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STAFF PAPER

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REGIASB Meeting

Project	Insurance Contracts		
Paper topic	Cover note		

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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*.

Purpose of paper

1. This paper provides:

   (a) a reminder of the objectives of the Insurance Contracts project (paragraphs 3-5);

   (b) an overview of the papers for the September 2014 meeting, together with a summary of the staff recommendations (paragraphs 6-15); and

   (c) a summary of project progress, recent outreach and next steps (paragraphs 18-19).

2. This paper contains the following appendices:

   (a) Appendix A, which describes the input sought in the IASB's 2013 Exposure Draft *Insurance Contracts* ('the 2013 ED');

   (b) Appendix B, which provides an overview of the accounting model proposed by the IASB; and

   (c) Appendix C, which summarises the IASB's tentative decisions to date that would amend the proposals in the 2013 ED.

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

Objectives of the insurance contracts project

3. At present, IFRS has no comprehensive standard that deals with the accounting for insurance contracts. IFRS 4, the interim Standard for insurance contracts published in 2004, carried forward a wide range of existing diverse practices. IFRS 4 also included a 'temporary exemption', which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable. This means that:

   (a) entities account for insurance contracts using different accounting models that evolved in each jurisdiction according to the products and regulations prevalent in that jurisdiction. This results in a huge diversity and complexity in how insurance companies account for insurance contracts.

   (b) users of financial statements are not provided with all the information they need to understand the financial statements of entities that issue insurance contracts, or to make meaningful comparisons between entities. In particular, many insurance companies produce financial information that is based on historic assumptions.

4. The IASB's proposals are intended to improve financial reporting by providing more transparent, comparable information about:

   (a) the effect of complex features embedded in many insurance contracts on the entity's financial performance;

   (b) the way an entity makes profits or losses through underwriting activity and investing premiums from customers;

   (c) the extent to which entities are effective in matching assets to their insurance contracts liabilities; and

   (d) the nature and extent of risks that an entity is exposed to as a result of issuing insurance contracts.

5. Appendix B describes the IASB's proposals in more detail.

Papers for this meeting

6. The agenda papers for this meeting:

   (a) continue the discussion of the issues relating to contracts with participating features by asking the IASB for direction on the use of OCI for presenting the effect of changes in discount rates for contracts with participating features.

   (b) ask the IASB for decisions relating to revenue recognition and the use of OCI in the premium allocation approach.

7. These papers are summarised below.

Papers on other comprehensive income

8. In previous board discussions, the IASB directed staff to explore two approaches for determining the interest expense presented in profit or loss and amounts presented in other comprehensive income. These were the book yield and effective yield approaches.

9. However, there are different views in how the book yield and effective yield approaches to determining interest expense would be applied. Agenda Paper 2A: *Book yield and effective yield approaches to presenting interest expense in profit or loss* describes the main features of these different views, and proposes how to define each approach.

10. The staff illustrate its proposed book yield approach and proposed effective yield approach in a number of scenarios in Agenda Paper 2B *Numerical examples of book yield and effective yield approaches* to assist the IASB in understanding the consequences of each approach. Agenda Paper 2C *Use of OCI for contracts with participating features* and Agenda paper 2D *Should there be a book yield approach for determining interest expense in profit or loss* then consider the applicability of the book yield and effective yield approaches, and consider the circumstances in which each approach might be appropriate.

11. There are no staff recommendations in agenda papers 2A and 2B. Agenda papers 2C and 2D recommend:

(a) For contracts with participating features, an entity should choose to present the effect of changes in discount rates in profit and loss or in other comprehensive income as its accounting policy, and should apply that accounting policy to all contracts within similar portfolios.

(b) That an entity should apply the OCI approach applicable to contracts with no participating features to insurance contracts where the cash flows that vary with investment returns on underlying items are **not** a substantial proportion of the total benefits to the policyholder over the life of the contracts.

(c) That an entity should apply the effective yield approach described in Agenda Papers 2A and 2B to all contracts where the cash flows that vary with investment returns on underlying items are a substantial proportion of the total benefits to the policyholder over the life of the contracts.

12. The staff do not recommend the use of the book yield approach for presenting the effect of changes in discount rates in other comprehensive income.

13. As with the previous discussions on contracts with participating features in the May, June and July board meetings, the staff recommendations are for the purpose of direction, and the staff will ask the IASB to confirm all tentative decisions taken at this meeting when considering all the decisions relating to contracts with participating features as a whole.

Papers on the premium allocation approach

14. Agenda papers 2E and 2F address follow-up issues related to the premium allocation approach, which are related to issues the IASB has already considered for the general approach. The papers are described below.

Agenda Paper 2E: Premium-allocation approach: revenue recognition pattern

12. The IASB has recently decided to clarify that the allocation pattern for the contractual service margin in the general measurement model for insurance

contracts should be based on the provision of insurance coverage. Agenda Paper 2E considers whether to provide similar guidance on the pattern of recognition of the insurance contract revenue in the premium-allocation approach.

15. Under the premium-allocation approach, an entity should allocate insurance contract revenue in profit or loss in the systematic way that best reflects the transfer of services. In Agenda Paper 2E the staff recommend that the IASB clarify that the transfer of services occurs:

    (a) on the basis of the passage of time and the expected number of contracts in force; but

    (b) if the expected pattern of release of risk differs significantly from the passage of time, then on the basis of expected timing of incurred claims and benefits.

Agenda Paper 2F: Determination of interest expense in the premium-allocation approach

16. Agenda Paper 2F discusses how to determine interest expense for the liability for incurred claims in the premium-allocation approach. Namely, the paper considers whether the discount rate that is used to determine the interest expense should be the rate locked-in at the inception date of the contract, or a rate locked-in at the date when the claim was incurred.

17. In Agenda Paper 2F the staff recommend that, when an entity presents the effect of changes in discount rates in other comprehensive income, the discount rate that is used to determine the interest expense for the liability for incurred claims in the premium-allocation approach should be the rate locked-in at the date the claim was incurred.

Project progress

18. The IASB is nearing the end of a long and thorough due process on its proposals to develop an insurance contracts standard. In doing so, the IASB has sought to balance many diverse views and develop an approach that provides useful financial information that can be applied in all jurisdictions that apply IFRS.

19. In this third consultation round, the IASB has substantially completed its discussions on the model for insurance contracts that do not have participating features. Appendix C summarises the IASB's tentative decisions to date.

20. In recent IASB meetings, the IASB has also explored aspects of the model for insurance contracts with participating features. The IASB's approach for contracts with participating features is to consider what adaptations are needed to its tentative decisions to date for contracts with no participating features. The IASB has focused on the following questions:

    (a) *Whether there is a need for bifurcation of cash flows*. At its May 2014 meeting, the IASB concluded that the measurement model does not result in the requirement to bifurcate cash flows. However, the presentation of interest expense proposals in the 2013 ED would require the entity to split the cash flows and apply different applicable discount rates to those cash flows. Splitting cash flows would also be required for the mirroring exception, which applied only to the subset of contracts with participating features for which there could be no possibility of economic mismatches between the returns on underlying items and the payments to policyholders. Agenda papers 2A-2D consider two approaches for the presentation of interest expense that would avoid the bifurcation of cash flows for presentation purposes (see (f)). The staff expect to consider whether any form of the mirroring exception should be required after evaluating the accounting model for participating contracts. Eliminating a requirement for the mirroring exception as proposed in the 2013 ED would elimination any need to bifurcate cash flows.

    (b) *Whether there is a need for adaptations to account for the entity's share of underlying items.* At the June 2014 meeting, the IASB tentatively directed staff to consider whether an entity should adjust the contractual service margin for changes in the insurer's share of the underlying items only if doing so could be justified on the grounds that the insurer's share represents an implicit management fee. The IASB tentatively directed the staff to consider that question under the

assumption that an implicit asset management fee should be considered to exist only when:

(i) the returns to be passed to the policyholder arise from the underlying items the entity holds (regardless of whether the entity is required to hold those items or whether the entity has discretion over the payments to policyholders);

(ii) there is a minimum amount (either fixed or determinable) that the entity must retain; and

(iii) the policyholder will receive a substantial share of the total return on underlying items.

(c) *The appropriate recognition pattern for the contractual service margin for contracts with participating features.* At its May 2014 meeting, the IASB tentatively decided to confirm the principle in the 2013 ED that an entity should recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services that are provided under an insurance contract. The IASB noted it would consider the application of that principle to contracts with participating features at a future meeting.

(d) *The treatment of changes in estimates of investment returns that affect the amount paid to the policyholder.* The staff is considering this question with the view of minimising accounting mismatches that might occur if changes in estimates of the cash flows paid to policyholders arising from investment returns are recognised inconsistently with the investment returns.

(e) *How an entity should account for changes in the value of options and guarantees.* The IASB has received feedback from the Accounting Standards Advisory Forum (and others) that options and guarantees should be treated in the same way as other components of the insurance contract. This would mean:

(i) changes in cash flows relating to future service (in effect, changes in non-financial assumptions relating to future service) recognised as an offset to CSM

(ii) changes in cash flows that do not relate to future service (in effect, changes in non-financial assumptions relating to current and past service) recognised in P&L

(iii) effect of discount rate changes recognised in P&L or OCI

(f) *How the amounts in other comprehensive income and profit or loss should be determined.* Agenda papers 2A – 2D for this meeting explore the book yield and an effective yield approaches for the presentation of interest expense in profit or loss and OCI.

Recent outreach

21. As part of its on-going outreach activities on this project, the IASB has held several meetings with CFOs and other senior representatives of insurance companies from around the world. The purpose of these meetings was to ensure that the IASB and staff have a clear understanding of the remaining critical issues before the IASB concludes its technical redeliberations.

22. The staff noted that the process of deliberating the model for participating contracts by asking the IASB for indicative leanings, rather than tentative decisions, has facilitated the IASB and the staff in obtaining feedback on the direction of the model. The staff are considering this feedback in developing models for consideration and decision-making by the IASB. In doing so, the staff will also consider whether additional education material would be useful.

Next steps

23. The IASB expects to publish the final Standard in 2015.

Appendix A: The approach in the IASB's 2013 Exposure Draft *Insurance Contracts*

A1. The 2013 ED builds on the proposals previously set out in:

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

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

A2. The feedback received on the IASB's earlier documents confirmed that there was widespread acceptance of the proposal to measure insurance contracts using a current, market-consistent approach. That feedback indicated that many agree that such an approach would provide financial information that is relevant to users of the financial statements of entities that issue insurance contracts, and would faithfully represent the financial position and performance of such entities. As a result of this previous work, the IASB was satisfied that its measurement model for insurance contracts is appropriate and would result in improvements to financial reporting.

A3. However, in response to issues identified in the comment letters, the IASB made some significant changes to the proposals in the 2010 ED. The IASB believes that those changes would increase the faithfulness of representation of insurance contracts in financial statements and lead to entities providing more relevant and timely information about insurance contracts compared to the proposals in the 2010 ED. However, these proposals would be more complex to apply than the proposals in the 2010 ED. Accordingly, while the 2013 ED contained a complete draft of the proposed Standard on insurance contracts so that interested parties could consider the proposals in context, the IASB sought input only on the following five proposals:

(a) That an entity should recognise any change in estimates relating to future service in the period in which the service is provided (ie to 'unlock' the contractual service margin);

(b) That there should be a measurement and presentation exception to reflect situations in which there can be no economic mismatches between the insurance contract and assets backing that contract;

(c) That an entity should present insurance contracts revenue that is consistent with the principles for the revenue that is required by other IFRSs for other contracts with customers. Accordingly, an entity would depict the transfer of promised services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services, measured as a reduction in the entity's performance obligations;

(d) That an entity should present interest expense from insurance contracts in a way that enables an amortised cost-based expense to be presented in profit or loss and current-value-based measurement to be presented in the balance sheet; and

(e) That the transition approach should be amended to improve comparability for contracts originated before and after application of the proposals. The proposed transition approach specified some simplifications that maximise the use of objective data.

A4. The IASB also sought input on whether the costs of implementing the proposed Standard would be justified by the benefits of the information provided overall. However, in publishing the 2013 ED, the IASB stated its intent that it would not revisit issues that it has previously rejected or reconsider consequences it has previously considered.

Appendix B: The accounting model proposed by the IASB

Contracts with no participating features

A1. The 2013 ED proposes that an entity should measure insurance contracts using a current value approach that incorporates all of the available information in a way that is consistent with observable market information. That approach measures an insurance contract in a way that incorporates the following:

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

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

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

A2. The underlying objective of this approach is to achieve a valuation of the insurance contract, including any options and guarantees embedded in the insurance contract, in a manner that is consistent with market information. However, the measurement of insurance contracts is a current expected value measurement rather than a fair value measurement. This reflects the IASB's conclusion that the fact that insurance contracts are not traded in active markets means that fair value would not be an appropriate measurement attribute for insurance contracts. Consequently, the valuation approach proposed by the IASB takes into account the fact that an entity

expects to fulfil the contracts, rather than transfer them. That approach differs from fair value measurement in the following main areas:

(a) It does not reflect the non-performance risk of the entity that issues the insurance contract. In other words, the credit risk of the entity that issues the contract is not reflected in the measurement (paragraph 21 of the 2013 ED).

(b) The risk adjustment reflects the entity's—and not a market participant's—perception of the effects of uncertainty about the amount and timing of cash flows that arise from an insurance contract (paragraph B76 of the 2013 ED).

(c) A contractual service margin is recognised at inception, and allocated after inception (paragraph 32 of the 2013 ED), rather than being remeasured in a way that reflects a market participant's viewpoint.

(d) The measurement of an insurance contract does not have the equivalent of the requirement in paragraph 47 of IFRS 13 *Fair Value Measurement* that the fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

A3. The IASB believes that the use of a current value measurement model for the insurance contracts liability is desirable for three important reasons:

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

(b) It provides complete information about changes in estimates.

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

[1] Ie assuming that assets are measured at fair value.

A4. However, the measurement approach in the 2013 ED reflects the IASB's view of an insurance contract as combining the features of both a financial instrument and a service contract and thus the IASB does not propose a fair value measurement for the insurance contract. Because the service component and the financial instrument component of the contractual are interrelated, the IASB does not propose that the components should be unbundled and accounted for separately. However, the IASB's model aims to ensure as much consistency as possible between the features of each component and the standalone component, had it been reported separately. As a result, the IASB's model treats changes in estimates relating to the two components differently:

(a) The entity accounts for changes in estimates relating to the service component in a way similar to the effect that would be achieved if the entity had applied the revenue recognition model to the component. As a result, changes in estimates relating to future service adjust the contractual service margin and are recognised in profit or loss when the related service is provided. Changes in estimates related to current or past periods' service would be recognised in profit or loss.

(b) The entity accounts for changes in estimates relating to the financial component in a way similar to the effect that would be achieved if the entity had applied the financial instruments model to the component. As a result, changes in estimates relating to the financial estimates are recognised in profit or loss or other comprehensive income.

A5. The following table summarises the treatment of changes in estimates.

Type of change in estimate	**Where recognised**
Change in present value of cash flows relating to future service.	Adjust contractual service margin, and recognised in profit or loss when future service provided.
Change in present value of cash flows relating to past and current periods'	In profit or loss in the period of change (underwriting result).

service (ie experience adjustments).	
Change in present value of cash flows unrelated to service (for example, some deposits).	In profit or loss in the period of change (net interest and investment result).
Unwinding of discount based on discount rate at inception.	In profit or loss in period of unwind (net interest and investment result).
Effect of changes in discount rates since inception of the contract on the measurement of liability.	In other comprehensive income in the period of change.
Changes in the risk adjustment relating to current and past future service.	In profit or loss in the period of change.
Changes in the risk adjustment relating to future service.	Adjust contractual service margin, and recognised in profit or loss when future service provided.

Presentation approach

A6. The 2013 ED proposed a presentation approach for the statement of comprehensive income that would:

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

(b) provide information about the main sources of profits for entities that issue insurance contracts.

(c) provide both a current and a cost-based view of the cost of financing an insurance contract. This would provide disaggregated information about the effects of changes in discount rates on the financial statements of entities that issue insurance contracts.

Applying the general proposals in the 2013 ED to contracts with participating features

A7. The staff's approach for contracts with participating features is to consider the adaptations that would be needed if the general proposals in the 2013 ED were to be applied to contracts with participating features. The Board's tentative decisions to date would apply to contracts with participating features as follows:

(a) the cash flows include the expected cash flows that arise from the returns of the underlying items that the entity expects to be passed to the policyholder. This has two important consequences:

(i) when a contract provides an entity with discretion over the timing and/or amount of the returns from underlying items that are passed to policyholders, the fulfilment cash flows include the cash flows that are subject to the entity's discretion. The IASB viewed such payments as arising out of the obligation in the contract to share in the returns of the underlying items with the policyholder.

(ii) the fulfilment cash flows reflect the returns to be passed to the policyholder, even if the entity invests in underlying items that generate a different return. When that is the case, the difference between the returns on the entity's investments and the returns to be paid to policyholders provides useful information to investors on the economic mismatches arising between the items held by the entity and the entity's obligations arising from the contract. In such cases, because the underlying items generate a different return they do not impact the cash flows of the insurance contract.

(b) the discount rates used to adjust those cash flows for the time value of money should reflect the extent of dependence of the amount, timing or uncertainty of the cash flows that arise from the insurance contract on the returns on underlying items. This ensures consistency between the cash flows and the discount rates used to adjust those cash flows for the time value of money.

(c) The risk adjustment would reflect the compensation the entity would require for bearing the uncertainty about those cash flows. No adaptations are needed for the risk adjustment.

(d) The contractual service margin would be determined at initial recognition to eliminate any Day 1 gain. Subsequent to initial recognition, the contractual service margin would be adjusted to reflect changes in estimates that relate to future services.

(e) Interest expense would be reported in profit or loss using discount rates that are determined at the date when the contract was initially recognised, updated to reflect changes in returns on underlying items that are expected to affect the amount of cash flows to the policyholder.

Appendix C: Tentative decisions to date

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

Tentative decisions	Change from 2013 ED	Follow up
1. Unlocking the contractual service margin		
(a) Differences between the current and previous estimates of the present value of expected cash flows and the risk adjustment related to future coverage and other future services should be added to, or deducted from, the contractual service margin, subject to the condition that the contractual service margin should not be negative. (b) Differences between the current and previous estimates of the present value of cash flows and the risk adjustment that do not relate to future coverage and other future services should be recognised immediately in profit or loss. (c) Favourable changes in estimates that arise after losses were previously recognised in profit or loss should be recognised in profit or loss to the extent that they reverse losses that related to coverage and other services to be provided in the future.	The 2013 ED would: • recognise all changes in estimates of risk adjustment immediately in profit or loss. • rebuild the contractual service margin from zero without first reversing previously recognised losses in the profit or loss.	• Interaction between unlocking contractual service margin and use of OCI • Application to contracts with participating features.

Tentative decisions	Change from 2013 ED	Follow up
2. Recognising the effects of changes in the discount rate in other comprehensive income		
(a) An entity should choose to present the effect of changes in discount rates in profit or loss, or in other comprehensive income as its accounting policy and should apply that accounting policy to all contracts within a portfolio (b) If the entity chooses to present the effect of changes in discount rates in other comprehensive income, the entity should: (i) Recognise in profit or loss, the interest expense determined using the discount rates that applied at the date that the contract was initially recognised; and (ii) Recognise in other comprehensive income, the differences between the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date and the carrying amount of the insurance contract was initially recognised. (iii) Disclose an analysis of total interest expense included in total comprehensive income disaggregated at a minimum to: 1. interest accretion at the discount rate that applied at initial recognition of insurance contracts reported in	The 2013 ED proposed that the effect of changes in discount rates should be required to be presented in OCI.	

Tentative decisions	Change from 2013 ED	Follow up
profit or loss for the period; and 2. the movement in other comprehensive income for the period. (c) An entity should disaggregate total interest expense included in total comprehensive income to: (i) the amount of interest accretion determined using current discount rates; (ii) the effect on the measurement of the insurance contract of changes in discount rates in the period; and (iii) the difference between the present value of changes in expected cash flows that adjust the contractual service margin in a reporting period when measured using discount rates that applied on initial recognition of insurance contracts, and the present value of changes in expected cash flows that adjust the contractual service margin when measured at current rates. (d) For contracts with no participating features, an entity should use the locked-in rate at inception of the contract for accreting interest and for determining the change in the present value of expected cash flows that offsets the contractual service margin. (e) An entity should apply the requirements in IAS 8 *Accounting*		

Tentative decisions	Change from 2013 ED	Follow up
Policies, Changes in Accounting Estimates and Errors to changes in accounting policy relating to the presentation of the effect of changes in discount rates.		
3. Presenting insurance contracts revenue and expense in the statement of comprehensive income		
(a) An entity should present insurance contract revenue and expense in the statement of comprehensive income, as proposed in paragraphs 56–59 and B88–B91 of the 2013 ED; and (b) An entity should disclose the following: (i) a reconciliation that separately reconciles the opening and closing balances of the components of the insurance contract asset or liability (paragraph 76 of the 2013 ED); (ii) a reconciliation from the premiums received in the period to the insurance contract revenue in the period (paragraph 79 of the 2013 ED); (iii) the inputs used when determining the insurance contract revenue that is recognised in the period (paragraph 81(a) of the 2013 ED); and (iv) the effect of the insurance contracts that are initially recognised in the period on the amounts that are recognised in the	The 2013 ED did not explicitly prohibit presenting premium information in the statement of comprehensive income if that information is not consistent with commonly understood notions of revenue.	• Application to contracts with participating features

Tentative decisions	Change from 2013 ED	Follow up
statement of financial position (paragraph 81(b) of the 2013 ED). (c) An entity should be prohibited from presenting premium information in the statement of comprehensive income if that information is not consistent with commonly understood notions of revenue.		

Tentative decisions	Change from 2013 ED	Follow up
Non-targeted issues		
Level of aggregation and portfolio definition • Clarify that the objective of the proposed insurance contracts Standard is to provide principles for the measurement of an individual insurance contract, but that in applying the Standard an entity could aggregate insurance contracts provided that it meets that objective. • Amend the definition of a portfolio of insurance contracts to be: "insurance contracts that provide coverage for similar risks and are managed together as a single pool" • Add guidance to explain that in determining the contractual service margin or loss at initial recognition, an entity should not aggregate onerous contracts with profit-making contracts. An entity should consider the facts and circumstances to determine whether a contract is onerous at initial recognition.	The definition of a portfolio in the 2013 ED is modified to eliminate the reference to “priced similarly relative to the risk taken on”. Additional guidance and clarification	None
Discount rate for long-term contracts when there is little or no	Added clarification of how	None

Tentative decisions	Change from 2013 ED	Follow up
observable market data • Confirm the principle that the discount rates used to adjust the cash flows in an insurance contract for the time value of money should be consistent with observable current market prices for instruments with cash flows whose characteristics are consistent with those of the insurance contract • Provide additional application guidance that, in determining those discount rates, an entity should use judgement to: (i) ensure that appropriate adjustments are made to observable inputs to accommodate any differences between observed transactions and the insurance contracts being measured. (ii) develop any unobservable inputs using the best information available in the circumstances, while remaining consistent with the objective of reflecting how market participants assess those inputs. Accordingly any unobservable inputs should not contradict any available and relevant market data.	the principle should be applied in determining discount rates for insurance contracts.	

Tentative decisions	Change from 2013 ED	Follow up
Asymmetric treatment of contractual service margin between insurance contracts issued and reinsurance contracts held • After inception, an entity should recognise in profit or loss any changes in estimates of fulfilment cash flows for a reinsurance contract that an entity holds when those changes arise as a result of changes in estimates of fulfilment cash flows for an underlying direct insurance contract that are recognised immediately in profit or loss.	The 2013 ED proposed that, for a reinsurance contract that an entity holds, all changes in estimates of fulfilment cash flows relating to future service should be recognised and offset to the contractual service margin	None
Allocation of the contractual service margin to the profit or loss • Confirm the principle in the 2013 ED that an entity should recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services that are provided under an insurance contract. • Clarify that, for contracts with no participating features, the service represented by the contractual service margin is insurance coverage	The 2013 ED stated only that an entity should recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services that are provided under an insurance contract.	Application to contracts with participating features

Tentative decisions	Change from 2013 ED	Follow up
that: (i) is provided on the basis of the passage of time; and (ii) reflects the expected number of contracts in force.		
Significant insurance risk Clarify the guidance in paragraph B19 of the 2013 ED that significant insurance risk only occurs when there is a possibility that an issuer will incur a loss on a present value basis.	The 2013 ED referred more specifically to the need for a scenario with commercial substance in which the present value of the net cash outflows can exceed the present value of the premiums.	None
Portfolio transfers and business combinations 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.	Clarification of requirements in ED to avoid difference in interpretation.	None
Fixed fee service contracts Entities should be permitted, but not required, to apply the revenue	The 2013 ED excluded all fixed fee service contracts	None

Tentative decisions	Change from 2013 ED	Follow up
recognition Standard to the fixed-fee service contracts that meet the criteria stated in paragraph 7(e) of the 2013 ED.	from its scope.	
Issues that will not be addressed In April 2014 the IASB tentatively decided not to consider in future meetings other non-targeted issues, including those relating to: (i) disclosures; (ii) combination of insurance contracts; (iii) contract boundary for specific contracts; (iv) unbundling—lapse together criteria; (v) treatment of ceding commissions; (vi) discount rate—top-down and bottom-up approaches; (vii) tax included in the measurement; and (viii) combining the contractual service margin with other comprehensive income.	None	None