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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: February 2009, London

Project: Insurance Contracts

Subject: Candidate measurement approaches – tabular comparison
(Agenda paper 10E)

Purpose of this paper

1. This paper provides a tabular overview of differences and similarities between the candidate measurement bases that are discussed in agenda paper 10A (similarities are shaded).
2. The table tries to capture the main features of a measurement approach, but is not intended to show every detail.
3. The description of the candidates is tentative. Agenda paper 10A lists the issues that will be discussed at further meetings. As a result of those discussions the candidates can change.

CANDIDATE MEASUREMENT APPROACHES

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>
1	Definition	The amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.	The expected present value of the cost of fulfilling the obligation to the policy holder over time.	The expected present value of the cost of fulfilling the obligation to the policy holder over time. ¹	The expected present value of the cost of fulfilling the obligation to the policy holder over time. ²	The part of the premiums for the unexpired part of the insurer's contractual obligation, subject to a liability adequacy test.
2	Scope	All insurance liabilities.	All insurance liabilities.	All insurance liabilities.	All insurance liabilities.	Only pre-claim short duration insurance liabilities.
3	Building blocks for the measurement approach	- future cash flows - time value of money - a margin	- future cash flows - time value of money - a margin	- future cash flows - time value of money - a margin	- future cash flows - time value of money - a margin	Implicit building block approach; construct of two inputs: (1) premiums and (2) the remaining contractual obligation as a proportion of the total contractual obligation
4	Inputs for estimates of cash flows					
4a	Inputs for which observable market information is available	Consistent with observed market prices.	Consistent with observed market prices.	Consistent with observed market prices.	Consistent with observed market prices.	Not applicable unless onerous.

¹ Plus an "additional margin", based on the day on difference.

² Plus a "composite margin", based on calibrating to the premium

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>
4b	Other inputs	The entity's estimate of the estimates that other market participants would make.	The entity's own estimates.	The entity's own estimates.	The entity's own estimates.	Not applicable unless onerous.
5	Characteristics of cash flows					
5a	Cash flows that arise from the characteristics of the portfolio (portfolio-specific)	Included.	Included.	Included.	Included.	Not applicable unless onerous.
5b	Cash flows that arise from the characteristics of the entity (entity-specific)	Excluded.	Included.	Included.	Included.	Not applicable unless onerous.
6	Subsequent measurement of cash flows	Current estimates for all variables.	Current estimates for all variables.	Current estimates for all variables.	Current estimates for all variables.	No remeasurement unless onerous.
7	Changes in estimates of cash flows	Effect included in profit or loss.	Effect included in profit or loss.	Effect included in profit or loss.	Effect included in profit or loss.	Included in profit or loss if contract becomes onerous.
8	Time value of money	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.	Implicitly recognised at inception.
9	Components of margin	- risk margin - service margin	- risk margin - (no service margin)	- risk margin - (no service margin) - additional margin (calibrated to premium)	- composite margin	No explicit margin. Implicit margin at inception, as implied by the premium

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
			<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	
10	Risk margin	The compensation required by market participants for bearing risk.	The cost of bearing risk, measured from an entity's perspective.	The cost of bearing risk, measured from an entity's perspective.	"Composite margin", calibrated to the premium at inception, measured from the insurer's perspective.	No explicit margin. Implicit margin at inception, as implied by the premium
10a	Risk margin- initial measurement.	May use premium for a 'reasonableness' check, but premium does not override an unbiased estimate of the margin required by market participants.	Estimates risk margin based on the cost of bearing risk.	Estimates risk margin based on the cost of bearing risk.	Uses premium as basis for determining the initial total margin.	Not applicable
10b	Risk Margin- subsequent measurement	Remeasured at each reporting date.	Remeasured at each reporting date.	Remeasured at each reporting date.	Not remeasured at reporting date.	Not applicable
11	Service margin	The compensation required by market participants for other services.	No service margin.	Implicit in the "additional margin".	Implicit in the "composite margin".	No explicit margin. Implicit margin at inception, as implied by the premium
11a	Service margin- subsequent measurement	Remeasured at each reporting date	Not applicable	Not applicable.	Not applicable	Not applicable

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>
12	Day one difference (the difference between the actual margin and the required margin)	Recognised in profit or loss. (DP expressed view that this would not be common and significant.)	Recognised in profit or loss.	No profit at inception; “additional margin” recognised as a separate item within the insurance liabilities.	No profit at inception by calibrating the margin directly to the premium. Loss at inception if onerous.	No profit at inception. Loss at inception if onerous.
13	Liability adequacy test	Not applicable.	Not applicable.	Not applicable.	Required at inception Not required subsequently.	Required at inception and each subsequent reporting date.
14	Acquisition costs	Expensed when incurred.	Expensed when incurred.	Expensed when incurred.	Expensed when incurred.	Expensed when incurred.
15	Part of the premium expected to recover relevant acquisition costs	Recognised as income on day one.	Recognised as income on day one.	Recognised as income on day one.	Recognised as income on day one.	Recognised as income on day one. ³
16	Own credit risk	Included. (DP expressed view that this would not be significant at inception.)	Excluded (arguably implicit at inception).	Excluded (arguably implicit at inception).	Excluded (arguably implicit at inception).	Not applicable (arguably implicit at inception).

³ In practice, the relevant acquisition costs are capitalised and amortised for this approach. Although this results in a gross presentation, the net effect for both the balance sheet and the income statement will probably be similar to expensing the acquisition costs when incurred and recognising related income on day one.