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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:** Cover note (Agenda paper 10)

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#### Agenda papers for this meeting

1 We have prepared the following agenda papers for this meeting:

Agenda Paper No.	Title	Objective
10	Cover note	Outlines objectives for this meeting and next steps.
10A	Candidate measurement approaches	Considers some key aspects of measurement approaches (candidates) 1-4 and asks the boards to take some decisions on those aspects.
10B	Margins	Gives further information on margins, in support of agenda paper 10A.
10C	Comparison with preliminary views on Revenue Recognition	Compares the measurement candidates for insurance contracts with the discussion paper <i>Preliminary Views on Revenue Recognition in Contracts with Customers</i> .
10D	Nature of insurance contracts	Provides a high-level discussion of three aspects that are relevant for the general approach of the insurance project.

10E	Candidate measurement approaches– tabular comparison	Provides a tabular comparison between the candidates.
10F	Other comprehensive income	Discusses whether insurers should be permitted (or required) to use other comprehensive income (OCI) in the case of insurance liabilities.

### Objective of this meeting

- 2 In its October 2008 meeting, the IASB discussed a list of measurement approaches identified by staff as possibly viable candidates for selection in the case of insurance liabilities.
- 3 The measurement approaches were discussed at the IASB’s Insurance Working Group in November 2008. Staff gathered feedback from Working Group members on the candidates.
- 4 In October 2008, the FASB decided to join in the IASB’s insurance project. In January 2009, the FASB held an educational session on the IASB’s preliminary views in the Discussion Paper, *Preliminary Views on Insurance Contracts*, and a high-level overview of the responses to the DP. An educational session on the candidate measurement approaches will be held with the FASB in February 2009, shortly before this meeting.
- 5 In agenda paper 10A, we consider some key aspects of measurement approaches 1-4. We will ask the Boards to make decisions on those aspects. This means that in that paper we will not ask the boards to select one of the candidates. Rather, the decisions the boards make will provide direction for developing a measurement approach; it also will narrow down the number of candidates.
- 6 Narrowing down the candidates will help the staff in focusing its efforts and resources on the most viable candidates; not narrowing down the candidates means that staff will have to put efforts in analysing and developing all the candidates in the list [and maybe even some variations to those candidates] and will put significant pressure on the timetable.

- 7 We will discuss other aspects of measurement at future meetings. These aspects are in our view not critical to deciding on the aspects discussed in agenda paper 10A.
- 8 The overview of margins in agenda paper 10B gives further information on margins, an important issue when deciding on a measurement approach.
- 9 Agenda paper 10C compares the measurement candidates for insurance contracts with the preliminary views in the DP on revenue. Those preliminary views result from the boards' most recent thinking on contracts with customers. Insurance contracts are contracts with customers.
- 10 Agenda paper 10D staff provides a high-level discussion of three aspects (the nature of insurance contracts, unbundling and a separate insurance standard) that are relevant for the general approach of the insurance project. This paper is intended to provide background information in support of agenda paper 10A.
- 11 Agenda papers 10A-10D are supported by a tabular comparison between the candidates in agenda paper 10E.
- 12 Agenda paper 10F discusses whether OCI should be available for remeasurements of insurance liabilities if financial assets held to back those liabilities are not carried at fair value through profit or loss.

### **Next steps**

- 13 Throughout papers 10A-10D we note issues to be discussed at future meetings. During those meetings we will bring back those issues to further work out the details of the measurement approach, taking into account any decisions the boards make during this meeting.
- 14 In March 2009, we intend to start discussing policyholder behaviour and policyholder participation, with at the centre of the debate the question whether an insurer should account for individual rights and obligations under the contract or account for the whole contract (unit of account).
- 15 In March 2009, we also intend to discuss the discount rate.

- 16 This timing is broadly consistent with the project planning, but we probably need more sessions on the measurement approach than previously anticipated. With the approach in this paper, we want to arrive at the measurement approach more gradually rather than selecting one of the candidates directly. However, we feel this is necessary because moving straightaway to the selection of the candidate may involve too many considerations and decisions at one stage.
- 17 An updated project timetable is attached to this paper. This time table works from the basis that the boards reach a decision on staff's questions for this meeting.

## Appendix

### Timetable for Board discussions and Working group meetings

<b>Educational session on the contract approach</b> <ul style="list-style-type: none"><li>• Is the unit of recognition the whole contract, or individual rights and obligations?</li><li>• If the unit of recognition is individual rights and obligations: is the guaranteed insurability test appropriate?</li><li>• If the unit of recognition is the whole contract: where is the boundary between existing contracts and new contracts?</li></ul> Other relevant projects: revenue recognition, financial instruments, leases, concepts (elements, recognition)	March 2009
<b>Discount rates</b> <ul style="list-style-type: none"><li>• guidance on discount rates</li></ul>	March 2009
<b>Contract approach</b> <p>We will ask the boards to discuss and reach a conclusion on the contract approach (see March 2009 Educational Board Session)</p>	April 2009
<b>Other issues on the measurement approach</b> <ul style="list-style-type: none"><li>• Use of the unearned premium (candidate 5) for short-duration contracts.</li><li>• Day one differences and margins (issues depend on the outcome of the February meeting)</li></ul>	April 2009
<b>Other issues on the measurement approach (continued)</b> <ul style="list-style-type: none"><li>• guidance on cash flows</li><li>• non-performance risk</li><li>• acquisition costs</li></ul>	May 2009
<b>Policyholder participation - classification</b> <ul style="list-style-type: none"><li>• If the unit of recognition is individual rights and obligations: when should participation features be classified as equity and when should</li></ul>	May 2009

<p>they be classified as liabilities? How should participation features be reported in the statements of financial position, financial performance and cash flows?</p> <ul style="list-style-type: none"> <li>• Are there any specific issues for mutuals?</li> </ul> <p>Other relevant projects: concepts (elements, recognition), liabilities and equity</p>	
<p><b>Inconsistencies with IAS 39 and IAS 18</b></p> <ul style="list-style-type: none"> <li>○ For some or all financial liabilities and investment management contracts, should the Board eliminate some or all inconsistencies between the insurance contracts model and the models in IAS 39 and IAS 18?</li> <li>○ Should any changes be made to the measurement attribute of assets held to back insurance contracts? (see separate discussion for participating, unit-linked and index-linked contracts).</li> </ul> <p>Other relevant projects: revenue recognition, financial instruments</p>	June 2009
<p><b>Policyholder accounting – initial review</b></p> <ul style="list-style-type: none"> <li>• Initial review of whether the same measurement attribute is appropriate for policyholders as insurers.</li> <li>• If the same measurement attribute is appropriate, consider whether practical shortcuts are needed.</li> </ul> <p>Other relevant projects: concepts (measurement, unit of account), fair value measurements, non-financial liabilities (IAS 37)</p>	June 2009
<p><b>Policyholder participation - measurement</b></p> <ul style="list-style-type: none"> <li>• Consider specific measurement issues for participation features.</li> <li>• Do we need to amend the IFRS 4 definition of a discretionary participation feature (DPF)?</li> <li>• Should investment contracts with a DPF be in the scope of the insurance standard or IAS 39?</li> <li>• Are there any specific issues for mutuals?</li> </ul> <p>Other relevant projects: concepts (measurement), fair value measurements, financial instruments, liabilities and equity</p>	June 2009

<p><b>Meeting of Insurance Working Group</b> (tentative, timing will be reconsidered after February Board meetings)</p>	<p>June 2009</p>
<p><b>Participating, unit-linked and index-linked insurance contracts and investment contracts and universal life contracts</b></p> <ul style="list-style-type: none"> <li>○ Should accounting mismatches be eliminated? If so, how?</li> <li>○ If assets are held in separate funds, are they part of the reporting entity?</li> <li>○ If policyholders bear part or all of the investment risk, how should this affect presentation and disclosure?</li> </ul> <p>Other relevant projects: concepts (unit of account), financial instruments, consolidation, concepts (reporting entity)</p>	<p>July 2009</p>
<p><b>Recognition and derecognition</b></p> <ul style="list-style-type: none"> <li>○ When should an insurer recognise an insurance liability?</li> <li>○ When should a cedant recognise reinsurance assets, especially if the underlying direct contracts have a different coverage period?</li> <li>○ When should an insurer derecognise insurance liabilities and reinsurance assets?</li> </ul> <p>Other relevant projects: concepts (recognition and derecognition), derecognition, revenue recognition</p>	<p>July 2009</p>
<p><b>Definition and scope</b></p> <ul style="list-style-type: none"> <li>● Should the IFRS 4 definition of an insurance contract change?</li> <li>● Financial guarantee contracts</li> <li>● Should existing scope exclusions continue? Should new scope exclusions be added?</li> <li>● Catastrophe bonds and alternative risk transfer</li> </ul> <p>Other relevant projects: financial instruments, revenue recognition, pensions</p>	<p>July 2009</p>
<p><b>Disclosure</b></p> <ul style="list-style-type: none"> <li>● What disclosures should be required?</li> </ul> <p>Other relevant projects: presentation of financial statements</p>	<p>September 2009</p>
<p><b>Other issues on the building blocks</b></p> <ul style="list-style-type: none"> <li>● Guarantee fund assessments</li> </ul>	<p>September 2009</p>

<ul style="list-style-type: none"> <li>• Tax issues</li> <li>• Salvage and subrogation</li> </ul> <p>Other relevant projects: non-financial liabilities (IAS 37), income taxes, fair value measurements</p>	
<p><b>Minor issues</b></p> <ul style="list-style-type: none"> <li>• Insurance contracts acquired in business combinations and portfolio transfers</li> <li>• Should some income taxes be reported as taxes on policyholders, rather than as taxes on the insurer?</li> <li>• Interim reporting</li> <li>• Transition, including transition for assets backing insurance contracts.</li> <li>• Consequential amendments</li> </ul> <p>Other relevant projects: presentation of financial statements</p>	September 2009
<p><b>Policyholder accounting – follow up</b></p> <ul style="list-style-type: none"> <li>• Review initial conclusions on policyholder accounting</li> </ul> <p>Other relevant projects: non-financial liabilities (IAS 37)</p>	September 2009
<p><b>Pre balloting</b></p>	September/ October 2009
<p><b>Sweep issues</b></p>	November 2009
<p><b>Publication of Exposure Draft</b></p>	December 2009
<p><b>Comments due</b></p>	April 2010
<p><b>Summary of comments</b></p>	May 2010
<p><b>Discussion of Issues from comment letters</b></p> <ul style="list-style-type: none"> <li>• The issues, both the content and the total number, can not be estimated at this stage</li> <li>• But we probably need to bring something to the Board every 1-2 months</li> </ul>	June 2010 – January 2011
<p><b>Pre balloting</b></p>	February/Marc



	h 2011
<b>Sweep</b>	April 2011
<b>Publication of final standard</b>	May 2011

Timing to be determined: consider the extent (if any) of field testing, planning for any field testing, reporting back on any field testing.