IFRS

STAFF PAPER

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REG IASB Meeting

Project	**Insurance Contracts**		
Paper topic	Project plan for the non-targeted issues		

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

Objective

1. The IASB's 2013 Exposure Draft *Insurance Contracts* (the 2013 ED) requested input on the significant changes that the IASB made to the proposals in its previous 2010 Exposure Draft *Insurance Contracts* (the 2010 ED). Those five significant changes (the five targeted areas) responded to the feedback the IASB received on the following proposals:

   (a) adjusting the contractual service margin;

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

   (c) presentation of insurance contract revenue and expenses;

   (d) interest expense in profit or loss; and

   (e) effective date and transition.

   In addition, the IASB asked the respondents to provide feedback on the likely effects of the proposed *Insurance Contracts* Standard (the Standard) and on the clarity of drafting.

2. In the introduction to the 2013 ED, the IASB noted that it does not intend to revisit issues that it has previously rejected or to reconsider consequences that it has

previously considered. However, the IASB also received some comments on the 2013 ED that are not closely related to the topics targeted for the input.

3. This Agenda Paper discusses the project plan for issues raised in the comment letters that were outside the five targeted areas. This Agenda Paper does not discuss the drafting issues that were identified, which the staff will consider at a later stage of the project.

Staff recommendation

4. The staff recommend that the IASB should consider in the future meetings the issues in Appendix A and not consider the issues in Appendix B.

5. The issues in Appendix A that the staff recommend for further analysis are:

   A1. fixed-fee service contracts;

   A2. significant insurance risk guidance;

   A3. portfolio definition and unit of account;

   A4. discount rate for long-term contracts and unobservable market data;

   A5. asymmetrical treatment of reinsurance contracts;

   A6. recognition of contracts acquired through the portfolio transfer or business combination; and

   A7. allocation pattern for the contractual service margin.

6. The issues in Appendix B that staff recommend not for further consideration are:

   B1. disclosures;

   B2. premium-allocation approach;

   B3. combination of insurance contracts;

   B4. contract boundary for specific contracts;

   B5. unbundling—lapse together criteria;

   B6. ceding commissions;

   B7. discount rate—top-down and bottom-up approaches;

B8. tax included in the measurement; and

B9. combining contractual service margin with other comprehensive income.

Introduction

7. As mentioned in paragraph 2, the IASB received some comments on a limited number of issues that fell outside the five targeted areas.

8. The staff analysed all these comments and prepared a summary for the IASB as follows:

    (a) Appendix A includes a list of the issues that the staff recommend for further analysis because they may possibly need addressing. The staff plan to discuss these issues with the IASB in future meetings.

    (b) Appendix B includes a list of the issues that the staff recommend not to be considered at future meetings. The specific analysis of each issue, including the reasons for not addressing that issue is included in the table in Appendix B.

9. Appendices A and B are not the complete list of all the issues outside the five targeted areas raised in the comment letters. The staff have omitted some comments that were not pervasive and/or that may be addressed in drafting, including some issues that were identified in the January 2013 Agenda Paper 2A C*omment letter analysis*.

Question for the IASB

Question 1: Project plan for the non-targeted issues
Does the IASB agree to consider in the future meetings the issues in Appendix A and not to consider further the issues in Appendix B?

Next steps

10. Assuming that the IASB agrees with the staff recommendation in this Agenda Paper, the staff will analyse further the issues listed in Appendix A for discussion with the IASB during the future meetings.

Appendix A: List of the issues that the staff recommend for further analysis

This table includes a list of the issues that the staff recommend for further analysis because they may possibly need addressing. The staff plan to discuss these issues with the IASB in future meetings.

Description of the issue	**Staff analysis**
A1. Fixed-fee service contracts (paragraph 7(e) of the 2013 ED) Paragraph 7(e) of the 2013 ED excludes from the scope of the Standard fixed-fee service contracts that have, as their primary purpose, the provision of services and that meet all of the following conditions: (i) the entity does not reflect an assessment of the risk that is associated with an individual customer in setting the price of the contract with that customer; (ii) the contract compensates customers by providing a service, rather than by making cash payments; and (iii) the insurance risk that is transferred by the contract arises primarily from the customer's use of services. Some respondents have concerns about the scope exclusion for some fixed-fee service contracts in paragraph 7(e) of the 2013 ED, as follows: (a) Some are concerned about the cost and disruption to change the accounting for affected contracts for non-insurance and insurance entities. (b) Some entities that issue insurance contracts have suggested that an option should be available to apply the *Insurance Contracts*	Re (a): the staff note that fixed-fee service contracts do meet the definition of an insurance contract because they transfer 'significant insurance risk'. However, the scope exclusion for these contracts was proposed as a result of the IASB's previous considerations of the costs and disruption for non-insurance entities in applying the Standard to fixed-fee service contracts. The IASB sought to address the request for clarification in the responses to the 2010 ED by providing more clarity on fixed-fee service contracts that are excluded from the scope of the Standard. Re (b): the staff note that the IASB's intention when excluding the fixed-fee service contracts from the scope of the proposed Standard was to avoid the costs for an entity changing the existing accounting for these contracts when the benefits of accounting for such contracts as insurance contracts would not exceed the benefits of the change of existing practice. However, as the new comments suggest, some entities do treat fixed-fee service contracts as insurance contracts. Consequently, a requirement that such entities must change their existing practice of treating such contracts as insurance contracts would mean that those entities would incur costs that do not exceed the benefits of the change.

Description of the issue	Staff analysis
Standard to fixed-fee service contracts that meet the definition of an insurance contract (the level of such an option was not specified in the comments).	The staff plan to consider in a future meeting whether to revise the scope exception for fixed-fee service contracts.
A2. Significant insurance risk guidance (paragraph B19 of the 2013 ED) Paragraph B19 of the 2013 ED states that a contract does not transfer insurance risk if there is no scenario that has commercial substance in which the present value of the net cash outflows that is paid by the issuer can exceed the present value of the premiums. This guidance is not in the existing IFRS 4 *Insurance Contracts* (IFRS 4) and was included in the 2010 and 2013 EDs to confirm the IASB's understanding of practice under US GAAP. A few respondents are concerned that a literal interpretation of the wording of paragraph B19 of the 2013 ED would lead to a reclassification of a number of contracts that are widely accepted as containing significant insurance risk under the existing IFRS 4. Consequently, they ask if the following would be considered an insurance contract according to paragraph B19 of the 2013 ED: a contract in which the premiums received from the policyholder is invested in a fund and the value of the fund can decrease. On death, the beneficiaries either (a) receive the value of invested fund or (b) if the invested fund is lower than original premiums, the issuer will 'top up' the amounts so that the beneficiaries receive the total of all premiums paid.	Paragraph B19 of the 2013 ED was first proposed in the 2010 ED. Paragraph BC191(c) of the 2010 ED noted that the IASB had no specific reason to think that the absence of such guidance in IFRS 4 has led to misleading classification of contracts, but that the inclusion of such a test is consistent with its understanding of practice under US GAAP. The IASB discussed this guidance and took a decision in March 2011 (Agenda Paper 3D *Definition of an insurance contract*). The staff observe that the proposed changes were made on the basis that they would not change existing practice. However, a few comment letters raise a concern not raised in the response to the 2010 ED that there may be a change in existing practice for a specific contract as a result from the proposed changes. The staff think that the specific contract raised has significant insurance risk, because the entity could suffer significant losses on a present value basis on the amount paid on death when compared to the fees charged for the death benefit for a comparable stand-alone insurance contract without the deposit. In addition, the staff think that in substance the contract identified is economically similar to other contracts with minimum death benefits that would continue to be treated as insurance contracts. The staff will perform further analysis to ascertain whether this issue can be clarified in the Standard.

<table>
<tr><th>Description of the issue</th><th>Staff analysis</th></tr>
<tr><td>A3. Portfolio definition and unit of account

Appendix A of the 2013 ED defines a portfolio of insurance contracts as a group of insurance contracts that:
(a) provide coverage for similar risks and that are priced similarly relative to the risk taken on; and
(b) are managed together as a single pool.

Respondents identified the following issues:
(a) A few respondents commented that the ‘portfolio’ definition is difficult to apply to property and casualty products where policies contain multiple risks (for example, physical damage, bodily injury and liability) and the pricing of the products is irrelevant to the determination of portfolios for the evaluation of the estimated claims liability (claims reserving is performed by type of risk).
(b) Some preparers are also concerned that the level of aggregation is lower than they currently use for measurement, because lower levels of aggregation would be associated with higher operational costs.
(c) Some respondents questioned whether the 2013 ED should permit entities to add contracts with a different profitability level to an existing portfolio of contracts (for example, for contracts issued in different periods). Some suggest that it should, while others suggest that the Standard should explicitly require the contractual service margin (CSM) to be calculated for contracts within a portfolio by similar date of inception.
(d) Some respondents believe that 2013 ED includes conflicting</td><td>The staff note that this issue is pervasive to the proposals in the 2013 ED, and that some of the comments arise from changes to the definition of ‘portfolio’ that were new in the 2013 ED. Consequently, the staff plan to review the references to ‘unit of account’ and ‘portfolio’ in the 2013 ED and consider whether it will be possible to clarify the IASB’s intentions and provide more consistency.

In addition, the staff will also analyse this issue within the context of the other comprehensive income (OCI) option. At its March 2014 meeting the IASB tentatively decided to provide an accounting policy choice for entities to present the effects of discount rate changes in profit or loss or OCI.</td></tr>
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Description of the issue	Staff analysis
guidance regarding the unit of account for the CSM after initial recognition. Specifically, they suggest that there is a conflict between: (i) paragraph 32 of the 2013 ED, which states that an entity shall 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; and (ii) paragraph B37(d) of the 2013 ED, which states that an entity shall measure an insurance contract using the amount of CSM recognised in profit or loss at a level of aggregation such that once the coverage period of the insurance contract has ended, the related CSM has been fully recognised in profit or loss. They state that those paragraphs could be read as indicating that the unit of account should be set at a more detailed level than the portfolio level referred to in paragraph 28 of the 2013 ED.	
A4. Discount rate for long-term contracts and unobservable market data (paragraphs B70(a) and B71 of the 2013 ED) Paragraph B70(a) of the 2013 ED states that in some cases, the entity determines the yield curve for the insurance contract based on a yield curve that reflects the current market rates of returns either for the actual portfolio of assets that the entity holds or for a reference portfolio of assets as a starting point. In such cases, the entity would need to make adjustments to eliminate characteristics in the asset yield curve that are not present in the liability. Paragraph B71 of the 2013 ED states that when observable market	The staff propose to provide further analysis on whether appropriate application guidance can be provided for determining the discount rate when there are few or no observable market interest rates for similar assets and how to adjust observed asset rates to determine the appropriate liability discount rate. In the staff view, there is evidence that the proposed requirements have been subject to diverse interpretations, and additional application guidance on this critical area could be useful. The staff note that the IASB has previously debated the conclusion that the discount rate used to discount insurance contracts should be a market-consistent rate that reflects only the characteristics of the

<table>
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<tr><td>variables are not available, or do not separately identify the relevant factors, an entity uses estimation techniques to determine the appropriate discount rate, taking into account other observable inputs when available.

Some respondents asked how to determine the rates used to discount long-term obligations over periods of time in which there are few or no observable market interest rates for similar assets. A few respondents have analysed the issue by identifying three separate components and seek guidance on the first two of the following issues:
(a) For periods in which there are no observable rates, most agree with the statement in paragraph BCA81 of the 2013 ED that forecasts of unobservable inputs tend to put more weight on long-term estimates than on short-term fluctuations, which counteracts concerns that current period fluctuations in discount rates exaggerate the volatility of very long-dated liabilities.
(b) For periods in which there are some observable rates for assets, but those rates may not reflect liquid markets, there is concern about the extent to which management can apply judgement in determining the extent to which to reflect those observable market inputs for assets in determining rates for insurance contract liabilities.
(c) For periods in which there are liquid observable rates for assets, most accept that the current market inputs should be used, adjusted as necessary to reflect the characteristics of the insurance contract liability.
Some of the respondents propose alternative approaches for determining the discount rates, such as approaches based on average rates, historical rates, asset-based rates or proxy rates.</td><td>insurance contract. That discussion included a rejection of alternative approaches for determining discount rates such as those suggested. The staff do not propose to consider alternative approaches further.</td></tr>
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Description of the issue	Staff analysis
A5. Asymmetrical treatment of reinsurance contracts For a direct insurance contract that an entity issues, the CSM is measured at inception as the excess of the present value of expected premiums after deducing the present value of the expected cash outflows plus a risk adjustment. When the present value of the expected cash outflows plus a risk adjustment exceeds the present value of expected premiums, a day one loss is recognised. For a reinsurance contract that an entity holds: (a) the cash outflows are the expected present value of the premiums paid to the reinsurer; and (b) the cash inflows are the expected present value of reimbursements that an entity receives from a reinsurer, representing the reinsurer's share of the expected present value of the cash outflows of the underlying direct insurance contract. The 2010 ED proposed symmetric treatment between the CSM of the reinsurance contract and the underlying direct insurance contract. However some respondents disagreed with the consequence of this proposal that entities would recognise day one gains on reinsurance contracts held. In response to these concerns, the IASB decided that both day one gains and day one losses arising when a reinsurance contract is purchased should be recognised over the coverage period. Thus, the net cost of purchasing reinsurance is recognised as an expense or income over the coverage period of the reinsurance contract. Some respondents commented that asymmetric treatment between the underlying insurance contract and the reinsured portion of the contract does not depict appropriately the economic relationship between the reinsurance contract and the underlying insurance contract. The	The staff plan to consider whether in some circumstances there is an accounting, rather than an economic mismatch, and if so, whether such a mismatch could be mitigated within the context of the accounting model for insurance contracts issued and reinsurance contracts held.

Description of the issue	Staff analysis
proposals in the 2013 ED would lead to the recognition of a loss on the direct insurance immediately, with the corresponding gain on the reinsurance contract held being spread into future periods. In addition, some comment that a negative CSM (ie when the cash inflows from the reinsurer exceed the premium paid to the reinsurer) for reinsurance contracts might result in the financial statements not providing users with relevant information and not faithfully representing the entity's financial performance. Some respondents suggest that for reinsurance contracts held (in particular for individual loss basis reinsurance contracts) the CSM should be determined in a way that reflects the measurement of the underlying direct contract, rather than by reference only to the fulfilment cash flows of the reinsurance contract, and then be recognised immediately in profit or loss as a gain at inception. Other respondents suggest that the accounting for the underlying contracts needs to be considered in conjunction with the reinsurance contract held, so that losses on underlying contracts are not recognised if the entity will be reimbursed through reinsurance.	
A6. Recognition of contracts acquired through the portfolio transfer or business combination A few respondents sought clarification of the principles of the recognition of contracts acquired through the portfolio transfer or business combination, specifically: (a) how to account for the CSM that arises in its settlement period on an insurance contract that is acquired through a portfolio transfer or a business combination; and (b) how to apply proposals to contracts accounted for using the	The staff plan to consider whether the requirements for portfolio transfer and business combinations could be simplified and clarified.

Description of the issue	Staff analysis
premium-allocation approach (PAA).	
A7. Allocation pattern for the CSM (paragraph 32 of the 2013 ED) Paragraph 32 of the 2013 ED proposes that an entity shall recognise the remaining CSM in profit or loss over a coverage period in the systematic way that the best reflects the remaining transfer of services that are provided under the contract. Many respondents observe that the allocation pattern for the CSM will have a material impact on the profit reported by entities. In the light of this observation, some respondents were concerned that, without further guidance, the subjectivity in determining the pattern of underlying services will create significant diversity in the pattern of recognition of the CSM in profit or loss.	The staff plan to consider whether to provide more guidance on an appropriate allocation pattern for the CSM.

Appendix B: List of the issues that the staff recommend not to be considered at future meetings

This table includes a list of the issues that the staff recommend not to be considered at future meetings, for the reasons specified in the table.

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
B1. Disclosures (paragraphs 69—95 of the 2013 ED) Some respondents have the following comments regarding disclosures: (a) Some respondents have general concerns regarding the volume, complexity and cost of preparing the proposed disclosures. Some argue that the proposed disclosures would be excessively detailed and onerous to apply. In particular, respondents commented that it would be onerous to apply the requirement to provide detailed reconciliations and to provide information separately for portfolios in an asset position from portfolios in a liability position. (b) In particular, there was widespread opposition to the proposal in paragraph 84 of the 2013 ED, which requires that if an entity uses a technique other than the confidence level technique for determining the risk adjustment, the entity shall disclose a translation of the result of that technique into a confidence level. Some are concerned that disclosure of the confidence level would be burdensome to prepare and might not provide	Re (a): paragraph 69 of the 2013 ED states that the objective of the disclosure requirements is to enable users of financial statements to understand the amount, timing and uncertainty of future cash flows that arise from contracts within the scope of the Standard. Paragraph BCA227 of the 2013 ED explains that the principle stated in paragraph 69 of the 2013 ED is supplemented with some specific disclosure requirements designed to help the entity satisfy that principle. By specifying a disclosure principle, the IASB hopes to eliminate detailed and prescriptive disclosure requirements about the various types of insurance contracts. Consequently, paragraph 70 of the 2013 ED states that, if any of the required disclosures are not considered relevant in meeting the requirements in paragraph 69 of the 2013 ED, they may be omitted from the financial statements. Feedback from users indicated that the reconciliations proposed provided important information for their analysis. The staff considered the comment about general complexity by analysing more specific comments described below. Re (b): the confidence level disclosure requirement was	September 2011—AP3D *Disclosures* September 2012—AP16F *Disclosures—overview and proposed drafting* September 2012—AP16G *Disclosures: Staff analysis* November 2012—AP3A *Presentation and disclosures—proposed drafting* November 2012—AP3C *Presentation and disclosures—disclosures relating to participating contracts, earned*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
information that is directly comparable. (c) In addition, a few respondents oppose the requirement in paragraph 88 of the 2013 ED to disclose information about the effects of each regulatory framework in which the entity operates. Those respondents believe that such a disclosure is disproportionate and that all entities operating in a particular regulated environment should have similar disclosure requirements. They also argue that for entities reporting under IFRS, the general requirement defined in IAS 1 *Presentation of Financial Statements* (IAS 1) should be sufficient. (d) In contrast, a few other respondents proposed additional disclosures, for example about the extrapolation method used to estimate discount.	proposed in the 2010 ED. The objections to this requirement in the 2013 ED are similar to those provided in the 2010 ED (see paragraphs BCA100-102 of the 2013 ED). The IASB considered those objections and it decided that the disclosure is important for users in the light of the IASB's proposal that the risk adjustment would be determined on the basis of entity-specific inputs. In addition, the IASB concluded that alternative disclosures would not meet this objective and that some entities may need to disclose this information for regulatory purposes. No new information arose from the comment letters. Re (c): the IASB was already aware of the similar comments on the effects of regulatory framework disclosures. The IASB discussed them in September 2012 (Agenda Paper 16G *Disclosures: Staff analysis*). The IASB noted that IAS 1 requires disclosure about whether the entity complied with any externally imposed capital requirements and the extent of non-compliance. Information about the regulatory framework would provide supporting information about what the externally imposed capital requirements are. The IASB also noted that an entity's management should have the information available about the most significant regulatory requirements (in order to comply with them) and would not need to acquire it. Re (d): paragraph 70 of the 2013 ED states that if the disclosures provided in accordance with paragraphs 73—95	*premium presentation and transition*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
	of the 2013 ED are insufficient to meet the requirements in paragraph 69 of the 2013 ED, an entity shall disclose additional information that is necessary to meet those requirements.	
B2. Premium-allocation approach (paragraphs 35—40 of the 2013 ED) 1. Some US respondents suggest that the PAA proposals should be replaced with US GAAP requirements, perhaps with limited improvements. For example, those respondents oppose discounting, because: (a) it could introduce significant accounting-driven volatility into the income statement in situations in which the total nominal loss reserves are not adjusted, but the allocation of those reserves by policy year changes; (b) it could alter the profit recognition patterns of a portfolio of property and casualty contracts by extending them over the claim payment period; (c) it could obscure the true picture of management's ability to adequately predict ultimate claim settlement costs; and (d) the use of undiscounted actuarial estimates of claim liabilities accompanied by appropriately designed loss development schedules would provide users with more transparent and useful information. The respondents also noted that the re-estimation of loss	Re 1: during the initial phases of its work on the Standard, the IASB considered the requirements in existing GAAPs. The IASB has built its proposals on some of these requirements and modified those requirements when it would provide more useful information. The IASB discussed the discounting for PAA six times during 2011 and 2012, including whether to require discounting of the liability for incurred claims. In December 2011 (Agenda Paper 7H *Discounting—liability for incurred claims*) the IASB noted that money has a time value and an entity more faithfully represents its position when it measures its liabilities in a way that reflects the time value of money. In February 2012 the IASB decided that, as a practical expedient, entities need not apply discounting or interest accretion in measuring the liability for remaining coverage if the entity expects at contract inception that the period of time between payment by the policyholder of all or substantially all of the premium and the satisfaction of the entity's corresponding obligation to provide insurance coverage will be one year or less. In addition, the entity need not discount the liability for incurred claims if it expects the claim to be settled in a year or less.	December 2011—AP 7H *Discounting—liability for incurred claims* February 2011—AP 3F *Cash flows: measurement and costs inclusion* March 2011—AP 3G *Practical expedient for the discount rate* December 2011—AP 7H *Discounting—liability for incurred claims* October 2012—AP 2D *Premium allocation approach—discount*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
reserves between policy years would require the application of different yield curves to the loss reserves recognised at differing times. In addition, the re-estimation of loss reserves between expected payment dates would require the application of different points on the same yield curve for income statement measurement. 2. Paragraph B40 of the 2013 ED states that the objective of estimating cash flows to measure the fulfilment cash flows is to determine the expected value, or statistical mean, of the full range of possible outcomes. Each scenario specifies the amount and timing of the cash flows for a particular outcome, and the estimated probability of that outcome. Some non-life and health insurers from the US and Canada commented that other, actuarially-determined models currently used in the industry would satisfy the explicit, unbiased, probability-weighted estimate proposed in the guidance. Moreover, some respondents think that the probability-weighted estimate method lacks prudence and conservatism for uncertainty in reserves and is contrary to the historic insurance accounting approach. 3. The IASB proposed that an entity should present a net liability for remaining coverage that incorporates estimates of cash inflows and cash outflows. A few respondents commented that the gross cash inflows (ie the premiums receivable) and the gross cash outflows (ie the total amount of the premiums to be recognised as revenue) should be	Re 2: the requirement that an entity should measure an insurance contract using an explicit, unbiased and probability-weighted estimate of the future cash flows was a feature of the model proposed in 2007 and 2010. The IASB discussed that requirement again in February 2011 (AP 3F *Cash flows: measurement and costs inclusion*). That Agenda Paper explains that the IASB placed the emphasis on a probability-weighted estimate in an attempt to clarify that 'expected value' refers to the mean. The IASB wanted to avoid the risk that expected value would be interpreted as a vague notion similar to 'most likely', rather than as a mathematical term with a defined meaning. The IASB also intended to emphasise that the expected value would not necessarily be the same as the actual outcome, which would be one of a range of scenarios. The IASB noted that most of the respondents to the 2007 Discussion Paper *Preliminary Views on Insurance Contracts* (the 2007 DP) supported the use of probability-weighted expected cash flows. The IASB also noted that there is a variety of well-accepted methods in use at present to estimate mean values, including methods that do not involve explicit identification of, and assignment of probabilities to, every scenario. These include actuarial methods commonly used by property and casualty insurers who, for instance, do not necessarily include all possible scenarios explicitly in their estimates of cash flows. However, those methods do incorporate all scenarios that can be identified and quantified.	*rate follow-up* November 2013—AP 3B *Presentation and disclosures—Presentation of insurance contracts in the financial statements*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
presented separately on the balance sheet instead, because the gross presentation: (a) it will provide transparency in the financial statements; and (b) it is consistent with some existing practice.	The staff also note that the IFRSs are principle-based. Consequently, an entity will need to assess whether an actuarial technique meets the requirements to determine the expected value. Re 3: both the 2010 ED and the 2013 ED proposed a net presentation of the insurance contract for both contracts accounted for under the general approach and contracts accounted for under the PAA. The IASB's view is that the PAA is a simplification of the general model, which is based on the net presentation of cash inflows and cash outflows. In addition, the staff note that presenting the expected premiums to be received separately from other components of the liability could be misleading if that asset were not measured as a stand-alone asset but were instead to be measured together with the liability. For example, such an asset would not be subject to impairment like other assets, but would rather be measured on an expected basis together with other insurance expected cash flows.	
B3. Combination of insurance contracts (Paragraph 8 of the 2013 ED) Paragraph 8 of the 2013 ED requires entities to combine two or more insurance contracts that are entered into at or near the same time with the same policyholder, and to account for them as a single insurance contract if specified criteria are	The 2010 ED had similar requirements to those in paragraph 8 of the 2013 ED for combining contracts for the purposes of assessing the significance of insurance risk. As is explained in paragraph BCA169 of the 2013 ED, paragraph 8 of the 2013 ED was added to incorporate the requirements for combining contracts from the 2011 Exposure Draft *Revenue from Contracts with Customers* (the	The amendments in the 2013 ED were made for consistency with the forthcoming *Revenue from Contracts with*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
met. The IASB received the following comments on this requirement: (a) Some respondents seek clarification whether the requirement in paragraph 8 of the 2013 ED was intended to apply to the classification and measurement of the combined insurance contracts, or only for the purpose of assessing the significance of insurance risk. (b) Some have noted practical difficulties in combining the measurement of contracts within the Standard. (c) Other respondents were concerned about potential anomalies caused by paragraph 8 of the 2013 ED only applying to insurance contracts entered into together rather than applying to all contracts. (d) In addition, a few respondents commented that criterion (a) in paragraph 8 of the 2013 ED, that the contracts should be negotiated as a package with a single commercial objective, should be removed, because any contract has the objective of compensating the policyholder if an insured event adversely affects the policyholder.	2011 Revenue ED). The IASB's view is that this principle applies equally to insurance contracts. If those contracts were not combined, then the amount of consideration allocated to each contract might not faithfully depict the obligations created by the contracts. The staff note that a few implementation concerns were raised on the equivalent requirements in the 2011 Revenue ED. In addition, the staff note that entities will need to exercise judgement on whether two or more insurance contracts should be combined. The staff will consider drafting changes, in the case of drafting changes to the equivalent requirements in the forthcoming *Revenue for Contracts with Customers* Standard.	*Customers* Standard, which uses similar criteria for combining contracts.
B4. Contract boundary for specific contracts (paragraphs 23—24 of the 2013 ED) Some respondents think that paragraphs 23—24 of the 2013 ED do not provide clarity or sufficient guidance regarding the contract boundary in case of some specific	The IASB discussed the contract boundary criteria in March 2011 (Agenda Paper 12C *Contract boundary*). The IASB considered contracts in which an insurer is obliged to accept new policyholders without assessing their individual risk, but instead assesses risk based on standard demographic data, and contracts in which policyholders have a right to transfer	March 2011—AP 12C *Contract boundary*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
contracts, such as: (a) flexible premium contracts (ie when the entity cannot compel the policyholder to pay); (b) contracts for which the insurer cannot cancel the contract, but it may reprice the contract or the portfolio annually; or (c) in the case of rate regulation, in which time lags or regulatory rejection of filed rates may result in rate adjustments that do not fully reflect the risk. A few respondents disagreed with the revisions to the contract boundary criteria and asked the IASB to revert to the contract boundary criteria in the 2010 ED.	insurance coverage from one insurer to the next without a change in premium. The IASB concluded that such renewals would be regarded as within the contract boundary, because the insurer does not have the right or practical ability to reassess the risk of the particular policyholder and set a price that fully reflects that risk. At that meeting, the IASB also considered the effect of restrictions imposed by regulation or law. The IASB concluded that a contract can only exist within the context of its legal and regulatory environment and, consequently, the terms of the contract implicitly include the terms conferred by law or regulation and there is no basis for making differentiations based on where those terms are actually expressed. Accordingly, all renewal rights should be considered in determining the contract boundary.	
B5. Unbundling—lapse together criteria (paragraphs B31 and B32(b) of the 2013 ED) Paragraph B31 of the 2013 ED prohibits the separation of highly interrelated non-insurance and insurance components. Paragraph B32(b) of the 2013 ED includes guidance that investment component and the host insurance contract are highly interrelated if the lapse or maturity of one component in a contract causes the lapse or maturity of the other. Some respondents do not agree with the guidance in paragraphs B31 and B32(b) of the 2013 ED. They argue that	As paragraph BCA192 of the 2013 ED explains, the term 'closely related' is used in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* (IFRS 9) in the criteria that determine whether embedded derivatives must be bifurcated. However, the responses to the 2010 ED indicated that some were unsure how to interpret 'closely related' for non-insurance components embedded in insurance contracts. Consequently, the IASB decided to clarify in the 2013 ED the principles from the 2010 ED by relying on notions developed in the 2011 Revenue ED.	February 2011—AP 3H *Unbundling* February 2011—AP 3I *Unbundling* February 2011—AP 3J *Unbundling insurance contracts* March 2011—AP 12F *Unbundling—overall*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
that guidance could lead to some components not being unbundled even if separate products exist and components could be, and in existing practice often are unbundled as is the case, for example, in Australia, Japan, New Zealand and Sweden. They believe that accounting for such components as part of the insurance contract would reduce the faithful representation of the distinctiveness of an investment component.	The IASB discussed unbundling nine times in 2011 and 2012 and it took the decision on this issue in May 2012 (Agenda Paper 2E *Unbundling Investment Components*). The IASB was aware that there is currently diverse practice. Consequently, the IASB decided to specify the criteria for separation of non-insurance components to provide consistency in practice. As paragraph BCA206 of the 2013 ED states, the IASB concluded that, while it might be possible to separate some explicit investment components, such a requirement would be complex, subjective and arbitrary if it were used to separate many implicit account balances and account for them by applying IFRS 9. Consequently, the IASB decided that an entity should not separate investment components from insurance contracts, if the cash flows of the insurance contract are highly interrelated with the cash flows from the insurance component. To clarify the principle of 'highly interrelated', the IASB provided criteria which included the 'lapse together' criterion. The comments received about the 'lapse together' criterion do not raise any new information not previously considered.	*considerations* May 2011—AP 1C *Background material on unbundling* May 2011—AP 1E *Unbundling investment components* March 2012—AP 2F *Separation of investment components from insurance contracts—background* May 2012—AP 2E *Unbundling investment components* May 2012—AP 2F *Separation of components in insurance contracts—summary of tentative decisions so far*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
B6. Ceding commissions (paragraph 41(b)(ii) of the 2013 ED) Paragraph 41(b)(ii) of the 2013 ED requires an entity that holds reinsurance contracts to treat ceding commissions that it expects to receive, and that are not contingent on the occurrence of claims of the underlying contracts, as a reduction of the premiums to be paid to the reinsurer. Some respondents object this requirement because: (a) It will cause inconsistencies in the bases for determining premium income and reinsurance premium expense, which they believe reduces the usefulness of the relationship between gross and ceded premiums as a measure of retained exposure to risk. (b) It will be more difficult to compile industry or market statistics using gross and ceded premiums of individual entities if premium metrics are calculated on different bases.	The proposed treatment of ceding commissions was included in both the 2010 ED and the 2013 ED. The IASB discussed this specific topic in April 2012 (Agenda Paper 2F *Additional Topics on Reinsurance*) and January 2013 (Agenda Paper 2C *Sweep issues*). The IASB noted that, when a cedant expects to receive a ceding commission that is not contingent on the occurrence of claims, the economic effect is equivalent to charging a lower premium with no ceding commission. Consequently, the IASB decided that the cedant should treat such ceding commission in the same way as other changes in estimates of premiums paid to the reinsurer arising from the contract. In other words, the IASB decided that the cedant should treat such ceding commission as part of the premium paid and it decided **not** to require the cedant to present separately on the face of the profit or loss statement, the gross reinsurance premium paid and ceding commission reimbursed.	May 2011—AP 3A *Reinsurance contracts* April 2012—AP 2F *Additional Topics on Reinsurance* January 2013—AP 2C *Sweep issues*
B7. Discount rate—top-down and bottom-up approaches (paragraph B70 of the 2013 ED) Paragraph B70 of the 2013 ED states that an entity can determine the discount rates for the insurance contract using a 'top-down' (described in paragraph B70(a) of the 2013 ED) or a 'bottom-up' (described in paragraph B70(b) of the 2013 ED) approach.	The IASB discussed determining the discount rate three times in 2011. In February 2011, the IASB clarified that both top-down and bottom-up approaches can achieve the objective for determining the discount rate and that the entity can decide which approach is best in its particular circumstances (Agenda Paper 3D *Discount rate for non-participating contract (alternative constructs for the discount rate)*). The IASB recognised that in principle both	February 2011—AP 3D *Discount rate for non-participating contract (alternative constructs for the discount rate)* March 2011—AP 3G *Practical*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
Some respondents, including some regulators, commented that the guidance on how to apply both the top-down and bottom-up approaches is very broad and potentially inconsistent with the principle mentioned in paragraph 25 of the 2013 ED, ie that an entity shall determine the fulfilment cash flows by adjusting the estimates of future cash flows for the time value of money, using discount rates that reflect the characteristics of those cash flows. This may result in entities applying different methods in the calculation and therefore, reducing the comparability of the discount rates used in the measurement of the liability.	approaches should result in the same discount rate. To reduce cost for the entities, the IASB provided the practical expedient provided whereby an entity need not eliminate any part of the observed credit spreads that cannot be identified as relating to credit risk. However, this practical expedient under the top-down approach may result in differences between the discount rates used by different entities due to differences in the estimates of liquidity adjustments. Because IFRSs are principle-based standards, the IASB decided to define the objective of discounting and the characteristics of the liability that should be included in the measurement of an insurance contract, rather than prescribing the details of a discount rate methodology. In addition, the IASB recognised that both approaches are imperfect, relying on difficult, subjective estimates. Consequently, the IASB indicated that there should be disclosures about the methodology and the discount rates to provide transparency, in particular about the yield curve. The staff also note that clarifying the guidance in the 2013 ED to indicate that both approaches are acceptable was a response to the comments received on the 2010 ED. Many respondents to the 2013 ED expressed their support for this revised proposal.	*expedient for the discount rate* April 2011—AP 5A *Top-down approaches to discount rates*

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
B8. Tax included in the measurement (paragraph B66(i) of the 2013 ED) Paragraph B66(i) of the 2013 ED states that cash flows within the boundary of an insurance contract include payments by the entity in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts. A few respondents believe that the requirement above is too restrictive because it could lead to inappropriate outcomes if the tax legislation does not make clear that the tax arises on behalf of the policyholders. For example, in some taxation regimes, such as in the UK, tax is payable on investment returns that are entirely for the benefit of the policyholder (for example, tax payable on the returns in a unit-linked or with-profits fund in which policyholder balances are adjusted to allow for the payment of such tax). To include the gross return, without the tax that will reduce the amounts paid to the policyholder, will overstate the policyholder liability.	During its meeting in January 2013 (Agenda Paper 2C *Sweep issues*) the IASB decided that cash flows relating to tax payments should be evaluated and treated like any other cash flows. Consequently, cash flows where the entity pays in its fiduciary capacity should be included in the measurement of the liability. The IASB also noted that including further cash flows in the measurement of the liability would be inconsistent with IAS 12 *Income Taxes*.	January 2013—AP 2C *Sweep issues*
B9. Combining CSM with OCI A few respondents commented that the CSM, which they view as the profit to be earned as the entity provide services, should be recognised as part of OCI, rather than as part of the insurance contract liability. Consequently, both the effects of changes in discount rates and the CSM would be recognised in OCI (integrated OCI). They believe that: (a) the effects of changes in discount rates also reflect the unearned profit of an entity and are presented	The measurement of an insurance contract in the 2010 ED and the 2013 ED incorporates a CSM as an integral component. The CSM anchors the measurement of the liability at inception to the transaction price and ensures that an entity does not recognise a day one gain. The staff do not recommend pursuing the 'integrated OCI' approach because recognising the CSM in OCI is inconsistent with the IASB's rationale for including a contractual service in the measurement of the liability. The staff view recognising the margin at inception in OCI as similar to recognising a day	An obligation to provide services was recognised as part of the insurance liability in the form of a margin in all previous proposals (ie the 2007 DP, the 2010 ED and the

Description of the issue	Staff analysis	Previous discussions after the 2010 ED
in OCI and therefore, the margin would also be recognised in equity instead of as a liability. They think that doing so would increase the understandability of the information for users and avoid the counter intuitive result of the proposals in the 2013 ED; and (b) this approach provides more useful information because the amount of the liability recognised on the balance sheet would change as a result of changes in the estimates of cash flows.	one gain in profit or loss, which is inconsistent with the requirements of other IFRSs. In previous consultations, most agreed that the measurement of an insurance contract should include a CSM to eliminate day one gains. The staff note that the 'integrated OCI' approach is predicated on recognising the effects of discount rate changes in OCI. It is unclear how this approach would work if the effects of discount rate changes are instead presented in profit or loss. In addition, it is unclear how the amounts recognised in equity (from both the CSM and effects of changes in discount rate) are recognised in profit or loss over the life of the contract.	2013 ED).