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STAFF PAPER

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IASB Meeting

Project	**Insurance Contracts**		
Paper topic	Comparison of the IASB's tentative decisions with the comment letter summary		
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Introduction

1. The purpose of this paper is to describe the ways in which the Board has addressed the significant issues raised by respondents to the 2013 Exposure Draft *Insurance Contracts* (2013 ED). This paper provides background information to assist the Board in deciding on the questions in Agenda Paper 2F *Due process summary and permission to begin the balloting process for the insurance contracts Standard* for this meeting. Consequently, this paper does not offer any staff recommendations.

2. The Board previously considered at its January 2014 meeting the feedback on the 2013 ED summarised in[1]:

   (a) January 2014 Agenda Paper 2A *Outreach and comment letter analysis* (AP2A)*;*

   (b) January 2014 Agenda Paper 2B *Feedback from users of financial statements* (AP2B)*;* and

   (c) January 2014 Agenda Paper 2C *Fieldwork* (AP2C).

[1] Those papers are available at http://www.ifrs.org/Meetings/Pages/IASB-Jan-14.aspx.

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Those papers are referred to throughout this paper.

3. This paper follows the order in which the issues were discussed in January 2014 AP2A to assist in making comparisons with the comment letter summary and includes references to that agenda paper. (The staff notes that the same order was used to discuss the issues in January 2014 AP2B).

4. For each issue, we have provided:

   (a) references to the agenda paper(s) addressing the issue in redeliberations; and

   (b) an overview of the Board's response to the comments during redeliberations.

Key themes raised in the feedback to the 2013 ED (paragraphs 5-8 in January 2014 AP2A)

5. In general, most respondents believed that many of the proposals in the 2013 ED are an improvement over those in the 2010 Exposure Draft *Insurance Contracts* (2010 ED). In particular, most users of financial statements recognise the need for change to the accounting for insurance contracts and support the model proposed in the 2013 ED, which is based on current, market-consistent information (see paragraphs 7-11 in AP 2B). Furthermore, the fieldwork evidenced a wide divergence in existing practices for the accounting for insurance contracts (see paragraph 4 in January 2014 AP2C).

6. While many acknowledged that the proposals in the 2013 ED was an improvement on the 2010 ED, some, including participants in the fieldwork, questioned whether the proposals as a whole are an improvement to their existing practices. Those respondents also had concerns regarding:

   (a) **complexity:** most respondents expressed some concerns about specific proposals or about the proposals as a whole. Nevertheless, some respondents proposed refinements to some of the proposals that, if adopted, would further increase the complexity of the proposals. In the

Board's redeliberations, it has considered the costs relative to the benefits of any proposals and has sought to provide simplifications where possible (eg on transition). However, the Board notes that some complexity is inevitable, because of the complexity of some insurance products and as a result of changes made to the 2010 ED that were intended to result in a more faithful representation of performance. In particular, the Board noted that respondents to the 2010 ED had indicated that the proposal to recognise all changes in the estimates of the fulfilment cash flows profit or loss, though simple, would not result in a faithful representation of performance.

(b) **the extent of accounting mismatches that would result from application of the proposed Standard**: in the response to the 2013 ED, concern about accounting mismatches primarily arose from the 2013 ED proposal to mandate the presentation of changes in discount rates in other comprehensive income (OCI). As discussed in paragraphs 24-27, the Board has decided that an entity should choose as its accounting policy whether to present all profit or loss or disaggregated between profit or loss and OCI. The Board has also considered the extent of accounting mismatches in relation to contracts with participation features, as discussed in paragraph 13-19.

(c) **the treatment of contracts with participation features** the Board spent a significant effort in the redeliberations on responding to the significant concerns expressed about the accounting for contracts with participation features. The Board's decisions on measurement of contracts with participation features are summarised in paragraphs 13-19.

Targeted areas

7. The following sections describe the Board’s response to the main comments on the targeted questions in the 2013 ED, as follows:

   (a) the treatment of changes in estimate of fulfilment cash flows (paragraphs 9-12);

   (b) the measurement and presentation exception for contracts where no accounting mismatch is possible (paragraphs 13-19);

   (c) insurance contract revenue (paragraphs 20-23);

   (d) presentation of interest expense (paragraphs 24-28);

   (e) transition (paragraphs 29-36); and

   (f) effects of the Standards as a whole (paragraphs 37-38).

8. In addition, paragraphs 39-48 describe the Board’s decisions relating to issues not targeted in the 2013 ED.

Treatment of changes in estimate (unlocking, 2013 ED Question 1) [paragraphs 10-31 in January 2014 AP2A, paragraphs 14-16 in January 2014 AP2B and paragraphs 24-33 in January 2014 AP2C]

Agenda papers relevant to main issues relating to unlocking	
March 2014	AP2A *Unlocking the contractual service margin*
March 2014	AP2B *How to unlock the contractual service margin—treatment of previously recognised losses*
March 2014	AP2D *Whether to unlock the contractual service margin for changes in the risk adjustment*
May 2015	AP2A *Application of variable fee approach: Mutualisation*
June 2015	AP2B *Variable fee approach for direct participation contracts*
Sept 2015	AP2E *Accounting consequences of mitigating risks related to insurance*
Nov 2015	AP2A *Comparison of the general model and the variable fee approach*
Jan 2016	AP2B *Specifying the effect of discretion in the general model*

9. The respondents, fieldwork participants and users of financial statements had different views on what the contractual service margin represents. Nevertheless, many of the respondents supported the proposal to present the effect of changes in estimate of future cash flows relating to future service in the future periods when those services are delivered.

10. However, most suggested that the Board should refine its proposals. In particular:

    (a) The 2013 ED proposed that favourable changes in estimates should not reverse any previously recognised losses in profit or loss. Instead those favourable changes would rebuild the contractual service margin. Many recommended that an entity should recognise favourable changes in estimates first in profit or loss to the extent that they reverse previously recognised losses, and then be used to rebuild the contractual service margin.

    (b) The 2013 ED proposed that an entity should adjust the contractual service margin only for changes in estimates of cash flows relating to future service. Many suggested that additional changes in estimates should also adjust the contractual service margin, in particular:

(i) the effect of changes in estimates of risk adjustment relating to future service; and

(ii) changes in market variables, in particular as they relate to contracts with participation features.

Both of those recommendations are more complex than the proposals in the 2013 ED.

11. The Board has confirmed the proposals in the 2013 ED, but with the following amendments:

(a) favourable changes in estimates would be recognised first in profit or loss to the extent that they reverse previously recognised losses before rebuilding the contractual service margin.

(b) the contractual service margin would be additionally adjusted for:

(i) the effect of changes in estimates of risk adjustment relating to future service; and

(ii) the effect of changes in market variables when those changes are regarded as part of the variable fee for service for some contracts with participation features. This is discussed in paragraphs 15-19.

(c) the entity would be required to specify at the inception of the contract how it viewed its discretion under the contract, and to use that specification to distinguish between the effect of changes in market variables (that are recognised in the statement of comprehensive income) and changes in discretion (that adjust the contractual service margin). If the entity is unable to specify in advance how it will determine the amounts due to policyholders, then the default benchmark would be a current market return

Other issues relating to the contractual service margin

12. Many respondents commented on aspects of the proposals on the contractual service margin that were unrelated to unlocking. A summary of the Board's decisions on those issues are in paragraphs 39-48.

Measurement and presentation exception for contracts where no accounting mismatch is possible (mirroring, 2013 ED Question 2) [paragraphs 32-55 in January 2014 AP2A, paragraphs 17-20 in January 2014 AP2B, paragraphs 34-42 in January 2014 AP2C]

Agenda papers relevant to main issues relating to mirroring	
May 2014	AP2A *Contracts with participating contracts: Background*
May 2014	AP2B *Possible adaptations for contracts with participating features*
June 2014	AP2D *The identification of underlying items*
June 2015	AP2A *Application of the general model to contracts with participation features*
October 2015	AP2C *Should the new insurance contracts Standard retain the mirroring approach?*

Agenda papers relevant to variable fee approach	
May 2015	AP 2A *Application of variable fee approach: Mutualisation*
May 2015	AP 2B *Application of variable fee approach: Revenue*
May 2015	AP 2C *Application of variable fee approach: Transition*
June 2015	AP2B *Variable fee approach for direct participation contracts*
June 2015	AP2D *Hedging of risks related to insurance activities*
Sept 2015	AP2E *Accounting consequences of mitigating risks related to insurance*
Nov 2015	AP 2A *Comparison of the general model and the variable fee approach*
Nov 2015	AP 2B *Consequential issues arising from the variable fee approach*

13. Many, including users and those who participated in the fieldwork, supported the Board’s intention of eliminating accounting mismatches for some participation contracts. However, many disagreed that the fulfilment cash flows should be measured on a different basis compared to other insurance contracts and did not believe the costs outweighed the benefits of the proposals.

14. Furthermore, under the mirroring approach, changes in the value of the financial option and guarantees embedded in insurance contracts are recognised in profit or loss. Many disagreed with that treatment and instead recommended that those changes should be recognised either in the contractual service margin (provided that doing so would not introduce accounting mismatches when the entity has a stand-alone derivative(s) to mitigate the risks arising from the embedded option and guarantees) or other comprehensive income.

15. The Board decided that the mirroring approach should be neither permitted nor required. As a result, changes in options and guarantees embedded in insurance contracts would not be required to be recognised in profit or loss. However, to address the issues of reporting performance for contracts with participation features, which the mirroring approach was intended to address, the Board considered extensively the effect of the general model as applied to contracts with participation features. Following those redeliberations, the Board decided that, for specified contracts with participation features the 'variable fee approach' should apply.

16. The Board considered that the variable fee approach would produce representationally faithfully information for only the following specified contracts (termed contracts with direct participation features):

    (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

    (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the returns from the underlying items; and

    (c) 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.

17. For such contracts, changes in the estimate of the future fees that an entity expects to earn from policyholders are adjusted against the contractual service margin.

18. The variable fee approach can introduce accounting mismatches in some situations:

    (a) when the entity chooses to mitigate the financial risk of embedded guarantees in the insurance contract with a stand-alone derivative measured at fair value through profit or loss[2]; or

    (b) when the entity chooses to hold the underlying items on which the obligation in the contract is based and the items held are not measured at fair value.

19. The Board decided to address those accounting mismatches by permitting an entity:

    (a) to recognise in profit or loss the changes in the value of the embedded guarantee in an insurance contract, determined using fulfilment cash flows in specified circumstances; and

    (b) to measure at fair value through profit or loss investment properties, investments in associates, owner-occupied property, own debt and own shares held if they are the same underlying items on which the obligation in the direct participation contract is based.

[2] At inception, the variable fee for future services comprises the entity's share of the returns on underlying items less any expected cash outflows that do not vary directly with the underlying items, including those relating to the payment of guarantees over the returns on underlying items. As a consequence, under the variable fee approach, this would mean that changes in the value of any options or guarantees in the contract would be adjusted against the contractual service margin.

Insurance contract revenue (2013 ED Question 3) [paragraphs 56-75 in January 2014 AP2A, paragraphs 21-27 in January 2014 AP2B, paragraphs 47-53 in January 2014 AP2C]

Agenda papers relevant to main issues relating to insurance contract revenue	
April 2014	AP2A *Insurance contract revenue*
April 2014	AP2B *Insurance contract revenue-examples*
September 2014	AP2E *Premium-allocation approach: revenue recognition pattern*
May 2015	AP2B *Application of variable fee approach: Revenue*

20. There were mixed views on the 2013 ED proposal that entities would present insurance contract revenue and expense for all insurance contracts in a consistent and similar way. Support came from those who valued the increase in comparability of those amounts between insurance and non-insurance activities.

21. While many users of financial statements agreed with the conceptual merits of the proposal, sell-side analysts, and those that analyse mostly long-term insurance contracts and other financial institutions, generally disagreed with the proposal to recognise premiums on an earned basis. Nonetheless, most users agreed that the inclusion of investment components in insurance contract revenue was potentially misleading and therefore supported the proposal to exclude deposit components from insurance contract revenue. Fieldwork participants also had mixed views on the proposals. The main costs described by preparers were:

    (a) the education they would need to undertake to meet this new key performance metric;

    (b) the systems needed to exclude the deposit component from the revenue and expenses recognised in the statement of comprehensive income; and

    (c) in allocating the acquisition costs over the coverage period.

22. The Board confirmed the 2013 ED proposals:

    (a) that an entity should present insurance contract revenue and expense in the statement of comprehensive income; and

(b) that the deposit component should be excluded from the insurance contract revenue and expense. The Board’s view is that more meaningful information would be obtained when investment components are excluded from insurance contract revenue and expenses.

23. Some respondents wanted to continue to display, as an additional line item in the statement of profit or loss, the premium amounts in accordance with existing practices. However, others noted that doing so could potentially cause confusion because such premium amounts could be mistaken for revenue. In addition, there are differences between the existing practices on determining the premium amounts displayed. Consequently, the Board decided to prohibit the presentation of premium information in the statement of comprehensive income if that information is not consistent with commonly understood notions of revenue under the IFRS Standards.

Presentation of interest expense (OCI, 2013 ED Question 4) [paragraphs 76-105 in January 2014 AP2A, paragraphs 28-31 in January 2014 AP2B, paragraphs 43-46 in January 2014 AP2C]

Agenda papers relevant to main issues relating to OCI	
March 2014	AP2C *Use of OCI to present the effect of changes in the discount rates*
March 2014	AP 2E *An option for presenting the effect of changes in the discount rates*
March 2014	AP2F *Disclosure of the effect of changes in the discount rates*
July 2014	AP2A *OCI mechanics for contracts with participating features*
July 2014	AP2C *Changes in accounting policy*
September 2014	AP2A *Book yield and effective yield approaches to presenting interest expense in profit or loss*
September 2014	AP2B *Illustrative examples of book yield and effective yield approaches*
September 2014	AP2C *Use of OCI for contracts with participating features*
September 2014	AP2D *Should there be a book yield approach for determining interest expense in profit or loss?*
September 2014	AP2F *Determination of interest expense in the premium-allocation approach*
March 2015	AP2A *Insurance Contracts: Adaptations for insurance contracts that provide policyholders with investment returns: Background and scope*
March 2015	AP2B *Insurance Contracts: Adaptations for insurance contracts that provide policyholders with investment returns: Proposed accounting for CSM and OCI*
May 2015	AP2D *Proposed accounting for indirect participation contracts*
May 2015	AP2E *Presentation of interest expense for contracts with participation features-whether to provide an accounting policy choice*
September 2015	AP2A *Disaggregating changes arising from changes in market variables in the statement of comprehensive income—background*
September 2015	AP2B *Disaggregating changes arising from changes in market variables in the statement of comprehensive income—objective*
September 2015	AP2C *Disaggregating changes arising from changes in market variables in the statement of comprehensive income—Modification of the objective for contracts with no economic mismatches*
September 2015	AP2D *Disaggregating changes arising from changes in market variables in the statement of comprehensive income—other issues*

General model

24. Many respondents, including users of financial statements, welcomed the Board's decision that entities would disaggregate the effects of changes in market variables[3] between profit or loss and other comprehensive income (OCI). The responses from the fieldwork participants were more mixed on whether such an approach would provide useful information in all circumstances. In addition, respondents, mainly preparers, provided various recommendations on modifying the method used to disaggregate the effects of changes in market variables.

25. However, while many supported the disaggregation of changes in market variables between profit or loss and OCI, most believed that the Board should address the accounting mismatches between the effect of market changes on insurance contracts and assets held by the entity that would arise when those assets are measured using different measurement attributes. With that objective in mind, they recommended the following alternatives:

    (a) modifying the general hedge accounting requirements to include those assets (see January 2014 AP2A paragraphs 101-103);

    (b) expanding the use of other comprehensive income for assets held (see January 2014 AP2A paragraph 100);

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[3] As a reminder, those changes are as follows:

(a) for the general model,

   (i) the effects of applying a current discount rate to the measurement of the fulfilment cash flows; and

   (ii) changes in the nominal amounts of the fulfilment cash flows arising due to changes in market variables. This applies to the majority of, if not all, contracts with participation features.

(b) for the variable fee approach,

   (i) changes in the obligation to pay 100 per cent of the fair value of the underlying items. These changes are a combination of both changes in the discount rate and changes in the nominal amounts of the fulfilment cash flows.

(c) aligning the insurance investment expense between reinsurance contracts and direct insurance contracts (see January 2014 AP2A paragraph 96); and/or

(d) providing an option to present the changes in market variables in profit or loss (see January 2014 AP2A paragraphs 97-99).

26. The Board modified its proposals for identifying the effect of changes in market variables presented in other comprehensive income as follows:

(a) for contracts in which there are no economic mismatches with the items held, the objective of disaggregating changes in the insurance contract arising from changes 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.

(b) for all other contracts, the objective of disaggregating changes in the measurement of an insurance contract arising from changes in market variables between profit or loss and OCI is to present an insurance investment expense in profit or loss using a cost measurement basis. Accordingly, the disaggregation of changes in the measure of an insurance contract should result in an allocation of the yield as insurance investment expense over the life of the contract on a systematic basis (ie effective yield). However, the Board decided it would not specify detailed mechanics for the determination of the insurance investment expense using a cost measurement basis but would be providing guidance in the form of examples.

27. Moreover, the Board decided to address the accounting mismatches that would arise in the situations described in paragraph 25 by permitting an entity to:

    (a) choose as its accounting policy to present the effect of changes in market variables in profit or loss or to disaggregate those changes between profit or loss and other comprehensive income in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*[4]

    (b) apply that accounting policy to groups of similar contracts, taking into consideration the portfolio in which the contracts are included, the assets that the entity holds and how those assets are accounted for.

Premium allocation approach

28. Some noted that it would be onerous to apply the 2013 ED proposal to disaggregate the changes in market variables for contracts accounted for under the premium-allocation approach by presenting the insurance investment expense for the liability of incurred claims using the locked-in discount rate at the date of the initial recognition of the contract. The Board decided that the insurance investment expense in profit or loss for the liability for incurred claims that meets the objective of a cost measurement basis should be determined using the discount rate that is locked in at the date the liability for incurred claims is recognised. (The Board also addressed the issue of the complexity of the disaggregation by proving an accounting policy choice as discussed in paragraph 27).

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[4] The effect of changes in market variables recognised in the statement of comprehensive income are:

(a) for contracts accounted under the general model, these effects result from changes in the discount rate(s) and changes in the amounts of some cash flows that are the result of changes in the market variables; and

(b) for direct participation contracts, these effects are the change in 100 per cent of the fair value of the underlying items, which is the effect of both changes of market variables on the fulfilment cash flows and remeasurement of the contractual service margin using current market assumptions.

Transition (2013 ED Question 5) [paragraphs 106-117 in January 2014 AP2A, paragraphs 32-35 in January 2014 AP2B, paragraphs 54-64 in January 2014 AP2C]

Agenda papers relevant to main issues relating to transition	
October 2014	AP2A *Transition for contracts with no participating features*
January 2015	AP2A *Initial application of the new insurance contracts Standard after adoption of IFRS 9*
October 2015	AP2A *Classification and measurement of financial assets on transition to the new insurance contracts Standard*
October 2015	AP2B *Restatement of comparative information on initial application of the new insurance contracts Standard*
September 2015	AP2D *Disaggregating changes arising from changes in market variables in the statement of comprehensive income—other issues*

Determining the contractual service margin on first application of the new Standard

29. Many, including users and fieldwork participants, welcomed the 2013 ED proposals that on first application of the Standard that entities should:

    (a) apply the requirements retrospectively, if practicable; and

    (b) apply the simplified requirements for the measurement of the contractual service margin, if retrospective application is impracticable.

30. Those simplified requirements sought to increase the comparability (relative to the proposals in the 2010 ED) of contracts written before and after the effective date of the new Standard, while addressing the impracticability (in some cases) of measuring the contractual service margin on transition to the new Standard. Measuring the contractual service margin on transition to the new Standard could be impracticable because of the lack of historical data, or the need to use hindsight.

31. However, respondents and participants in the fieldwork had concerns about the difficulty of estimating the contractual service margin for some contracts written in periods prior to the new insurance contracts Standard (eg because of the lack of

past cash flow information). Those respondents offered various further simplifications.

32. In response, the Board decided that the contractual service margin should be estimated for contracts written prior to the effective date of the new Standard:

  (a) by retrospectively applying the requirements, if practicable;

  (b) if retrospective application is impracticable, applying the simplified transition proposed in the 2013 ED with additional simplifications; and

  (c) if the simplified transition method is impracticable, the Board developed an approach that permits entities to estimate the contractual service margin at the date of initial application without requiring information from prior periods. Under this approach, an entity would determine the contractual service margin as the difference between the fair value of the insurance contract at that date and the fulfilment cash flows measured at that date (ie the fair value approach).

Simplified transition requirements for the accumulated balance of OCI

33. The Board also decided to provide a simplified approach for determining the insurance investment expense and therefore, the accumulated balance of OCI, when retrospective application on first application of the new insurance contracts Standard is impracticable. Thus, the Board decided that:

  (a) for contracts in which changes in market variables do **not** affect the amount of cash flows, an entity should be able to estimate the discount rate to use, using the method in the proposed simplified approach in paragraphs C6(c)–(d) of the 2013 ED.

  (b) for contracts in which changes in market variables affect the amount of cash flows:

    (i) when an entity applies the effective yield approach, an entity shall 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.

(ii) when an entity applies the current period book yield approach, the entity should 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 items held by the entity.

The Board noted that retrospective determination of the insurance investment expense may often be impracticable for contracts in which changes in market variables affects the amount of cash flows. Accordingly, most entities would apply those simplifications.

Other transition issues

Different effective dates between IFRS 9 and the new insurance contracts Standard

34. With respect to the issues that may arise because of the different effective dates between new insurance contracts Standard and IFRS 9 *Financial Instruments* (IFRS 9), the Board has:

(a) extended the transitional reliefs for financial assets that would be available to entities that apply IFRS 9 before the new insurance contracts Standard; and

(b) published, in December 2015, an Exposure Draft *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Proposed amendments to IFRS 4), which proposes to supplement existing options within IFRS 4 that could be used to address those issues.

Supporting implementation

35. Many asked the Board to provide support for the implementation of the new Standard. The staff will consider how to support implementation at a later date. The staff expects that, as described in paragraph 6.40 of the Board's *Due Process Handbook*, Board members and technical staff will hold meetings with interested parties, including other standard-setting bodies, to help understand unexpected issues that have arisen from the practical implementation of the Standard and the potential impact of its provisions, and the IFRS Foundation will consider education activities to promote consistency in the application of Standards.

Implementation period

36. Most agreed that three years, as proposed in the 2013 ED, is a sufficient implementation period. The Board expects to consider the effective date, and hence implementation period, at a future meeting once drafting of the Standard is sufficiently advanced.

Effects of the Standard as a whole (2013 ED Question 6) [AP2A paragraphs 118-126]

37. Most of the respondents supported a single accounting model that would apply to all types of insurance contracts. Most respondents also agreed that the benefits of the proposals would outweigh the costs of implementation, particularly if the critical issues of accounting mismatches and contracts with participation features (ie the mirroring approach) are resolved.

38. With respect to these critical issues, the Board:

    (a) has decided to remove the mirroring approach, which proposed a different accounting model for measuring both the fulfilment cash flows and the contractual service margin (see paragraph 15);

    (b) has confirmed the same accounting requirements for the fulfilment cash flows for all contracts (see paragraphs 15-19);

    (c) has agreed on the specific circumstances in which the contractual service margin should be remeasured (see paragraphs 15-19). Additional disclosures will be required to help users to understand how the contractual service margins will be determined; and

    (d) considered, throughout redeliberations, the issue of accounting mismatches. As a consequence, the Board has addressed accounting mismatches, for example, by providing an accounting policy choice to either disaggregate changes in market variables between profit or loss and OCI, or to recognise those changes solely in profit or loss, as discussed in paragraphs 24-27.

Other Issues not targeted in the 2013 ED [paragraph 127 in January 2014 AP2A, paragraphs 12-13 in January 2014 AP2B, paragraphs 64-89 in January 2014 AP2C]

Agenda papers relevant to Other Issues	
April 2014	AP2C *Project plan for the non-targeted issues*
May 2014	AP2C *Non-targeted issues - Recognising the contractual service margin in profit or loss*
May 2014	AP2D *Non-targeted issues—fixed-fee service contracts, significant insurance risk, portfolio transfers and business combinations*
June 2014	AP2A *Determining discount rates when there is lack of observable data*
June 2014	AP2B *Non-targeted issues: Asymmetrical treatment of gains from reinsurance contracts*
June 2014	AP2C *Non-targeted issues: Level of aggregation*
July 2014	AP2B *Rate used to accrete interest and calculate the present value of cash flows that unlock the contractual service margin*
September 2014	AP2E *Premium-allocation approach: revenue recognition pattern*
February 2015	AP2A *Level of aggregation: application to contracts with participation features*
March 2015	AP2C *Insurance Contracts: Adaptations for insurance contracts that provide policyholders with investment returns: Recognition of contractual service margin in profit and loss*
June 2015	AP2C *Recognition of contractual service margin in profit or loss for contracts with participation features*
October 2015	AP2D *Presentation and disclosures for insurance contracts*
January 2016	AP2A *Level of aggregation*

39. There were a number of issues that were raised in the comment letters to the 2013 ED but that fell outside the areas the Board had targeted. The Board reviewed those issues raised and decided to consider only a limited number of non-targeted issues on which it could usefully clarify the objective of those requirements, or where those requirements could be affected by the consideration of the five targeted areas. The Board's decisions are set out in the table below. The Board noted that some of the comments that related to drafting would be considered in drafting the requirements.

Ref no.	Tentative decisions to date	Change from 2013 ED
40.	***Discount rate for long-term contracts when there is little or no observable market data*** **[page 51 in January 2014 AP2A]** (a) **Principle:** 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) **Application guidance** explains 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.	Added clarification of how the principle should be applied in determining discount rates for insurance contracts.
41.	***Level of aggregation and portfolio definition*** **[pages 55-56 in January 2014 AP2A]** (a) The definition of a portfolio of insurance contracts is: 'insurance contracts that provide coverage for similar risks and are managed together as a single pool'.	The reference to 'priced similarly relative to the risk taken on' in the definition of a portfolio has been moved to apply only for the purpose of determining level of

Ref no.	Tentative decisions to date	Change from 2013 ED
	(b) A loss for onerous contracts should be recognised only when the contractual service margin is negative for a group of contracts, and that the group should comprise contracts that at inception: (i) have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing; (ii) had similar expected profitability (ie similar contractual service margin as a percentage of the premium). (c) The objective for the allocation of the contractual service margin is to recognise the contractual service margin for an individual contract, or groups of homogenous contracts, in profit and loss over the coverage period of the contract in a way that best reflects the service to be provided by the contract. Hence, if there is no more service to be provided by a contract after the end of the reporting period, the contractual service margin for that contract should have been fully recognised in profit or loss. (d) An entity can group contracts for allocating the contractual service margin provided that the allocation of the contractual service margin for the group meets the objective in (c). (e) An entity that groups contracts is deemed to meet the objective in (c) provided that: (i) the contracts in the group: (1) have cash flows that the entity expects will respond in similar ways to	aggregation. The definition of a portfolio now applies more narrowly than in the 2013 ED. Added guidance and clarification on the level of aggregation.

Ref no.	Tentative decisions to date	Change from 2013 ED
	key drivers of risk in terms of amount and timing; and (2) on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium); and (ii) the entity adjusts the allocation of the contractual service margin for the group in the period to reflect the expected duration and size of the contracts remaining after the end of the period. (f) No exception to the level of aggregation for determining onerous contracts or the allocation of the contractual service margin when regulation affects the pricing of contracts. Accordingly, contracts with dissimilar profitability, even if as a consequence of regulation, may not be grouped for determining onerous contracts and for the allocation of the contractual service margin.	
42.	***Rate used to accrete interest and calculate the present value of cash flows that unlock the contractual service margin*** **[page 52 in January 2014 AP2A]** The Board considered this issue twice during the redeliberations and decided to confirm the proposal in the 2013 ED for contracts accounted for under the general approach; that is, an entity should use the rate at inception to accrete and to determine the change in the present value of expected cash flows that is offset against the contractual service margin.	No change from the 2013 ED.

Ref no.	Tentative decisions to date	Change from 2013 ED
43.	***Asymmetric treatment of contractual service margin between insurance contracts issued and reinsurance contracts held*** **[pages 53-54 in January 2014 AP2A]** An exception that, after inception, an entity should recognise in profit or loss 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 that are recognised immediately in profit or loss for an underlying direct insurance contract.	The 2013 ED proposed that, for a reinsurance contract that an entity holds, changes in estimates of fulfilment cash flows relating to future service should be recognised and offset to the contractual service margin.
44.	***Allocation of the contractual service margin to profit or loss for all insurance contracts*** **[page 52 in January 2014 AP2A]** (a) **Principle:** 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) **Clarification of the principle:** The service represented by the contractual service margin is insurance coverage that is provided on the basis of the passage of time. Because the premium allocation is a simplification of the general model, the Board also aligned the recognition of revenue in profit or loss to be consistent with the general model.	The 2013 ED stated the principle only. Clarification added.
45.	***Significant insurance risk*** Clarify the guidance in paragraph B19 of the 2013 ED that significant insurance risk only	The 2013 ED referred more specifically to the need for a scenario with commercial

Ref no.	Tentative decisions to date	Change from 2013 ED
	occurs when there is a possibility that an issuer will incur a loss on a present value basis.	substance in which the present value of the net cash outflows can exceed the present value of the premiums.
46.	***Portfolio transfers and business combinations*** **[page 43 in January 2014 AP2A]** Clarify the requirements for the contracts acquired through a portfolio transfer or a business combination in paragraphs 43-45 of the 2013 ED, 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.	Clarified the requirements.
47.	***Fixed-fee service contracts*** **[page 49 in January 2014 AP2A]** Entities should be permitted, but not required, to apply the revenue recognition Standard to fixed-fee service contracts that meet the criteria stated in paragraph 7(e) of the 2013 ED.	The 2013 ED excluded specified fixed-fee service contracts with significant insurance risk from its scope. Added an accounting policy choice for those fixed-fee service contracts to be accounted for either in accordance with the revenue recognition or the insurance contracts requirements.

Ref no.	Tentative decisions to date	Change from 2013 ED
48.	***Presentation and disclosures*** **[page 55 in January 2014 AP2A]** Confirmed the 2013 ED proposals related to presentation of line items relating to insurance contracts in the financial statements. Confirmed the disclosures proposed in paragraphs 69-95 of the 2013 ED, with the changes explained below. (a) Added requirements 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; and (iii) any practical expedients that an entity had used. (b) Removed the requirement that an entity should disclose a reconciliation of revenue recognised in profit or loss in the period to premiums received in the period (paragraph 79 of the 2013 ED).	As described in the left column.