



Memorandum

To:	AASB Members	Date:	28 January 2014
From:	Sue Lightfoot	Agenda Item:	8.1
Subject:	Insurance Contracts: Project Update	File:	

Action

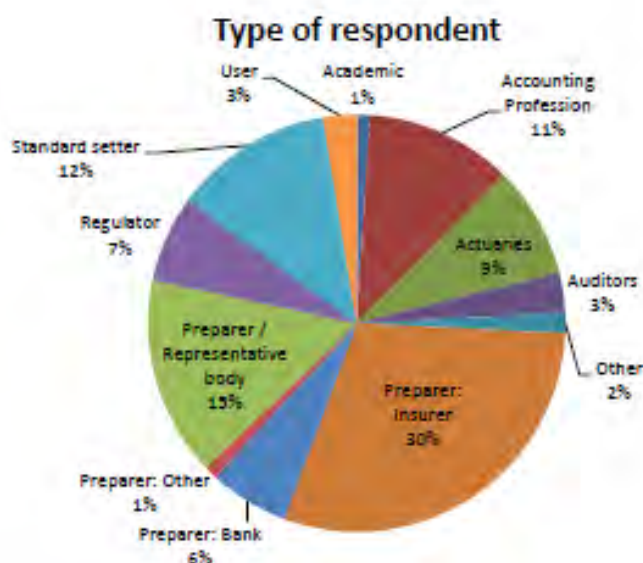
Receive an update on the IASB's *Insurance Contracts* project.

Background

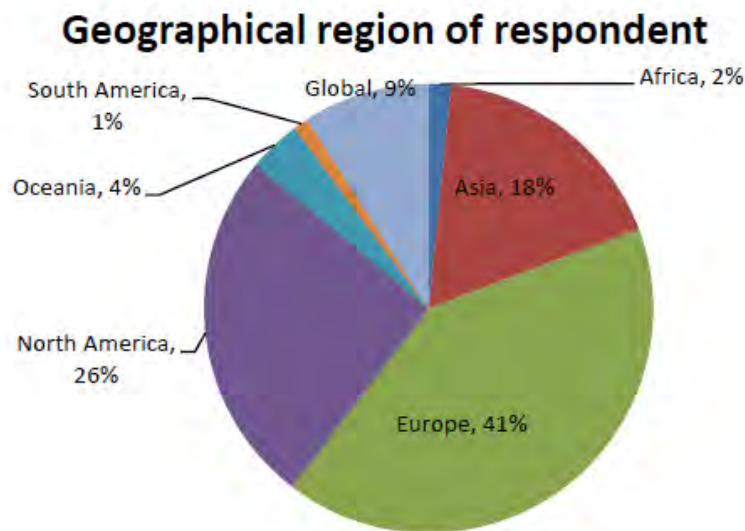
The Insurance Contracts project was last discussed at the October 2013 AASB meeting. At that meeting the AASB's submission to the IASB on the IASB Exposure Draft ED/2013/7 *Insurance Contracts* was discussed. The submission to the IASB, dated 31 October 2013, can be located on the AASB website [here](#). Australian constituents also participated in the IASB's fieldwork.

At its January 2014 meeting (with the FASB) the IASB staff presented feedback received by the IASB on its ED/2013/7 from comments letters, outreach (including with users of financial statements) and fieldwork. No decisions were made the Boards at that meeting.

The IASB received 194 comment letters. The make-up of the comment letters by type of respondents is shown in the pie-chart below (source IASB January 2014 Agenda Paper 2A):



The make-up of the comment letters by geographical source is shown in the pie-chart below (source IASB January 2014 Agenda Paper 2A):



Main improvements from IASB ED/2010/8 *Insurance Contracts*

Many of the respondents supported the IASB's revised proposals, compared with its 2010 exposure draft. Specific areas of improvement identified were:

- a) that the recognition point should typically be the point at which the coverage period begins (or when the payment from the policyholder is due, if earlier);
- b) to include an allocation of overhead costs in cash flows;
- c) to include in cash flows estimates all directly attributable costs on origination of a portfolio (ie. from successful and unsuccessful efforts);
- d) to determine the contract boundary by reference to when an entity is able to reprice a portfolio that includes the contract (ie. rather than when able to reprice a single contract), so that the price charged for the portfolio as a whole fully reflects the risk of the portfolio;
- e) to clarify that the 'top-down' and 'bottom-up' approaches are acceptable for determining the discount rate;
- f) eliminating the limitation of techniques used to determine risk adjustment;
- g) 'unlocking' the contractual service margin (CSM) for changes in estimates of cash flows related to future coverage or future service);
- h) permitting the premium allocation approach (PAA) to be used if it produces a reasonable approximation to the general building block approach (BBA) and simplifying the PAA;
- i) requiring retrospective application on transition with some simplifications for practical reasons.

IASB Feedback on ED/2013/7

Many of the respondents supported the IASB's revised proposals, compared with ED/2010/8. The AASB also expressed its support for the improvements identified above.

A key concern about ED/2013/7 was the complexity of either specific proposals or of the proposals as a whole. Specific areas of complexity identified by the IASB staff from the feedback, included the following:

- a) updating the discount rate;
- b) adjusting the CSM;
- c) excluding deposit components from revenue;
- d) the 'mirroring approach (in particular how this would apply to participating contracts);
- e) use of other comprehensive income (OCI) for changes due to changes in discount rates;
- f) use of locked in discount rates for interest rate expense, transition and adjusting the CSM; and
- g) providing information not currently used by management (eg. the accumulated cash surrender value component of a payment on death).

Accounting mismatches were also raised as being of concern. Most disagree with mandatory use of OCI for remeasuring some components of insurance contracts and were concerned that this would increase accounting mismatches. Many were also concerned with 'mirroring' and whether those proposals could appropriately reduce accounting mismatches, given the additional complexity.

The areas of concern highlighted above generally coincide with the areas of concern highlighted in the AASB's submission to the IASB.

Next steps:

The IASB staff will present a project plan at a future IASB meeting. The areas of focus are expected to be the concerns about:

- the use of OCI;
- use of locked-in discount rates;
- accounting mismatches
- accounting for participating contracts
- complexity of the overall model (including on transition).

The most recent IASB work plan identifies that the IASB is redeliberating on Insurance Contracts in Q1 2014. No further timing is indicated concerning finalisation of a Standard.

AASB staff will continue to monitor the IASB's progress and contribute to IASB's work when relevant.