

STAFF PAPER

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Project	Insurance Contracts		
Paper topic	Level of aggregation		
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Purpose of this paper

1. This paper considers whether, and if so at what level, insurance contracts should be aggregated for the purposes of (a) recognition of losses on onerous contracts, and (b) the allocation of the contractual service margin.

Staff recommendation

2. The staff recommends that:
 - (a) 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).

(See paragraphs 12 to 21).

- (b) an entity could meet the objective of recognising the remaining contractual service margin in profit or loss over the remaining coverage period in the systematic way that best reflects the remaining transfer of services to be provided by insurance contracts, by grouping contracts that:
 - (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) on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium); and
 - (iii) have coverage periods that are expected to end at a similar time.

(See paragraphs 22 to 29).

- (c) there should be 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 (see paragraphs 30-34). Accordingly, contracts with different 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.

3. The staff notes that the recommendations are consistent with the proposals in the 2013 Exposure Draft *Insurance Contracts* (the 2013 ED) and less prescriptive than some interpreted the clarifications in the Board’s tentative decisions since the 2013 ED.

Background

Past decisions

4. The history of the Board’s decisions on the level of aggregation is set out in Appendix A. The most recent decisions were made in June 2014 and were intended to clarify the proposals in the 2013 ED by adding guidance that the objective of the 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 met the objective. In setting that objective, the staff focused on the determination of the contractual service margin on initial recognition and on the subsequent allocation of the contractual service margin.

5. In February 2015, an additional Board paper went into more detail on how that objective should be applied in subsequent unlocking of the contractual service margin. The paper noted that in assessing whether the objective is met, the staff believed that the IASB's intention is that entities would use only reasonable and supportable information that is available at inception without undue cost or effort to satisfy the objective.
6. However, it is clear from feedback that the IASB has received since the February meeting that there is still substantial uncertainty over how the Board's decisions and the discussion in the February 2015 paper should be interpreted. Hence, this paper looks at the issue afresh, with the intention of assessing what guidance should be provided.

Why do we need to consider the level of aggregation?

7. The need to consider the level of aggregation arises because in some circumstances gains are treated differently from losses. If the accounting model for insurance contracts always recognised gains and losses in the same way, any economic offsetting between gains and losses on different contracts would be automatically captured by the accounting. However, because the accounting model sometimes treats gains differently from losses, an accounting mismatch maybe created if contracts were accounted for individually.
8. For example, on initial recognition, an entity would recognise a positive contractual service margin over the coverage period but recognise a negative contractual service margin immediately in profit or loss. Subsequently an entity would recognise changes in fulfilment cash flows relating to future service as adjustments to the contractual service margin over the remaining coverage period as long as they do not result in a negative contractual service margin. However,

such changes are recognised immediately to the extent that they would otherwise result in a negative contractual service margin.

9. In addition, there may also be other differences in the treatment of gains and losses in allocating the contractual service margin, depending on how the current specification of the allocation of the contractual service margin is interpreted.
10. These issues are interrelated because the determination of what is an adjustment to the contractual service margin together with the allocation pattern of the contractual service margin will affect how much contractual service margin remains, and hence whether adjustments to the contractual service margin will make it negative. Nonetheless, different factors might drive thinking on the issues, and hence they are considered separately in this paper.
11. It is also worth noting that there is no absolute right answer to the appropriate level of aggregation. It is a question of balance between the loss of information about individual contracts and providing a faithful representation of the effect of grouping contracts. Assessing where that balance lies may differ depending on the issue being considered and considerations of cost and operationality. The discussion below considers what guidance the Board might provide to enable entities to find that balance.

Onerous contracts

12. The question for onerous contracts is whether it is ever appropriate to allow the losses on an individual contract to be offset by the contractual service margin on another, profitable, contract rather than recognising that loss immediately in profit or loss. This question was addressed in the context of mutualisation in Agenda Paper 2A for the May 2015 Board meeting. This paper does not change the conclusions reached on mutualisation in that paper¹ but looks at the question outside the context of mutualisation.

¹ ie that (a) there are no losses recognised in profit or loss when a group of policies become onerous (if, for example, the guarantee on those contracts is in the money), if another set of policyholders bears those losses; and (b) losses are only recognised in profit or loss from onerous contracts when the underlying items in the fund as a whole are insufficient to bear those losses, ie no other policyholder has the capacity to absorb those losses.

13. An entity will enter into a number of insurance contracts, fully expecting that claims will arise on some contracts, but not on others. That risk diversification will be included in pricing decisions and, under the Board's decisions to date, in the measurement of the risk-adjustment of individual contracts. If an entity recognises the gains and the losses that arise on different contracts when expectations of claims develop at the same time, it does not matter whether those contracts are measured individually or as a group because in both cases the net accounting result will reflect the economic offset. So for example:
- (a) if an event causes some contracts to have experience losses and others to have experience gains, it does not matter whether the contracts are measured on an individual basis or a group basis. On an individual contract basis, both experience gains and experience losses are recognised immediately, so the total experience gain or loss recognised across all contracts in the group is the same as the net experience gain or loss for the group.
 - (b) in contrast, if the gains on contracts that offset the losses on other contracts are recognised at different times, an accounting mismatch will arise if those contracts are accounted for on an individual contract basis. This would be the case if an event causes a change in expectations about future cash flows relating to future service. On an individual contract basis, the gains arising from any reductions in fulfilment cash flows will be recognised through adjustments to the contractual service margin and spread over the remaining life of the contract whereas the losses arising from individual contracts from any increases in fulfilment cash flows will be recognised in profit or loss immediately to the extent that they exceed the contractual service margin balance in the contract. However, if those offsetting gains and losses occur within contracts that are measured as a group, any offsetting gains and losses in the group have no effect on the measurement of the group as a whole because only the net gain or loss across all the contracts in the group would be recognised in the contractual service margin or profit and loss.

14. As noted above, the staff did not intend the June 2014 decision to set the objective as the measurement of individual contracts would result in losses being recognised in all cases when the contractual service margin of individual contracts becomes negative. Rather, in previous Board papers the staff noted two factors that interact:
- (a) often there will be groups of contracts for which the entity expects at inception that there is a similar likelihood of the insured event occurring; and
 - (b) entities would need to use only reasonable and supportable information that *is available at inception* without undue cost or effort to satisfy the objective.
15. The staff thought that the combination of these factors meant that an entity would be able to aggregate contracts at the grouping determined by (a), and that, provided the grouping was not reassessed after inception, this would be sufficient to avoid inappropriate recognition of losses that arise on individual contracts just because expected events across a group affect individual contracts differently. The staff notes that not reassessing the grouping after inception means that different outcomes would result, relative to the outcome that would occur if contracts were measured on an individual basis.
16. However, feedback from preparers indicates that they have not reached the same conclusions as the staff intended about the level of aggregation for determining onerous contracts from the wording used in the Board papers and Updates. This is because, in many cases, entities collect sufficient information on policyholders, and use it in the pricing of the contracts, with the result that (a) may not hold. Accordingly, the staff no longer think the factors in paragraph 14(a) and (b) are sufficient to avoid the recognition of inappropriate losses that arise on individual contracts just because expected events across a group affect individual contracts differently.
17. Accordingly, the staff thinks the Board should specify a level of aggregation to be used in determining whether a group of contracts is onerous. Within that group, there may be individual contracts where, had they been measured separately, the

contractual service margin would be negative. This is discussed in paragraphs 22-29.

18. We noted in paragraph 11 that there is not an absolute right answer to the level of aggregation. In determining whether a loss should be recognised for onerous contracts, it is a question of balancing the loss of information about contracts that have become loss-making against the relevance of that information (and hence faithful representation of the effect of having groups of contracts), while having regard to the cost of providing that information. For example, at the extremes, we think users of financial statements are:
- (a) unlikely to find information about losses relevant when expectations of claims across a group of similar contracts have not changed, but it is simply now clearer which contracts in that group will result in claims; but
 - (b) unlikely to be satisfied with losses on significant product lines not being recognised simply because there is a net positive contractual service margin for the entity as a whole.
19. The staff thinks the discussion in IFRS 15 *Revenue from Contracts with Customers* on the disclosure of revenue can be used to develop guidance on the level of aggregation for determining onerous contracts subsequent to initial recognition. Accordingly we would propose to provide guidance that, in balancing between the loss of information about individual contracts and giving a faithful representation of the effect of having groups of contracts:
- (a) The objective is to group contracts for which the amount and timing of cash flows are expected to respond in similar ways to key drivers of risk.
 - (b) That in determining how to meet the objective, the entity should consider whether the entity expects different responses to key drivers of risk for different categories of contracts. We would provide examples of where this might be the case based on the list in paragraph B89 of IFRS 15, modified to be appropriate for insurance contracts. For example, we would remove references to goods, and add a reference to factors

specific to insurance contracts, for example different regulatory regimes that may affect the response to key drivers of risk².

(c) The entity should also consider whether the grouping meets the objective by considering how it reports groups for other purposes, for example the purposes described in paragraph B88(b) of IFRS 15. The staff expects that where there are expected to be different responses to key drivers of risk for different groups of contracts, this would be reflected in the information provided for those purposes.

20. The extract from IFRS 15 is set out in Appendix B. If the Board agrees with this approach, we will develop the wording and examples as we draft the Standard.

21. The staff also proposes to retain the notion from the 2013 ED that a group should comprise contracts that on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium). This is needed to ensure that when contracts have cash flows for which the amount and timing is expected to respond in similar ways to key drivers of risk, but for which there is a different percentage of contractual service margin relative to the premium at inception, changes in estimate that might make the contractual service margin negative for the contracts which had a lower profitability but not the contracts which had a higher profitability are appropriately recognised in profit or loss. Retaining the notion of similar expected profitability avoids undue loss of information about individual contracts.

Question 1: level of aggregation for onerous contracts

Does the IASB agree to require a loss for onerous contracts to 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:

(a) have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing; and

(b) had similar expected profitability (ie similar contractual service margin as a percentage of the premium)?

² Paragraphs 30-34 describe how, in some jurisdictions, regulation may affect the pricing of contracts.

Allocation of the contractual service margin

22. The other aspect of accounting for insurance contracts, for which the level of aggregation is relevant, is the allocation of the contractual service margin.
23. When insurance contracts in a group have different expected durations then it is expected that the coverage period of some contracts will end earlier than the average coverage period for the group and the coverage period of other contracts will end later than the average coverage period for the group.
24. For those contracts for which the coverage period ends earlier than the average coverage period for the group:
 - (a) Measuring the contracts on an individual basis would mean that the contractual service margin associated with those contracts would be fully recognised in profit or loss over the shorter period up to the point when the coverage period ends.
 - (b) Measuring the contracts on a group basis would not necessarily mean that the contractual service margin associated with those contracts would be recognised in profit or loss when the coverage period ends.
25. The Board has decided that an entity should recognise the remaining contractual service margin in profit or loss over the remaining coverage period in the systematic way that best reflects the remaining transfer of the services to be provided by insurance contracts. The Board decided to clarify that the service represented by the contractual service margin is insurance coverage that is provided on the basis of the passage of time. To meet this objective, the Board also decided to clarify that, when the allocation of the contractual service margin is determined on a group basis, the service represented by the contractual service margin should reflect the expected number of contracts in force.
26. This paper does not revisit the high-level principle that an entity should recognise the remaining contractual service margin in profit or loss over the remaining coverage period in the systematic way that best reflects the remaining transfer of the services to be provided by insurance contracts, or that the service represented by the contractual service margin is insurance coverage that is provided on the

basis of the passage of time. This paper only considers the guidance on how to apply those principles when an entity groups contracts for allocating the contractual service margin.

27. The staff notes, that when the allocation of the contractual service margin is determined at a group level, the intended consequences of the high-level principle set out in paragraph 26 are that:

- (a) the contractual service margin should not become an everlasting pool that cannot be related to existing groups of similar contracts.
- (b) the contractual service margin for the group should reflect the contracts within the group that still have coverage to provide (ie have not lapsed), rather than an average profitability that reflects the composition of the group at inception.

28. Thus, the staff think that the group would need to comprise contracts:

- (a) for which the amount and timing of cash flows are expected to respond in similar ways to key drivers of risk;
- (b) on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium); and
- (c) have coverage periods that are expected to end at a similar time.

Conditions (a) and (b) are needed so that the contractual service margin of a particularly profitable individual contract is not carried forward after the individual contract has expired. Condition (c) is needed to prevent the contractual service margin being carried forward long after the contract has expired.

29. We note that the group for allocation of the contractual service margin is narrower than the group needed for determining onerous contracts. This is necessary to achieve the intended consequences described in paragraph 27.

Question 2: level of aggregation for the allocation of the contractual service margin

Does the IASB agree that an entity could meet the objective of recognising 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 to be provided by insurance contracts by grouping contracts that:

- (a) have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing;
- (b) on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium); and
- (c) have coverage periods that are expected to end at a similar time.

Effect of regulation

30. The level of aggregation for determining onerous contracts and allocating the contractual service margin to profit or loss include the notion that a group should comprise contracts that on inception had similar expected profitability (ie similar contractual service margin as a percentage of the premium).
31. In some jurisdictions, regulation may affect the pricing of insurance contracts. Examples of such regulation-affected pricing are premiums charged that are prohibited from seeking compensation from the differences in risks arising between policyholders. For example, an entity may be prohibited from charging different premiums to policyholders because of a specific characteristic (eg gender, age, race or location of residence), even if the entity is aware of significant differences in the probability of an insured event occurring, based on that specific characteristic. Such regulatory restrictions are common when the insurance product is mandatorily required to be underwritten in a jurisdiction (eg health, flood, third-party motor insurance). In other circumstances, the insurer may need to seek regulatory approval for changes in the premiums and/or benefits.
32. Some suggest that the Board should provide an exception in determining the level of aggregation for contracts for which an entity does not have the right or practical

ability to price the risk of a particular policyholder and therefore cannot set a price that fully reflects the risk of that particular policyholder, to avoid the outcome that an entity might be required to recognise losses for one group of policyholders when the entity had no ability to set a price that fully reflects the risks of those policyholders. They believe the recognition of those losses is artificial and does not reflect the economics because the entity is effectively required to price reflecting the risks at a higher level. Accordingly they are concerned that such losses would be difficult to explain to users of financial statements.

33. Furthermore, some think providing such an exception would be consistent with the exception the Board provided so that, in determining the contract boundary, an entity is not deemed to grant substantive rights to the policyholder when it can set a price that fully reflects the risk of a portfolio of contracts the contract belongs to, because it has the right or practical ability to reassess the price of that portfolio. Such an exception would mean that if profitability was different as a consequence of regulation but the other conditions relating to determining the level of aggregation are met, such contracts could be aggregated for determining onerous contracts or allocating the contractual service margin to profit or loss. In other words, if regulation were to limit the entity's ability to set a price that fully reflects a policyholder's risk, an entity's substantive rights would be evaluated at the level at which the entity is able to set a price for a portfolio of contracts and that contract belongs to that portfolio. However, the staff notes that the contract boundary decision specifies which renewal premiums for a contract should be considered in the measurement of the contract. The staff does not see this as analogous to determining the measurement of the contractual service margin.
34. The staff does not recommend making an exception to the level of aggregation for determining onerous contracts or allocation of the contractual service margin when regulation affects the pricing of contracts because:
- (a) A difference in profitability, even if caused by regulation, is a real economic difference between contracts, which the staff believes provides information that should not be lost.
 - (b) The effect of regulation on pricing is not restricted to insurance contracts and providing an exception for the effect of regulation on

pricing would create an undesirable precedent. (The staff notes that a limited number of insurance contracts may be within the scope of the rate-regulated activities project).

- (c) An exception would not provide users of financial statements with information about when an entity can price the risks in the individual contracts, and when it cannot.
- (d) An exception would increase the complexity of the Standard as a whole and may make the information produced more difficult to explain to users of financial statements as to why there are differences in results between contracts.

Question 3: exception for the effect of regulation

Does the Board agree that there should be 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?

Appendix A: Level of aggregation – history

The 2010 ED

The ED

- 50 **An insurer shall recognise the residual margin determined at initial recognition as income in profit or loss over the coverage period in a systematic way that best reflects the exposure from providing insurance coverage, as follows:**
- (a) **on the basis of the passage of time, but**
 - (b) **on the basis of the expected timing of incurred claims and benefits, if that pattern differs significantly from the passage of time.**
- (...)
- 52 Once the coverage period has ended, the residual margin is zero; hence, after that point the contract shall be measured as the present value of the fulfilment cash flows.
- 53 If fewer contracts are in force at the end of a period than was expected at the beginning of the period, the amount of the residual margin recognised in profit or loss during the period shall include an adjustment to eliminate from the residual margin at the end of the reporting period the portion relating to contracts that are no longer in force. If more contracts are in force at the end of a period than was expected at the beginning of the period, the insurer shall not increase the residual margin.

Definitions

portfolio of insurance contracts	Insurance contracts that are subject to broadly similar risks and managed together as a single pool.
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Basis for conclusions

Level of aggregation for the residual margin

BC130 Paragraph BC120 explains that the risk adjustment should be determined at a portfolio of contracts level that groups together contracts subject to similar circumstances (ie contracts that are subject to similar risks and are managed together as a pool). However, because the residual margin is released over the coverage period, it is necessary to adopt a different level of aggregation for residual margins that group together only those contracts within the portfolio that have similar coverage periods. For that reason, the Board concluded that residual margins should be determined at a level that aggregates insurance contracts into a portfolio and, within each portfolio, by similar date of inception of the contract and by similar coverage period. An alternative would be to determine the release of the residual margin at an individual contract level, but the Board concluded that would be impracticable.

Feedback received on the 2010 ED (AP 2C for the June 2014 meeting)

- A1. Most respondents thought that the definition of a portfolio could be subject to different interpretations of “similar risks” and “managed together”, resulting in aggregation of very different contracts. Many respondents suggested that the

Standard should have a single level of aggregation and that this single level of aggregation should be the portfolio. In addition:

- (e) Some respondents did not agree with the proposed level of aggregation for measuring the risk adjustment, because it restricted the diversification benefits to only those within a portfolio and not between portfolios. Those respondents stated that this proposal was inconsistent with the way in which they price contracts and manage their business.
- (f) Some respondents did not see the need to restrict the level of aggregation for the release of the contractual service margin to a level lower than portfolio, because in some circumstances using a higher level of aggregation would provide the same information at lower cost.

The 2013 ED

The ED

Contractual service margin

- 28 **Unless the portfolio of insurance contracts that includes the contract is onerous at initial recognition, an entity shall measure the contractual service margin recognised at initial recognition in accordance with paragraph 18(b) at an amount that is equal and opposite to the sum of:**
- (a) **the amount of the fulfilment cash flows for the insurance contract at initial recognition; and**
 - (b) **any pre-coverage cash flows.**

Subsequent measurement

- 29 **Unless paragraphs 35–40 apply, the carrying amount of an insurance contract at the end of each reporting period shall be the sum of:**
- (a) **the fulfilment cash flows at that date, measured in accordance with paragraphs 19–27, B36–B67 and B69–B82; and**
 - (b) **the remaining amount of the contractual service margin at that date.**
- 30 The remaining amount of the contractual service margin at the end of the reporting period is the carrying amount at the start of the reporting period:
- (a) plus the interest accreted on the carrying amount of the contractual service margin during the reporting period to reflect the time value of money (the interest accreted is calculated using the discount rates specified in paragraph 25 that applied when the contract was initially recognised);
 - (b) minus the amount recognised in accordance with paragraph 32 for services that were provided in the period;
 - (c) plus a favourable difference between the current and previous estimates of the present value of future cash flows, if those future cash flows relate to future coverage and other future services (see paragraph B68);
 - (d) minus an unfavourable change in the future cash flows:

- (i) if the change arises from a difference between the current and previous estimate of the present value of future cash flows that relate to future coverage and other future services; and
- (ii) to the extent that the contractual service margin is sufficient to absorb an unfavourable change. The contractual service margin shall not be negative.

- 31 An entity shall recognise in profit or loss any changes in the future cash flows that, in accordance with paragraph 30, do not adjust the contractual service margin (see paragraph B68).
- 32 An entity shall 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 services that are provided under the contract.

Definitions

- portfolio of insurance contracts** 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.

Application guidance

Measurement (paragraphs 17–48)

Level of measurement (paragraph 22)

- B36 The expected (probability-weighted) cash flows from a portfolio of insurance contracts equals the sum of the expected cash flows of the individual contracts. Consequently, the level of aggregation for measurement should not affect the expected present values of future cash flows.
- B37 However, from a practical point of view, it may be easier to make estimates in aggregate for a portfolio rather than for individual insurance contracts. For example, incurred but not reported (IBNR) estimates are typically made for a portfolio as a whole. If expenses are incurred at the portfolio level but not at an individual insurance contract level, it may be easier, and perhaps even necessary, to estimate them at an aggregate level. Accordingly, this [draft] Standard requires that entities measure an insurance contract using:
- (a) expected cash flows assessed at the level of a portfolio of insurance contracts (see paragraph 22);
 - (b) a risk adjustment measured by incorporating diversification benefits to the extent that the entity considers those benefits in setting the amount of compensation it requires to bear risk (see paragraphs B76–B77);
 - (c) the contractual service margin at initial recognition at the level of a portfolio of insurance contracts, consistent with the cash flows (see paragraph 28); and
 - (d) the amount of contractual service margin recognised in profit or loss at a level of aggregation such that once the coverage period of the insurance contract has ended, the related contractual service margin has been fully recognised in profit or loss (see paragraph 32).
- B38 However, the expected value of estimates made at the portfolio level reflects the expected value of the equivalent estimates of those amounts attributed to the individual contracts. In principle, this should be no different from making expected value estimates for individual insurance contracts and then aggregating the results for the portfolio of those contracts.

Basis for conclusions

Level of aggregation (paragraph 32)

- BCA113 This Exposure Draft specifies that an entity should aggregate insurance contracts into a portfolio of insurance contracts when determining the contractual service margin. However, it does not specify the

level of aggregation for recognising the contractual service margin in profit or loss. The IASB proposes that when entities recognise the contractual service margin they should use a level of aggregation that ensures that the contractual service margin is recognised in line with the pattern of services provided under the contracts to which they relate. This would mean that when the coverage period of each contract has ended, the contractual service margin relating to that contract should be fully recognised. In practice, this may result in a smaller unit of account than the portfolio that entities would generally use to manage contracts, and may require entities to group together contracts that have similar contract inception dates, coverage periods and service profiles. Another approach would be to determine the recognition of the contractual service margin at an individual contract level, but the IASB concluded that requiring that approach in all circumstances might be onerous.

Feedback received on the 2013 ED (AP 2C for the June 2014 meeting)

- A2. Most of the comments received on the 2013 ED relating to the definition of a portfolio and to the level of aggregation were sent by preparers of financial statements and regulatory or standard-setting bodies, mostly from Europe and the United States. The main issues were:
- (a) Respondents were unclear about how to interpret the requirement that contracts within a portfolio should be priced similarly relative to the risk taken on.
 - (b) Respondents struggled to understand the reasons for the 2013 ED proposals for the level of aggregation that was to be used to account for different components of insurance contracts.
 - (c) Respondents were not sure how to measure an insurance contract by applying different levels of aggregation to the measurement of its components. They believe that applying different levels of aggregation to measure different components of the insurance liability will create unnecessary complexity and an operational burden.
 - (d) Respondents were concerned that the 2013 ED would require them to apply a level of aggregation that is lower than the level at which they manage their business. In particular, respondents were concerned that the requirements in paragraph B37(d) relating to the release of the contractual service margin, and the requirement in the definition of an insurance contract that contracts should be priced similarly relative to the risk taken on, would require a lower level of aggregation than they currently use.

- (e) Some respondents would prefer a single level of aggregation throughout the Standard, while others ask for clarification of the principle, improved consistency of drafting and additional guidance on the application of the portfolio definition.

Since 2013 ED

Decision taken in June 2014

A3. The IASB tentatively decided to:

- (a) clarify that the objective of the proposed insurance contracts Standard is to provide principles for the measurement of an individual insurance contract, but that in applying the Standard an entity could aggregate insurance contracts provided that it meets that objective. This was to address the need for principle and single unit of account.
- (b) amend the definition of a portfolio of insurance contracts to be: "insurance contracts that provide coverage for similar risks and are managed together as a single pool". Consequently, the definition of the portfolio would be used only to identify which cash flows should be considered in determination of the expected cash flows.
- (c) add guidance to explain that in determining the contractual service margin or loss at initial recognition, an entity should not aggregate onerous contracts with profit-making contracts. An entity should consider the facts and circumstances to determine whether a contract is onerous at initial recognition. This was to address the potential diversity in interpretation over the level of aggregation for the measurement of the contractual service margin.

Fourteen IASB members agreed with these decisions and one IASB member disagreed. One IASB member was absent.

A4. In addition, the IASB also tentatively decided to provide examples on how an entity could aggregate contracts but nonetheless satisfy the objective in a. above when determining the contractual service margin at a subsequent measurement.

A5. Fifteen IASB members agreed with this decision. One IASB member was absent.

Agenda paper 2A from February 2015

A6. In the 2013 ED, the IASB recognised that existing practice has differing levels of aggregation and techniques used to measure insurance contracts. The IASB’s intent was not to force a change to existing practice, unless that existing practice is incompatible with the principles in the new Standard. Accordingly, the new Standard will not prescribe a predefined level of aggregation for the measurement of contractual service margin. By expressing the IASB’s intent in the form of a principle, the IASB believed that entities would be able to use different techniques for measuring insurance contracts, provided the principles are met. In some cases, an entity’s existing approach to aggregating contracts may meet the objective of measuring the contractual service margin at the individual contract level at inception. However, if that objective is not satisfied, the entity may still employ its existing approach to aggregating contracts, provided that the entity employs additional techniques or methods to ensure that the outcome satisfies the objective.

(..)

A7. Nevertheless, in assessing whether the principle is met, **the staff believes that the IASB’s intention is that entities would use only reasonable and supportable information that is available at inception without undue cost or effort to satisfy that objective.**³

³ This is consistent with the requirement for determining whether the credit risk has risen significantly under the impairment requirements in IFRS 9.

Appendix B: Extract from IFRS 15 Revenue from Contracts with Customers

Disclosure of disaggregated revenue

- B87 [Paragraph 114](#) requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's contracts with customers. Some entities may need to use more than one type of category to meet the objective in [paragraph 114](#) for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.
- B88 When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:
- (a) disclosures presented outside the financial statements (for example, in earnings releases, annual reports or investor presentations);
 - (b) information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments; and
 - (c) other information that is similar to the types of information identified in [paragraph B88\(a\) and \(b\)](#) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.
- B89 Examples of categories that might be appropriate include, but are not limited to, all of the following:
- (a) type of good or service (for example, major product lines);
 - (b) geographical region (for example, country or region);
 - (c) market or type of customer (for example, government and non-government customers);
 - (d) type of contract (for example, fixed-price and time-and-materials contracts);
 - (e) contract duration (for example, short-term and long-term contracts);
 - (f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and
 - (g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).