of the cash flows expected to fulfil the insurance contract. The estimate of cash flows reflects the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables.

    (b) an adjustment for the time value of money, using discount rates that reflect the characteristics of the cash flows. The discount rates are consistent with observable current market prices for instruments with cash flow characteristics that are consistent with those of the insurance contract and exclude the effect of any factors that influence the observable market prices but that are not relevant to the cash flows of the insurance contract.

    (c) an adjustment for the effects of risk and uncertainty, referred to as a risk adjustment. The risk adjustment is defined as being the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the insurance contract.

    (d) an amount that reflects the excess of the consideration charged for the contract over the risk-adjusted expected present value of the cash outflows expected to arise as the entity fulfils the contract, referred to as the contractual service margin. The model assumes that, at initial recognition, this amount is a measure of the value of the service the entity would perform in fulfilling the contract. Accordingly the contractual service margin means that the entity would not recognise that excess as an immediate gain, but would instead recognise that gain as the entity satisfied its obligation to provide service over the coverage period.

15. Together 14(a), (b) and (c) (ie the risk-adjusted present value of the cash flows expected to arise as the entity fulfils the contract) are referred to as the fulfilment cash flows. The fulfilment cash flows represent the obligation to pay net future cash outflows. The contractual service margin in paragraph 14(d) represents the obligation to provide insurance coverage over the coverage period (ie it is a performance obligation).

After initial recognition

16. Although the different components of an insurance contract are not unbundled for measurement at initial recognition, the IASB believes that the effect of changes in estimates related to the different components have different information value, depending on the nature of the component. Accordingly, the IASB's model aims to treat changes in estimates relating to the different components in a way that is consistent with the accounting that would have been applied to that component, had it been reported separately.

17. Consequently, when the entity remeasures the fulfilment cash flows after initial recognition:

    (a) favourable and unfavourable differences between current and previous estimates of the fulfilment cash flows that relate to future service are absorbed in the contractual service margin, subject to the contractual service margin not being negative.

    (b) The remaining effects of remeasuring the fulfilment cash flows are recognised in the statement of comprehensive income. In particular:

        (i) Changes in estimates relating to the financial components, including the effects of changes in discount rates, are recognised in profit or loss or other comprehensive income (OCI) in the period in which the change occurs.

        (ii) Changes in estimates relating to the current period and past period services are recognised in profit or loss.

18. As a result:

(a) The entity accounts for changes in estimates relating to the service component in a way that gives a similar effect to that which would be achieved if the entity had applied the revenue recognition model to that component.

(b) The entity accounts for changes in estimates relating to the financial component in a way that gives a similar effect to that which would be achieved if the entity had applied the financial instruments model to that component.

Differences between general model and variable fee approach

19. The IASB has two approaches for measuring insurance contracts:

(a) Applying the general model:

(i) The contractual service margin is adjusted for favourable and unfavourable differences between current and previous estimates of the fulfilment cash flows that relate to future service, determined using the locked-in rate, subject to the contractual service margin not being negative.

(ii) An allocation of the contractual service margin is recognised in profit or loss as the entity provides service under the insurance contract.

(iii) Interest is accreted on the contractual service margin, using the rate locked-in at inception of the contract.

(iv) All changes in estimates of cash flows that arise from financial market variables, including the effects of changes in discount rates, are recognised in profit or loss or OCI.

(v) Changes in estimates relating to the current period and past period services are recognised in profit or loss.

(b) At the June 2015 Board meeting, the IASB decided that it would modify the general measurement model for insurance contracts with direct participation features, reflecting the view that some insurance contracts create an obligation to pay to policyholders an amount that is equal in value to specified underlying items, less a variable fee for service. That approach is referred to as the 'variable fee approach'. Applying the variable fee approach:

(i) The entity's obligation to the policyholder is considered to be the net of:

1. the obligation to pay the policyholder an amount equal to the fair value of the investment portfolio (referred to as 'underlying items[2]') and
2. a variable fee that the entity deducts in exchange for the services provided by the insurance contract.

(ii) Changes in the estimate of the obligation to pay to the policyholder an amount equal to the fair value of the underlying items would be recognised in profit or loss or other comprehensive income, in the same way as changes in the fair value of the underlying items.

(iii) Changes in the estimate of the variable fee for future services would be accounted for in a way consistent with the changes in estimate relating to future service. Accordingly, such changes in estimates, which may reflect changes in financial market variables, are regarded as relating to service, and 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.

20. Agenda paper 2A considers the similarities and differences between the general measurement model and the variable fee approach for insurance contracts.

Exception to variable fee approach

21. At its September 2015 meeting, the IASB tentatively decided that there would be an exception for an entity applying the variable fee approach when:

(a) the entity uses a derivative measured at fair value through profit or loss (FVPL) to mitigate the financial market risk from a guarantee embedded in the insurance contract;

(b) the risk mitigation is consistent with the entity's risk management strategy;

[2] The staff notes that the underlying items are not the items that the entity holds. Rather, they are referenced items, on which the obligation is based.

(c) an economic offset exists between the guarantee and the derivative, ie the values or cash flows from the embedded guarantee and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated;

(d) credit risk does not dominate the economic offset; and

(e) the entity documents its risk management objective and the strategy for using the derivative to mitigate the financial market risk embedded in the insurance contract before recognising changes in the value of the guarantee in profit or loss.

22. This exception is intended to avoid an accounting mismatch between changes in the value of a guarantee embedded in an insurance contract that would adjust the contractual service margin in the variable fee approach, and changes in the value of the derivative that would be recognised in profit or loss.

Presentation approach

23. Applying the IASB's tentative decisions, the presentation approach for the statement of comprehensive income would:

(a) align the presentation of revenue and expense with that required for other contracts with customers. This would make the financial statements of entities that issue insurance contracts easier to understand for generalist users of those financial statements.

(b) provide information about the main sources of profits for entities that issue insurance contracts, through the disaggregation of underwriting results and investing results.

(c) permit entities to disaggregate the cost of financing an insurance contract into:

(i) an insurance investment expense presented in profit or loss using a cost measurement basis and

(ii) the difference between insurance investment expense using a cost measurement basis and a current measurement basis presented in OCI.

24. When there is no economic mismatch between an insurance contract that falls under the variable fee approach and the underlying items (for example, the assets and the liabilities) held by the entity, the insurance investment expense in profit or loss would be determined in a way that eliminates accounting mismatches in profit or loss between the insurance investment expense and the underlying items held that are measured using a cost measurement basis.

Disclosures

25. Applying the IASB's tentative decisions, the objective of the disclosure requirements is to enable users of financial statements to understand the nature, amount, timing and uncertainty of future cash flows that arise from insurance contracts. To achieve this objective, an entity would be required to disclose qualitative and quantitative information about:

    (a) the amounts recognised in its financial statements that arise from insurance contracts;

    (b) the significant judgements, and changes in those judgements, made when applying the Standard; and

    (c) the nature and extent of the risks that arise from insurance contracts.

26. The disclosure objective would be supplemented with the specific disclosure requirements designed to help the entity to satisfy that principle. In addition, if any required disclosures are not considered relevant in meeting the objective, they may be omitted in the financial statements.

Next steps

27. The staff expect to ask the IASB to review the due process steps undertaken in developing the Standard to date at its January 2016 meeting. The staff expect to consider the mandatory effective date of the new insurance contracts Standard, when the publication date of the Standard is more certain.

Appendix A: Overview of the accounting models for insurance contracts

	Non-participating contracts accounted for using the general model	Participating contracts accounted for using the general model	Participating contracts accounted for using the variable fee approach
Initial measurement	Measure fulfilment cash flows using a current, unbiased estimate of the cash flows expected to fulfil the insurance contract, adjusted for the time value of money and the effects of risk and uncertainty. Measure the contractual service margin (CSM) as any excess of the expected consideration charged for the contract over the risk-adjusted expected present value of the cash flows expected to arise as the entity fulfils the contract.		
Subsequent measurement – adjustment of contractual service margin – **Principle**	**Adjust the contractual service margin for changes in estimate relating to the service component**		
- Changes in estimates of non-financial assumptions	Treated as service: - Those relating to future periods adjust the CSM - Those relating to current and past periods are recognised in profit or loss.		
- Change in estimate of how the entity expects to exercise discretion	Treated as a non-financial assumption, ie relating to service. Agenda paper 2A considers how to distinguish the effect of changes in financial assumptions from the effect of changes in estimates of discretion.		
- Changes in estimates of financial assumptions	Treat as unrelated to service, ie recognise in statement of comprehensive income. - For non-participating contracts the only financial assumption is the discount rate - For participating contracts accounted for using the general model, changes in financial assumptions may affect both the estimate of cash flows and the discount rate. Agenda paper 2A considers how to distinguish the effect of changes in financial assumptions from the effect of changes in estimates of discretion.		Treated as part of the fee for service and adjusted in CSM. Agenda paper 2A considers whether we should treat the guarantee component as unrelated to service.
- Remeasurement of CSM	No. Agenda paper 2A considers whether the IASB should require the CSM to be remeasured in the general model.		Yes.
Subsequent measurement –accretion of interest and the discount rate to determine the adjustments to CSM	At rate locked in at inception of the contract. Agenda paper 2A considers whether we should require the CSM to be remeasured in the general model.		At current rate, through remeasurement of CSM.
Subsequent measurement – recognition of contractual service margin in profit or loss	**Recognised on basis of provision of insurance coverage (straight line).**		

	Non-participating contracts accounted for using the general model	Participating contracts accounted for using the general model	Participating contracts accounted for using the variable fee approach
Insurance investment expense in profit or loss, if OCI accounting policy	**Insurance investment expense determined on a ‘cost’ basis.**		When there is no economic mismatch between the insurance contract and the underlying items held by the entity, insurance investment expense determined using current period book yield approach, which eliminates accounting mismatch in profit or loss with items held.
	Generally there are no variable cash flows, and the entity would determine insurance investment expense on a cost basis using locked in discount rates at the inception of the contract (a version of the effective yield approach).	Apply an appropriate version of effective yield approaches	
Amounts in OCI	Difference between the insurance investment expense in profit or loss and the insurance investment expense determined using a current rate.		

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 profit or loss. Agenda paper 2A considers whether the IASB should require the CSM to be remeasured in the general model.

	Tentative decisions	Change from 2013 Exposure Draft
2	***Targeted issue: Presentation of interest expense in the Statement of Comprehensive Income*** (a) An entity should choose to present the effect of changes in market variables 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. An entity should present changes in estimates of the amount of cash flows that result from changes in market variables in the same location in the statement of comprehensive income consistently with the changes in market variables. (b) The same accounting policy should be applied to all similar insurance contracts. 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 market variables. **(if an entity chooses to present the effect of changes in market variables in OCI)** (c) The objective of disaggregating changes in the insurance contract arising from changes in market variables between profit or loss and OCI is generally to present an insurance investment expense in profit or loss using a cost measurement basis. Detailed mechanics for the determination of the insurance investment expense using a cost measurement basis would not be specified. The mechanics should result in an allocation of the yield over the life of the contract on a systematic basis. (d) For contracts in which economic mismatches with the items held do not exist, the objective of disaggregating changes in the insurance contract arising from changes	The 2013 Exposure Draft proposed that the effect of changes in discount rates should be required to be presented in OCI. The 2013 ED provided more specific requirements for how an entity should disaggregate changes in the insurance contract arising from changes in discount rates between profit or loss and OCI.

	Tentative decisions	Change from 2013 Exposure Draft
	in market variables between profit or loss and OCI is to eliminate accounting mismatches in profit or loss between the insurance investment expense and the underlying items held that are measured using a cost measurement basis in profit or loss (ie the current period book yield approach). Economic mismatches do not exist when the contract is a direct participation contract and the entity holds the underlying items. (e) If the entity chooses to present the effect of changes in market variables in other comprehensive income, the entity should recognise in other comprehensive income, the differences between the insurance investment expense in profit or loss using a cost measurement basis and the insurance investment expense using a current measurement basis. **(Disclosure for non-participating contracts)** (f) An entity should disclose: (i) 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. (ii) a disaggregation of total interest expense included in total	

	Tentative decisions	Change from 2013 Exposure Draft
	comprehensive income to: 1. the amount of interest accretion determined using current discount rates; 2. the effect on the measurement of the insurance contract of changes in discount rates in the period; and 3. 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.	

	Tentative decisions	Change from 2013 Exposure Draft
3	***Targeted issue: Insurance contracts revenue*** (a) An entity should present insurance contract revenue and expense in the statement of 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.	The 2013 Exposure Draft did not explicitly prohibit presenting premium information in the statement of comprehensive income if that information is not consistent with commonly understood notions of revenue.

	Tentative decisions	Change from 2013 Exposure Draft
4	***Targeted issue: Transition*** **(for contracts without participation features)** (a) an entity should apply the Standard retrospectively in accordance with IAS 8 unless 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 modifications: (i) 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. (ii) When an entity applies an effective yield approach, an entity should assume that the earliest market variable assumptions that should be considered for the investment expense are those that occur when the entity first applies the new Standard. Accordingly on the date when the entity first applies the new Standard, the accumulated balance in OCI for the insurance contract is zero. (c) When an entity applies the current period book yield approach, the entity should	The IASB has simplified the practical expedients when retrospective application in accordance with IAS 8 is impracticable. In addition, the IASB added a way for the entity to estimate the contractual service margin on transition when both retrospective application and the simplified approach are impracticable. 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. Agenda paper 2B discusses transition for participating contracts further.

	Tentative decisions	Change from 2013 Exposure Draft
	assume that the insurance investment expense (or income) is equal and opposite in amount to the gain (or loss) presented in profit or loss for the underlying items held by the entity. Accordingly, the entity should assume that the accumulated balance of OCI is determined as follows: (i) when the items held are measured at fair value through profit or loss (FVPL), there would be no amounts accumulated in OCI; and (ii) when the items held are measured using a cost basis in profit or loss, the accumulated balance of OCI for the insurance contracts would be the difference between the items held measured at cost and their fair value. (d) 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. (e) For each period presented for which there are contracts that were measured in 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	

	Tentative decisions	Change from 2013 Exposure Draft
	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*)** (f) 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; (g) 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 (h) 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. (i) An entity is permitted, but not required, to newly assess the business model for managing financial assets that are accounted for in accordance with IFRS 9. In applying this relief: (i) such an assessment of the business model for managing financial assets would apply only to financial assets that an entity designates as related	

	Tentative decisions	Change from 2013 Exposure Draft
	to contracts within the scope of IFRS 4 Insurance Contracts (IFRS 4) or within the scope of the new insurance contracts Standard; (ii) if the entity newly assesses the business model for managing financial assets, or designates or de-designates financial assets under the fair value option (FVO) or the other comprehensive income (OCI) presentation election for investments in equity instruments (together 'transition reliefs'), that entity should apply those transition reliefs based on the facts and circumstances that exist on the date of initial application of the new insurance contracts Standard; that is, at the beginning of the latest period presented; and (iii) the entity should apply the classifications resulting from the transition reliefs retrospectively (ie as if the financial assets had always been so classified) and the cumulative effect of any changes in classification and measurement of financial assets that result from applying those transition reliefs should be recognised in the opening balance of retained earnings or accumulated OCI. **(Restatement of comparative information)** (j) Confirm the proposal in the 2013 ED that, on first application of the new insurance contracts Standard, all entities are required to restate comparative information about	

	Tentative decisions	Change from 2013 Exposure Draft
	insurance contracts. (k) On first application of the new insurance contracts Standard, an entity that has previously applied IFRS 9 and chooses to apply any of the transition reliefs for the classification and measurement of financial assets is permitted (but not required) to restate comparative information about those financial assets only if it is possible without hindsight. **(Disclosure)** (l) when an entity applies the transition relief for the assessment of the business model for managing financial assets, the entity should disclose its policy for designating financial assets to which that transition relief is applied; (m) when the classification and measurement of financial assets changes as a result of applying any of the transition reliefs in the new insurance contracts Standard, an entity should disclose for those financial assets by class: (i) the measurement category and carrying amount immediately before the first application of the new insurance contracts Standard; (ii) the new measurement category and carrying amount determined as a result of applying the transition provisions in the new insurance contracts Standard; (iii) the amount of any financial assets in the statement of financial position	

	Tentative decisions	Change from 2013 Exposure Draft
	that were previously designated under the FVO but are no longer so designated, distinguishing between those that an entity was required to de-designate and those that an entity elected to de-designate; (iv) qualitative information that would enable users of financial statements to understand how an entity applied the transition provisions in the new insurance contracts Standard to those financial assets whose classification has changed as a result of initially applying that Standard, including: 1. the reasons for any designation or de-designation of financial assets under the FVO; and 2. an explanation of why the entity came to a different conclusion in the new assessment of its business model.	
5	***Targeted issue: Contracts with participation features*** **(Mirroring approach)** (a) The mirroring approach proposed in paragraphs 33-34 of the 2013 ED should not be permitted or required. **(Variable fee approach)** (b) Modify the general measurement model for accounting for insurance contracts with direct participation features so that changes in the estimate of the fee that the entity expects to earn from the contract are adjusted in the contractual service margin.	The 2013 Exposure Draft proposed a measurement exception (sometimes referred to as the 'mirroring approach') that would measure part of the fulfilment cash flows on a cost basis, if the underlying items were measured on a cost basis. The variable fee approach would apply to a wider range of contracts than the

	Tentative decisions	Change from 2013 Exposure Draft
	The fee that the entity expects to earn from the contract is equal to the entity's expected share of the returns on underlying items, less any expected cash flows that do not vary directly with the underlying items. (c) Contracts with direct participation features should be defined as contracts for which: (i) the contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items; (ii) the entity expects to pay to the policyholder an amount equal to a substantial share of the returns from the underlying items; and (iii) a substantial proportion of the cash flows that the entity expects to pay to the policyholder should be expected to vary with the cash flows from the underlying items. **(Recognition of contractual service margin)** (d) For all insurance contracts with participation features, an entity should recognise the contractual service margin in profit or loss on the basis of the passage of time. **(Accounting when an entity uses derivatives to mitigate risk)** (e) If an entity uses the variable fee approach to measure insurance contracts and uses a derivative measured at FVPL to mitigate the financial market risk from the guarantee embedded in the insurance contract, the entity would be permitted to recognise in profit or loss the changes in the value of the guarantee embedded in an insurance contract, determined using fulfilment cash flows.	mirroring approach. The variable fee approach would measure all of the fulfilment cash flows on a current basis. The 2013 Exposure Draft proposed only the principle that an entity should recognise the remaining CSM in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of services that are provided under the contract.

	Tentative decisions	Change from 2013 Exposure Draft
	(f) An entity that mitigates the financial market risk from the guarantee using a derivative should be permitted to recognise in profit or loss the changes in the value of the guarantee embedded in an insurance contract, determined using fulfilment cash flows only if: (i) that risk mitigation is consistent with the entity's risk management strategy; (ii) an economic offset exists between the embedded guarantee and the derivative, ie the values or cash flows from the embedded guarantee and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity should not consider accounting measurement differences in assessing the economic offset. (iii)credit risk does not dominate the economic offset. (g) An entity should be required to: (i) document, before the entity starts recognising changes in the value of the guarantee in profit or loss, the entity's risk management objective and the strategy for using the derivative to mitigate the financial market risk embedded in the insurance contract; and (ii) discontinue recognising in profit or loss changes in the value of the guarantee prospectively from the date on which the economic offset does not exist anymore.	
6	***Non-targeted issue: Level of aggregation and portfolio definition***	The definition of a portfolio in the 2013 Exposure Draft is modified to

	Tentative decisions	Change from 2013 Exposure Draft
	(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.	eliminate the reference to ‘priced similarly relative to the risk taken on’. The definition of ‘portfolio’ now applies more narrowly than in the 2013 Exposure Draft. Added guidance and clarification.
7	***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 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	Added clarification of how the principle should be applied in determining discount rates for insurance contracts.

	Tentative decisions	Change from 2013 Exposure Draft
	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.	
8	***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.

	Tentative decisions	Change from 2013 Exposure Draft
9	***Non-targeted issue: Allocation of the contractual service margin to 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 is provided on the basis of the passage of time.	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.
10	***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.	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.
11	***Non-targeted issue: Portfolio transfers and business combinations*** (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	Clarification of requirements in the 2013 Exposure Draft to avoid difference in interpretation.

	Tentative decisions	Change from 2013 Exposure Draft
	of the portfolio transfer or business combination.	
12	***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.
13	***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 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	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 insurance liabilities should be determined using the discount rates that applied at the date that the contract was initially recognised.

	Tentative decisions	Change from 2013 Exposure Draft
	presentation of interest expense for any onerous contract liability that is recognised when the entity applies the premium-allocation approach.	
14	***Non-targeted issue: disclosures*** Confirm the disclosures proposed in paragraphs 69-95 of the 2013 ED, with the following changes: (c) to add a requirement that an entity that measures contracts using the variable fee approach, and chooses to recognise changes in the value of the guarantee embedded in the insurance contract in profit or loss, should disclose the value of the guarantee that has been recognised in profit or loss in the reporting period; (d) to add a requirement that an entity that chooses to disaggregate investment interest expense into an amount presented in profit or loss and an amount presented in OCI should disclose an explanation of the method that an entity uses to calculate the cost information presented in profit or loss; (e) to add a requirement that an entity that chooses to disaggregate investment interest expense into an amount presented in profit or loss and an amount presented in OCI, and uses the simplified approach at transition that results in the accumulated balance in OCI for the insurance contract being zero, should disclose a reconciliation from the opening to closing balance of the accumulated balance of OCI for financial assets relating to contracts within the scope of the new insurance contracts Standard that are measured at fair value through other comprehensive income (FVOCI) in accordance with paragraph 4.1.2A of IFRS 9. The reconciliation should be provided at the date of transition and in each subsequent	As described

	Tentative decisions	Change from 2013 Exposure Draft
	reporting period. The entity would designate financial assets (that are classified in the FVOCI measurement category) as relating to contracts within the scope of the new insurance contracts Standard at the date of initial application; (a) to add a requirement that an entity should disclose: (i) changes in the fulfilment cash flows that adjust the contractual service margin; (ii) an explanation of when the entity expects to recognise the remaining contractual service margin in profit or loss either on a quantitative basis using the appropriate time bands or by using qualitative information; (iii) the amounts in the financial statements determined at transition using simplified approaches, both on transition and in subsequent periods; and (iv) any practical expedients that an entity used. (b) to delete the proposed requirements that an entity should disclose: (i) a reconciliation of revenue recognised in profit or loss in the period to premiums received in the period (paragraph 79 of the 2013 ED); and (ii) an analysis of total interest expense included in total comprehensive income disaggregated at a minimum into: 1. interest accretion at the discount rate that applied at initial recognition of insurance contracts reported in profit or loss for the	

	Tentative decisions	Change from 2013 Exposure Draft
	period; and 2. the movement in other comprehensive income for the period (a tentative decision from March 2014).	
15	***Non-targeted Issues that will not be addressed*** (c) In April 2014 the IASB tentatively decided not to consider in future meetings other non-targeted issues, including those relating to: (i) combination of insurance contracts; (ii) contract boundary for specific contracts; (iii) unbundling—lapse together criteria; (iv) treatment of ceding commissions; (v) discount rate—top-down and bottom-up approaches; (vi) tax included in the measurement; and (vii) combining the contractual service margin with other comprehensive income.	None