

IASB/FASB Insurance Contracts Project

PwC Summary as of November 16, 2011

Note: The following summary was developed using the IASB Exposure Draft, *Insurance Contracts*, issued on July 30, 2010, FASB Discussion Paper, *Preliminary Views on Insurance Contracts*, issued September 17, 2010 as well as PwC knowledge gained from attendance at IASB and FASB meetings through November 16, 2011.



Component	IASB Exposure draft (ED) and FASB Discussion paper (DP) views		Boards' redeliberation status
	IASB	FASB	
Status	<ul style="list-style-type: none"> Exposure draft (ED) issued July 2010 	<ul style="list-style-type: none"> Discussion paper (DP) issued September 2010 	<ul style="list-style-type: none"> Joint redeliberations began January 2011 Workplans show target date for IASB revised exposure draft or final review draft, and FASB exposure draft, as the first half 2012, but given number of open items, this timing appears optimistic.
Definition of insurance contract	<ul style="list-style-type: none"> Retain IFRS 4 definition of insurance contract: "A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." 		<ul style="list-style-type: none"> Reaffirmed ED/DP position
Significant insurance risk	<ul style="list-style-type: none"> Retains IFRS 4 requirements with additional clarification that evaluation of insurance risk should be done using present values rather than absolute amounts. As a result, contractual provisions that delay timely reimbursement to policyholder can eliminate significant insurance risk. Risk transfer analysis should focus on the variability of outcomes (i.e., is the range of outcomes significant to the mean?), consistent with IFRS 4, but amended to require that there be at least one possible outcome with commercial substance in which the present value of net cash outflows paid by insurer can exceed the present value of premiums. 		<ul style="list-style-type: none"> Some constituents (principally IFRS) commented that present value clarification and requirement for at least one possible loss outcome not necessary. Reaffirmed ED/DP position.
Scope	<ul style="list-style-type: none"> Financial guarantee contracts meeting the definition of an insurance contract are included in the scope of the insurance contracts standard. Exclusions from Insurance Contracts scope include: <ul style="list-style-type: none"> Residual value contracts offered by a manufacturer, dealer, or retailer and lessee guarantees of residual value (but stand-alone residual value guarantees not addressed by other projects are in Insurance Contracts scope). Manufacturer, dealer, and retailer warranty contracts (but unrelated third party warranties are in Insurance Contracts scope). Fixed-fee service contracts that have as their primary purpose the provision of services, for example maintenance contracts in which the service provider agrees to repair specified equipment after a malfunction. Contingent consideration payable or receivable in a business combination. Employer's assets and liabilities under employee benefit plans and retirement benefit obligations reported by defined benefit plans. License fees, royalties, contingent lease payments and similar items Direct insurance contracts an entity holds as policyholder (except for cedant accounting) 		<ul style="list-style-type: none"> IASB changed position from ED for financial guarantee contracts; will retain existing IFRS 4/IAS 39 scope guidance in the short term. FASB will deliberate whether financial guarantee contracts (including mortgage guarantee) should be included in scope in conjunction with financial instruments project. Both Boards reaffirmed scope exclusions. Boards' reaffirmation of scope exclusions includes FASB decision that employers account for employer-provided healthcare benefits to their employees under employee compensation guidance rather than impute a premium and account for them as issued insurance contracts. To clarify fixed-fee service contract exclusion, added 3 required qualifying criteria: (a) not priced based on an assessment of the risk associated with an individual customer; (b) contracts compensate customers by providing a service, rather than cash payment; and (c) type of risk transferred primarily related to use (or frequency) of services relative to overall risk transferred.

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Unbundling	<ul style="list-style-type: none"> Issue is whether and how to unbundle the components of an insurance contract (e.g., insurance, deposit, embedded derivative, service components) for recognition and/or measurement purposes. Insurer required to unbundle components of a contract that are not closely related to the insurance coverage specified in the contract. Examples included in ED are: <ul style="list-style-type: none"> - Policyholder account balances that bear an explicitly credited return rate and meet specified criteria - Embedded derivatives that are separated under existing bifurcation requirements - Contractual terms relating to goods and services provided under the contract that are not closely related to insurance coverage but have been combined in a contract with that coverage for reasons that have no commercial substance. Where unbundling is not required it is prohibited IFRS and US GAAP have different requirements for separation of certain embedded derivatives associated with insurance contracts (e.g., GMABs and GMWBs) which could lead to different results. 		<ul style="list-style-type: none"> Reaffirmed ED/DP position to separate embedded derivatives as defined in IFRS and US GAAP, respectively, and account for as derivatives at fair value. Tentative redeliberation decision to develop unbundling criteria for goods and services based on criteria being developed for identifying separate performance obligations in the revenue recognition project. Still discussing separation of deposit elements; diversity of views expressed on (1) criteria for determining investment components to be separated (i.e., explicit account balances only or beyond, such as cash surrender values and payout annuities) (2) whether to merely "disaggregate" such amounts for presentation only or to "unbundle" them for measurement purposes as well and (3) impact on income statement presentation of deposit components.
Recognition of rights and obligations arising under insurance contracts	<ul style="list-style-type: none"> An insurer should recognize the rights and obligations arising from an insurance contract on the earlier of the following two dates: <ul style="list-style-type: none"> - When the insurer is bound by the terms of the contract - When the insurer is first exposed to risk under the contract (i.e., when insurer can no longer withdraw from its obligation to provide coverage and no longer has right to reassess risk of particular policyholder, and as a result cannot set a price that fully reflects that risk). This can occur prior to coverage period. 		<ul style="list-style-type: none"> Changed position from ED/DP to require initial recognition at start of coverage period, or in pre-coverage period if contract is onerous. Decision based on cost/benefit and practical considerations. Open issue on treatment of acquisition costs in pre-coverage period.
De-recognition of insurance liabilities	<ul style="list-style-type: none"> Insurer should derecognize an insurance liability (or part of an insurance liability) when it is extinguished, i.e., when the obligation is discharged or cancelled or expires, consistent with the derecognition principle in IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. This represents the point at which the insurer is no longer at risk and no longer required to transfer any economic resources for that obligation 		<ul style="list-style-type: none"> Not expected to be redeliberated

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Measurement approach	<ul style="list-style-type: none"> • Measurement approach should portray a current assessment of the contract, using the following building blocks: <ul style="list-style-type: none"> - Explicit, unbiased, probability-weighted average (expected value) of future cash outflows less future cash inflows that will arise as insurer fulfills the insurance contract - A discount rate to incorporate of time value of money - A margin* • These building blocks should be used to measure the combination of rights and obligations arising from an insurance contract rather than to measure the rights separately from the obligations. • That combination of rights and obligations should be presented on a net basis. <p>*Two different margin approaches proposed are explicit risk adjustment approach and composite margin approach. Both approaches eliminate any gain at inception. The IASB ED includes the explicit risk adjustment approach, while the FASB narrowly favors the composite margin approach.</p> <p><i>Note: The Boards were asked during deliberations to consider the detailed application of each approach. As a result, the discussion below on measurement of margins at inception and subsequently reflects the Boards' views under each approach.</i></p>		<ul style="list-style-type: none"> • Reaffirmed the concept of a building block model using expected value and a discount rate to incorporate the time value of money. • Clarified that measurement objective of expected value refers to the mean. • Clarified that not all possible scenarios need to be identified and quantified provided the estimate is consistent with the mean measurement objective. • Reaffirmed no gain at inception, but immediate recognition of any day one loss.
Risk adjustment: <i>Explicit risk adjustment approach</i>	<p>This approach includes two separate parts:</p> <ol style="list-style-type: none"> 1. An explicit risk adjustment for the effect of uncertainty about the amount and timing of future cash flows from the perspective of insurer rather than from the perspective of a market participant 2. An amount that eliminates any gain at inception of the contract (residual margin) <p><i>Risk adjustment:</i></p> <ul style="list-style-type: none"> • Explicit risk adjustment is the maximum amount insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected. • Explicit risk adjustment would be updated (remeasured) each reporting period. • Under the explicit risk adjustment approach, the range of permitted techniques that can be used is limited to the following three: the confidence level technique (Value at Risk), the Conditional Tail Expectation technique (Tail Value at Risk), and the Cost of Capital technique (using economic rather than regulatory capital). • Although the risk adjustment is included in the measurement as conceptually separate from other building blocks (cash flows and discount rate), this is not intended to preclude "replicating portfolio approaches." To avoid double counting, the risk adjustment does not include any risk captured in the replicating portfolio. <p><i>Residual margin:</i></p> <ul style="list-style-type: none"> • In principle the initial recognition of an insurance contract should not result in the recognition of an accounting profit, resulting in the recording of a residual margin. • A loss arises at inception if the expected present value of cash outflows, plus explicit risk adjustment, exceeds the expected present value of cash inflows. • An entity should recognize that loss in profit or loss at inception. 		<ul style="list-style-type: none"> • Clear majority of IASB in favor of explicit risk adjustment approach; FASB rejected it. • Risk adjustment objective changed to: the compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfills the insurance contract. • Reflects the point at which insurer is indifferent between holding the insurance liability and a similar liability not subject to uncertainty. • Largely consistent with risk premium in IFRS 13 and ASC 820 fair value guidance except that it reflects risk aversion of insurer rather than market participant. • Eliminated the limitation that existed in ED of 3 permitted techniques. • The 3 techniques retained as examples in application guidance. • Level of aggregation (including diversification benefits) yet to be addressed.

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Composite margin approach (Alternative view in IASB Basis of Conclusions)	<p>Composite margin approach:</p> <ul style="list-style-type: none"> In principle the initial recognition of an insurance contract should not result in the recognition of an accounting profit, resulting in the recording of a composite margin. Composite margin at initial recognition is the difference between the present value of expected value of cash inflows and the present value of expected cash outflows. Under composite margin approach, there is no explicit risk adjustment, as objective is not sufficiently robust to promote rigorous application. In composite margin approach, a loss arises at inception if the expected present value of cash outflows exceeds the expected present value of cash inflows, i.e., any Day 1 loss would not include a risk adjustment. An entity should recognize that loss in profit or loss at inception. 		<ul style="list-style-type: none"> FASB supports this approach but will consider whether an onerous contract test should also be applied; IASB rejected it. Renamed "the single margin" to better reflect the FASB's view that it represents the amount of profit at risk.
Level of measurement	<ul style="list-style-type: none"> The current definition of a portfolio of insurance contracts in IFRS 4 will be retained ("insurance contracts that are subject to broadly similar risks and managed together as a single pool"). Estimate future cash flows at portfolio level (except for incremental acquisition costs), recognizing that in principle, the expected cash flows from a portfolio equal the sum of expected cash flow of individual contracts. If the measurement approach includes an explicit risk adjustment, that adjustment should be determined for a portfolio of insurance contracts rather than individually. The explicit risk adjustment would not reflect the effects of diversification between portfolios. Residual and composite margins would be determined initially and subsequently at a cohort level that groups insurance contracts (a) by portfolio, (b) within the same portfolio by similar date of inception of the contract, and (c) by similar length of the contract (coverage period for residual margin; coverage and settlement period for composite margin). 		<ul style="list-style-type: none"> Reaffirmed that in general measurement will be done at the portfolio level (e.g., estimate of cash flows and risk adjustment). Have not yet discussed level of measurement for other components such as residual margin and onerous contract test under modified (premium allocation) approach.
Use of inputs	<ul style="list-style-type: none"> Consider all current available information that represents fulfillment of the insurance contract from perspective of the entity, but for market variables, be consistent with observable market prices. Types of data that may be useful include, but are not limited to, industry data, historical data of an entity's costs, and market inputs. Existing guidance on inventory costing and proposed guidance on revenue recognition noted as potential principles for types of costs (e.g., direct, incremental, allocated) to be included in the building block approach. Examples of costs included in the building block approach include claims and benefit payments, claims handling costs, policy administration and maintenance costs, initial and recurring incremental contract acquisition costs such as commissions, surrender benefits, participating benefits, transaction based taxes such as premium taxes, and certain directly allocable costs that are incremental at the portfolio level, but not general overhead. 		<ul style="list-style-type: none"> Reaffirmed that costs directly attributable to contract activity as part of fulfilling portfolio of contracts that can be allocated to portfolio should be included in cash flows. Reaffirmed that inventory costing guidance in IAS 2 should be used as basis for types of costs to be included in cash flows (except for acquisition costs, for which only direct costs would be included). Appear to include certain costs thought by some to be overhead (such as rent for claims handling department and software to run claims processing system), but not general overhead, except for acquisition costs, for which only direct costs would be included.

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Definition of contract boundary	<ul style="list-style-type: none"> • Insurer should include premiums and other cash flows resulting from those premiums only if the insurer can compel the policyholder to pay premiums, or the premiums are within the boundary of the contract. • Contract boundary is the point at which the insurer: <ul style="list-style-type: none"> (1) is no longer required to provide coverage OR (2) has the right or practical ability to reassess the risk of the particular policyholder and, as a result, can set a price that fully reflects that risk. • In making this assessment, insurer should ignore restrictions that have no commercial substance (i.e., no discernible effect on economics of contract) • If insurer is constrained in the pricing to below market levels, this would be within the contract boundary. 		<ul style="list-style-type: none"> • Tentatively changed position such that contract boundary is point when insurer is no longer required to provide coverage or when the existing contract does not confer any substantive rights to policyholder. • Not a substantive right when insurer has right or practical ability to reassess risk of particular policyholder and as result can set a price that fully reflects that risk. • For contract where pricing of premium does not include risks relating to future periods (i.e., financing element), not a substantive right when insurer can reassess risk of the portfolio the contract belongs to, and as a result can set a price that fully reflects risk of that portfolio. • Revision expected to result in certain health contracts priced at portfolio level to be short duration. • Consideration being given to potential unintended consequences.
Policyholder behavior and contract boundaries	<ul style="list-style-type: none"> • Policyholder options, forwards, and guarantees related to existing coverage (other than those required to be unbundled), should be included in the measurement of the insurance contract on a look through basis using the expected value of future cash flows (to the extent that those options are within the boundary of the existing contract). • Options, forwards, and guarantees that do not relate to the existing insurance contract coverage would be excluded from the measurement of that contract. • Those features should be recognized and measured as new insurance contracts or other stand-alone instruments, according to their nature. 		<ul style="list-style-type: none"> • Not yet specifically discussed
Discount rates	<ul style="list-style-type: none"> • Discount rates should adjust future cash inflows and outflows that arise as insurer fulfills its obligation for time value of money. • Discount rates should be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of insurance contract liability in terms of, for example, timing, currency, and liquidity. • Discount rates should exclude any factors that influence the observed rates but are not relevant to the insurance contract liability (e.g., differences in liquidity between government bonds and certain insurance contracts). • Present value of cash flows should not reflect risk of non-performance by insurer • Discount rates based on expected returns on actual assets backing those liabilities used only when amount, timing or uncertainty of cash flows of contract depend wholly or partly on performance of specific assets (in which case a replicating portfolio technique may be appropriate). • Based on principle noted above, discount rates will reflect yield curve for instruments that expose holder to no or negligible credit risk, with adjustment for liquidity (except of contracts whose cash flows depend on performance of specific assets). 		<ul style="list-style-type: none"> • Reaffirmed objective to adjust cash flows for the time value of money and reflect characteristics of the insurance contract liability and not the expected return on assets. • Tentatively decided not to prescribe a method for determining the rate (i.e. may use bottom-up or top-down approach as long as objective achieved). • Top-down approach may start with yield curve based on actual or reference asset portfolio. • Types of adjustments expected in top-down approach include asset credit risk (both expected defaults and credit risk premium). • Insurer using top-down approach need not make adjustments for remaining differences including liquidity, market sentiment, and market inefficiencies. • Reaffirmed that measurement of the liability should not reflect changes in the insurer's own credit standing. • Tentatively decided not to allow lock in of discount rate.

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			<ul style="list-style-type: none"> • Tentatively decided not to provide a practical expedient for determining the discount rate. • Expected to explore OCI treatment for changes in discount rate. • Tentatively decided all liabilities (including all short tail and long tail claims) should be discounted unless impact of discounting is immaterial.
Accretion of interest on residual margin or composite margin	<ul style="list-style-type: none"> • Accrete interest on the residual margin (under the explicit risk adjustment approach) and on the composite margin (under the composite margin approach). • Interest rate should be locked in at inception. 	<ul style="list-style-type: none"> • Do not accrete interest on the residual margin (under the explicit risk adjustment approach) or on the composite margin (under the composite margin approach). 	<ul style="list-style-type: none"> • Not yet specifically discussed
Subsequent treatment of residual margins under explicit risk adjustment approach	<ul style="list-style-type: none"> • Insurer should not adjust the residual margin in subsequent reporting periods for changes in estimates. • Insurer should release residual margin over coverage period in a systematic way that best reflects exposure from providing insurance coverage on the basis of passage of time; but if the insurer expects to incur benefits and claims in a pattern that differs significantly from passage of time, the residual margin should be released on the basis of the expected timing of incurred benefits and claims over the coverage period. • Residual margin would be included as part of insurance liability. 		<ul style="list-style-type: none"> • IASB tentatively changed position from ED and decided in close vote that the residual margin should not be locked in at inception, but is still considering. • If unlocked, IASB would adjust residual margin prospectively, up and down to reflect favorable and unfavorable changes in future estimated cash flows, and tentatively decided not to adjust it for changes in experience or changes in risk adjustment. Residual margin cannot be negative. • IASB still discussing whether changes in discount rate should adjust residual margin or potentially be taken through OCI along with fair value changes in related assets. • FASB would not unlock the residual margin after inception (if they were to adopt a risk adjustment approach). • Insurer should release residual margin over coverage period in a systematic way that is consistent with pattern of transfer of services under contract (a change from ED position).

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<p>Subsequent treatment of composite margin under composite margin approach (now referred to as single margin) (Alternative view in IASB Basis of Conclusions)</p>	<ul style="list-style-type: none"> Composite margin is "released" or "allocated" over both the coverage and claims handling periods Amortize composite margin based on a combination of two drivers, the provision of insurance coverage and the uncertainty in future cash flows Approach specifies a formula that calculates a ratio of current period allocated premiums plus claims and benefits cash flows to the expected value of total premiums plus claims and benefits and then applies this ratio to the composite margin. Composite margin to which ratio is applied would not be "remeasured" (no change to initial inception amount). Composite margin would not be adjusted directly for changes in cash flow estimates, i.e., not a "shock absorber." But allocation pattern/term could change based on components of ratio in formula changing Composite margin would be included as part of the insurance liability. 		<ul style="list-style-type: none"> FASB revised amortization approach would be based on release from risk rather than premiums and claims formula. In some types of business, such as life insurance, this could occur through the passage of time. In others, where variability in cash flows could be due to frequency and severity of an event, release could occur as insurer is released from variability in cash flows determined using an adjusted baseline ratio of actual claims reported to total expected cash outflows each period. No remeasurement or recalibration of margin to recapture previously recognized margin. FASB may consider onerous contract test in situations where risk expected to increase.
<p>Unearned premium approach for certain short-duration insurance contracts (now referred to as the premium allocation approach)</p>	<ul style="list-style-type: none"> An unearned premium measurement approach (simplified/modified measurement approach) for pre-claim liabilities for certain short-duration contracts would be required rather than permitted. Criteria for applying simplified approach include coverage period of approximately one year or less and no embedded options or guarantees (such as extension of coverage) that significantly affect variability of cash flows. Building block approach for claim liabilities, including an explicit risk adjustment, but excluding a residual margin. Interest accreted at current rate on unearned premium liability. Incremental acquisition costs associated with contracts using the simplified approach are netted against the unearned premium liability and recognized over coverage period. Liability adequacy test (onerous contract test) required. Income statement presentation permits gross revenue, claims, and expenses. 	<ul style="list-style-type: none"> FASB has not yet concluded on what they refer to as "modified" measurement and presentation approach and which insurance contracts should apply that approach rather than the building block approach. 	<ul style="list-style-type: none"> Constituents commented that approach is not simplified and that one year criterion is too restrictive. Many US constituents believe non-life requires a separate model and existing US GAAP model should be retained. Boards not yet agreed on the objective of and eligibility criteria for premium allocation approach; IASB views it as proxy for building block approach; FASB sees it as separate model (revenue recognition model). Boards would not require discounting of future premiums as long as financing element in a contract is not significant. Boards have not yet concluded on whether premium allocation approach should be optional or required. Boards have reaffirmed revenue recognition pattern over coverage period. Boards split on acquisition costs; IASB wants consistency with building block approach, FASB wants consistency with revenue recognition project. Onerous contract test using qualitative factors as indicators. FASB tentatively decided that liability for incurred claims (formerly the post claims liability) should be measured as the present value of expected cash flows (mean) without a single margin. Discounting not required when the effect of discounting is immaterial.

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Acquisition costs	<ul style="list-style-type: none"> Acquisition costs that are "incremental at the contract level," such as initial and recurring commissions, would be included as cash flows in the building block approach. All other acquisition costs are expensed as incurred. "Incremental at the contract level" means those acquisition costs that would not have been incurred absent the contract sale. 		<ul style="list-style-type: none"> Changed position from ED and DP and tentatively decided that contract cash flows should include those direct acquisition costs that relate to a portfolio of insurance contracts. Direct costs would include commissions, and direct costs at portfolio level including sales force contract selling, underwriting, medical and inspection, and policy issuance and processing functions as well as direct response advertising. FASB would include only those direct costs relating to successful acquisition efforts. IASB would include direct costs for both successful and unsuccessful efforts. Indirect costs such as the following would be excluded: software dedicated to contract acquisition, equipment maintenance and depreciation, agent and sales staff recruiting and training, administration, rent and occupancy, utilities, general overhead, advertising.
Business combinations and non-business combination portfolio transfers	<ul style="list-style-type: none"> In non-business combinations assumption transactions (portfolio transfers), any positive difference between consideration received and insurance liability calculated using building block approach recorded as residual (or composite) margin. Any negative difference recognized as an immediate loss. In a business combination, any positive difference between fair value and insurance liability calculated using building block approach recorded as residual (or composite) margin. In a business combination, if the amount calculated under the building block approach exceeds the fair value, the building block amount rather than the fair value is used to measure the liability. Any negative difference would increase the initial carrying amount of goodwill recognized. 		<ul style="list-style-type: none"> Not yet discussed
Reinsurance	<p><i>Assuming reinsurer accounting:</i></p> <ul style="list-style-type: none"> A reinsurer should use the same recognition and measurement approach for reinsurance contracts that it issues as direct insurers use for the insurance contracts that they have issued. <p><i>Cedant accounting:</i></p> <ul style="list-style-type: none"> A cedant should apply the same principles as the building block approach in measuring a reinsurance contract, using the same recognition and measurement approach that it uses for the reinsured portion of the underlying insurance contracts that it has issued. Reinsurance contract is measured by cedant as the sum of: <ul style="list-style-type: none"> Expected present value of future cash inflows plus the risk adjustment (in explicit risk adjustment approach), less the expected present value of cash outflows; and A residual margin (cannot be negative) In addition, the cedant should consider the risk of non-performance by the reinsurer on an expected value basis when estimating the present value of cash flows. Ceding commission is treated by cedant as a reduction in premium ceded to reinsurer. 		<ul style="list-style-type: none"> Changed position from ED and DP to recognize losses (net negative fulfillment cash flows) immediately relating to reinsurance of past events and to defer any day 1 gains as residual/single margin. Only net negative fulfillment cash flows relating to reinsurance coverage for future events should be deferred as prepaid premium and expensed over coverage period. As another change from ED and DP, a cedant should not recognize a reinsurance contract until the underlying direct contract is recognized unless the reinsurance is based on aggregate losses. If based on aggregate losses, a cedant should recognize the reinsurance contract when the reinsurance coverage period begins. A cedant should recognize an onerous contract liability in the pre-coverage period.

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	<ul style="list-style-type: none"> • If expected present value of future cash inflows plus the risk adjustment (in explicit risk adjustment approach) exceed the expected present value of cash outflows, the excess is recorded as a gain at initial recognition of reinsurance contract. • No offsetting of reinsurance assets against insurance contract liabilities. 		<ul style="list-style-type: none"> • IASB tentatively decided that the ceded portion of the risk adjustment should represent the risk being removed from the reinsurance contract without specifying whether the ceded risk adjustment should be calculated on a gross basis or arrived at by performing a "with and without" reinsurance calculation of the net exposure. • A cedant should estimate the present value of fulfillment cash flows without reference to the residual margin/ single margin on the underlying contracts. • A cedant should apply the financial instruments impairment model when assessing recoverability of the reinsurance asset, and should consider collateral in the analysis. • Losses from disputes should be reflected in the measurement of the recoverable asset when current information and events suggest the cedant may be unable to collect amounts due under contractual terms of the contract. • If the reinsurer is not exposed to a loss, the reinsurance contract is nevertheless deemed to transfer significant insurance risk if substantially all of insurance risk relating to the reinsured portions of the underlying insurance contracts has been assumed by the reinsurer. • "Substantially all" means the economic benefit to the reinsurer for its respective portion of the underlying policies must be virtually the same as the cedant's economic benefit.
Insurance contracts denominated in a foreign currency	<ul style="list-style-type: none"> • An insurance contract is treated as a monetary item, including all of the components of the contract (expected present value of cash flows, risk adjustment, residual margin or composite margin). • Conclusion also applicable to simplified unearned premium approach pre-claims liability (as a proxy for the building block approach). 		<ul style="list-style-type: none"> • Not yet discussed
Participating features in insurance contracts	<ul style="list-style-type: none"> • Include all cash flows that arise from a participating feature in an insurance contract in the measurement of the insurance liability on an expected present value basis. • Cash flows include payments that will be generated by existing contracts but are expected to be paid to future policyholders. 		<ul style="list-style-type: none"> • FASB: measure liability at current value of contractual obligation to policyholder; consider adjusting value of the backing assets to reflect measure of the liability. • IASB: measure on same basis as underlying items in which policyholder participates. • IASB: reflect, using a current measurement basis, any asymmetric risk-sharing between insurer and policyholder in the contractually linked items arising from a minimum guarantee. • IASB: present changes in insurance contract liability in statement of comprehensive income consistent with presentation of linked items (i.e., in profit

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			<ul style="list-style-type: none"> or loss or OCI). Amounts expected to be paid to future policyholders not yet discussed.
Participating investment contracts	<ul style="list-style-type: none"> Include in scope of insurance contracts standard if they participate in the same pool of assets as insurance contracts, or same profit or loss of same company, fund, or other entity. Other participating investment contracts included in scope of financial instruments standard. Amortize residual margin based on passage of time, or on basis of the fair value of assets under management if that differs significantly from passage of time. 	<ul style="list-style-type: none"> Include in scope of financial instruments standard 	<ul style="list-style-type: none"> Not yet discussed
Statement of Comprehensive Income	<ul style="list-style-type: none"> Summarized margin approach considered most consistent with the liability measurement model and is similar in many respects to previously considered expanded margin approach. Summarized margin approach shows the following on the face of statement of profit and loss (amounts in brackets may be shown on face or in notes): <ul style="list-style-type: none"> Underwriting margin (change in risk adjustment, release of residual margin) Gains/losses at initial recognition (loss at inception, loss on portfolio transfer, cedant gain at inception) Non-incremental acquisition costs Experience adjustments and changes in estimate (actual versus expected, changes in cash flows and discount rates, impairments on reinsurance assets) Interest on insurance contract liabilities Summarized margin approach would be supplemented by additional information including a reconciliation of changes in the liability and volume of business written. In simplified unearned premium approach only: <ul style="list-style-type: none"> Underwriting margin (premium revenue, gross of incremental acquisition cost amortization, claims incurred, expenses incurred, amortization of incremental acquisition costs) Changes in additional liabilities for onerous contracts No offsetting of income and expense from reinsurance contracts against expense or income from insurance contracts. 		<ul style="list-style-type: none"> Comments from almost all preparers and users that volume information such as premiums and claims considered a key performance metric. Some users appear to want performance reporting of insurers on a basis that is comparable to other industries (i.e., classic revenues earned and expenses incurred). As a result, boards made recent tentative decision that an insurer should present premiums, claims, benefits, and the gross underwriting margin in the statement of comprehensive income. However, key matters to be resolved include definition of premiums for inclusion in the performance statement and whether deposits should be included in premiums. Boards still to consider whether contracts measured using the building-block approach and the premium allocation approach should be separately presented. Boards to consider whether an insurer should be permitted to present in OCI the difference between the insurance contract liability determined using the current discount rate and the liability determined using the original discount rate at inception. IASB to consider targeted improvements to IFRS 9, particularly the interaction between accounting for financial assets and insurance contracts, with potential remeasurement of some financial assets through OCI.
Unit-linked (variable) contracts presentation	<ul style="list-style-type: none"> Defined as contracts for which some or all benefits are determined by the price of units in an internal or external investment fund (i.e., a specified pool of assets held by the insurer or a third party and operated in a manner similar to a 		<ul style="list-style-type: none"> IASB: Apply same measurement approach as participating insurance contracts and proceed with ED proposal to fair value treasury shares and owner

Component	IASB Exposure draft (ED) and FASB Discussion paper (DP) views		Boards' redeliberation status
	IASB	FASB	
	<ul style="list-style-type: none"> mutual fund). Assets and related liabilities associated with such contracts should be reported as the insurer's assets and liabilities in the statement of financial position. Pool of assets underlying unit-linked contracts should be reported as a single line item, not commingled with insurer's other assets. Portion of liabilities from unit-linked contracts linked to pool of assets should be reported as a single line item, not commingled with insurer's other insurance contract liabilities. Unbundling provisions apply to unit-linked contracts. Income and expense from unit-linked contracts presented as a single line item, not commingled with income and expense from insurer's other insurance contract liabilities. Income and expense from pool of assets underlying unit-linked contracts presented as a single line item, not commingled with income or expense from insurer's other assets. Require fair value measurement through profit or loss of own shares (treasury shares) and owner occupied property to eliminate accounting mismatch with liability to the extent those changes relate to the interest of unit-linked contract holders in the pool of assets. 		<ul style="list-style-type: none"> occupied property to eliminate accounting mismatch. FASB: measure liability at current value of contractual obligation to policyholder; consider adjusting value of the backing assets to reflect measure of the liability.
Statement of Financial Position	<ul style="list-style-type: none"> Present each portfolio of insurance contracts as a single item within insurance contract assets or insurance contract liabilities. Do not offset reinsurance assets against insurance contract liabilities. 		<ul style="list-style-type: none"> Separate liabilities (or assets) for insurance contracts measured using building block approach from those using premium allocation approach. Separate premium allocation approach liability for remaining coverage from liability for incurred claims. For building block approach, present contract rights and obligations on net basis, except for unconditional rights to premium or other consideration, which should be presented as a receivable. For premium allocation approach, present all insurance contract rights and obligations on a gross basis (including asset for conditional receivable). Portfolios in an asset position should not be aggregated with portfolios in a liability position.
Disclosures	<p>Extensive disclosure requirements based on IFRS 4 and IFRS 7 existing disclosure requirements, with some enhancements, including:</p> <ul style="list-style-type: none"> Insurer shall not aggregate information relating to different reportable segments. Reconciliation from opening to closing balance of each major component of contract balances, including insurance contract liabilities, insurance contract assets, and the risk adjustment and residual margin included in each; similar information for reinsurance contracts. Methods and inputs used to develop the measurements that have the most material effect, and when practicable, quantitative information about those inputs. This includes methods and inputs used to measure the risk adjustment, and the confidence level used. 		<ul style="list-style-type: none"> Retain disclosures in the proposal, with the following changes: Eliminate minimum reportable segment disaggregation requirement, and use disclosure principles, but retain reportable segments as one example of disaggregation. Level of aggregation could vary for different types of qualitative and quantitative disclosures. Disaggregate the following components, in the statement of financial position or the notes, in a way that reconciles to amounts included in the statement of financial position: expected future cash flows, risk adjustment (IASB), residual

Component	IASB Exposure draft (ED) and FASB Discussion paper (DP) views		Boards' redeliberation status
	IASB	FASB	
	<ul style="list-style-type: none"> Confidence level to which the risk adjustment corresponds if CTE or cost of capital method is used to measure risk adjustment rather than confidence level method. Measurement uncertainty analysis of inputs that have a material effect on the measurement. Nature and extent of risk arising from insurance contracts, including insurance risk, market risk, liquidity risk, and credit risk. Maturity analysis showing remaining contractual maturities or expected maturities. Effect of the regulatory framework in which the insurer operates. 		<ul style="list-style-type: none"> margin (IASB), single margin (FASB), and effect of discounting. Disclose separately the effect of each change in inputs and methods, reason for change, types of contracts impacted. Disclose yield curve or range of yield curves for non-participating contracts. IASB deleted the proposed requirement to disclose a measurement uncertainty analysis; FASB retained it. Require maturity analysis based on expected maturity (as opposed to an option to use contractual maturities). IASB to require expected maturities on annual basis for first 5 years and in aggregate thereafter as minimum. FASB to rely on financial institutions risk disclosure project decisions.
Effective date and transition	<ul style="list-style-type: none"> Proposed effective date not included in IASB ED. Transition adjustment calculated and recognized as adjustment to opening balance of retained earnings in earliest year presented. Transition impact measured using insurance contract portfolio as unit of account. Each portfolio measured using building block approach, including both expected (probability weighted) present value of cash flows and an explicit risk adjustment. Difference between this amount for each portfolio and the existing net insurance liability recorded under the previous GAAP (i.e., the liability net of any unamortized deferred acquisition costs and present value of in-force intangible) for that same portfolio would be charged or credited to opening retained earnings. Under explicit risk adjustment approach, risk adjustment calculated at transition would be re-measured each period subsequent to transition. Alternatively, under composite margin approach, risk adjustment calculated at transition would be treated as if it were a composite margin in subsequent periods; amortized over remaining coverage and claim settlement periods but not re-measured. At the beginning of earliest year presented, an entity is permitted, but not required, to re-designate financial assets to be measured at fair value through profit and loss (FVTPL) if doing so would eliminate or significantly reduce an inconsistency in measurement or recognition. Entity not required to publish previously unpublished claims development information earlier than first five years before end of first year it applies the standard. 		<ul style="list-style-type: none"> Effective date will be determined taking into account the significance of the changes required and methods of transition. Effective date of IASB standard not expected to be earlier than 2015.

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