

# Insurance

## IFRS Newsletter

**“The IASB has a small number of technical deliberations remaining, in addition to due process considerations, sweep issues that may arise, and drafting.”**

– Joachim Kölschbach,  
KPMG’s global IFRS  
insurance leader

## Contents

Measurement model comparisons	2
Issues arising from the variable fee approach	7
Appendix: Summary of IASB’s redeliberations	11
Project milestones and timeline	23
KPMG contacts	24
Keeping you informed	25
Acknowledgements	27

## What happened in November 2015?

At its November meeting, the IASB considered discretionary cash flows and evaluated the differences between the general measurement model and the variable fee approach.

### Measurement model comparisons

The IASB analysed the similarities and differences between the general measurement model and the variable fee approach, and concluded that there was no need to bring the models closer together. It therefore decided not to amend either model.

### Discretionary cash flows

For participating contracts under the general measurement model that include discretionary cash flows to policyholders, the IASB considered how to treat changes in expectations of those discretionary cash flows. The Board disagreed with the staff’s recommendation and directed them to conduct additional research.

### Issues arising from the variable fee approach

The IASB agreed that an existing exception to permit an entity to measure some underlying assets related to unit-linked contracts at fair value through profit or loss (FVTPL) would be extended to underlying assets related to direct participating contracts. It also made other decisions about how to apply the variable fee approach on transition to the forthcoming insurance contracts standard.

### Status of the project

The IASB has now completed most of its redeliberations, including evaluating the differences between the general measurement model and the variable fee approach for direct participating contracts. It will continue discussing the treatment of discretion in participating contracts under the general measurement model and the due process steps at an upcoming meeting. The effective date will be discussed when the publication date is more certain.

# Measurement model comparisons

**The IASB agreed not to change the general measurement model or variable fee approach.**

## Analysing the measurement models

### What's the issue?

As the IASB's redeliberations have proceeded since the beginning of 2014, it has introduced the variable fee approach to measure direct participating contracts. Based on these decisions, the IASB had said in previous meetings that once it had substantially completed its redeliberations for participating contracts, it would analyse the differences between the general measurement model and the variable fee approach so that avoidable differences between the models could be identified.

At its November 2015 meeting, the Board considered the similarities and differences between these measurement models.

Based on the staff's review, the two methods would produce the same measurements for insurance contracts, except for the:

- recognition of the effects of changes in market variables on guarantees embedded in insurance contracts; and
- interest rate applied on the CSM after initial recognition.

The table below summarises the staff's analysis.<sup>1</sup>

Difference	General measurement model	Variable fee approach
<b>Recognition of the effects of changes in market variables on guarantees embedded in insurance contracts</b>	Recognised in the statement of comprehensive income.	Regarded as part of the variability of the fee for future service, and recognised: <ul style="list-style-type: none"><li>– in the CSM; or</li><li>– in profit or loss, if a company uses a derivative measured at FVTPL to mitigate the financial market risk from the guarantee.</li></ul>
<b>Interest rate applied on the CSM</b>	Locked-in rate	Current discount rates

The Board assessed these two differences to determine whether the differences between the models were necessary or if changes should be made to create a single measurement model in either instance.

### Guarantees embedded in insurance contracts

In June 2015, the Board agreed on a set of criteria that would be used to determine which contracts could use the variable fee approach. This approach would apply to contracts for which:

1. the contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items;
2. the entity expects to pay to the policyholder an amount equal to a substantial share of the returns from the underlying items; and

1. There are also differences in the presentation in profit or loss or OCI for some insurance contracts under the variable fee approach that qualify for the current period book yield presentation.

3. a substantial portion of the cash flows that the entity expects to pay to the policyholder are expected to vary with the cash flows from the underlying items.<sup>2</sup>

Based on the current scope of the variable fee approach, instances may arise where the conditions to qualify for it may be met for investment performance guarantees embedded in insurance contracts – e.g. minimum guarantees – when the guarantee is out of the money from the perspective of the policyholder. However, the conditions may not be met when the guarantee is in the money. This could result in instances where investment performance guarantees embedded in insurance contracts could be measured under different approaches.

To more closely align the variable fee approach and the general measurement model, the Board could require adjusting the CSM for all changes in the value of minimum guarantees, regardless of whether the entity estimates that the guarantee will be in the money. However, this would not be consistent with the key characteristics of the contracts that have driven the Board's development of the variable fee approach. Further, this modification might in turn require that the current period book yield (CPBY) approach also be modified.

### Interest rate applied on the CSM

The staff considered the advantages and disadvantages that would exist *if* the Board should require or permit that interest on the CSM be accreted using current discount rates in the general measurement model.

Using current discount rates in the general measurement model	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>– Minimises the differences between this model and the variable fee approach</li> <li>– Reduces complexity in both the forthcoming insurance contracts standard and financial statements</li> <li>– Means that preparers and users need to understand only one model for remeasuring the CSM, rather than two</li> <li>– Means there is no need to develop a scope to determine which model applies to different insurance contracts</li> </ul>	<ul style="list-style-type: none"> <li>– Introduces complexity into the general measurement model</li> <li>– Makes it harder for preparers to explain their methods for remeasuring the CSM</li> <li>– Increases the need to specify which rates to use</li> </ul>
	<p><b>Additional considerations</b></p> <p>The general measurement model as it is currently proposed is consistent with IFRS 15 <i>Revenue from Contracts with Customers</i>.</p> <p>Subsequent measurement of the CSM can be seen as remeasuring the unrecognised profit in the contract, but the result may not be the same as the profit that would arise in the same contract if it were issued today.</p>

The staff also noted that using current discount rates is considered acceptable for the variable fee approach because:

- the remeasured fee can be explained in an understandable way because of the direct link with the underlying items; and

2. For more information, see [Issue 46](#) of our *IFRS Newsletter: Insurance*.

- where the entity and the policyholders share in variable returns, the remeasurement of the fee would provide relevant information to the users of financial statements.

They believed that substantial cost and complexity would exceed the benefit of the resulting information if using current discount rates was extended to contracts under the general measurement model.

### **What did the staff recommend?**

The staff recommended that the IASB:

- *not* amend the variable fee approach to include investment performance guarantees embedded in insurance contracts in the underlying items; and
- *not* require or permit that interest on the CSM be accreted using current discount rates in the general measurement model.

### **What did the IASB discuss?**

Some Board members considered that, in an ideal world, a single measurement model for all insurance contracts would be preferred. However, the Board had previously created the measurement exceptions in the variable fee approach in response to feedback from insurers, having been persuaded that the benefits of creating the exceptions outweigh those of consistency in measurement across all types of insurance contracts.

However, a few Board members believed that measurement exceptions in the variable fee approach should have a broader scope and apply to all contracts with participating features.

Some Board members mentioned that not using a current discount rate to remeasure the CSM under the general measurement model was consistent with IFRS 15. They did not believe that using a current discount rate would be relevant under the general measurement model since the CSM did not represent a current measure of future cash flows.

A few other Board members thought that the CSM under the general measurement model should be remeasured using current discount rates because this would reduce accounting mismatches and inconsistency between the different models without causing additional complexity.

### **What did the IASB decide?**

The IASB tentatively agreed with the staff recommendation.

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**The Board did not decide how the effects of changes in expected discretionary cash flows should be recognised in the CSM under the general model.**

## **Discretionary cash flows**

### **What's the issue?**

As the staff compared the general measurement model and the variable fee approach, they considered whether the treatment of discretionary cash flows should be better specified in the general measurement model. Under the general measurement model, participating contracts often include cash flows that the entity expects to pay, but which it has the discretion to change. These cash flows would be included in the fulfilment cash flows.

However, the Board had not previously provided any clarification on how changes in expectations of discretionary cash flows should be treated. Treating changes in discretionary cash flows differently from changes in market variables would require a definition of discretionary changes.

The staff presented an example which illustrated different possible approaches to treating discretionary cash flows in an insurance contract<sup>3</sup>.

These different approaches would result in different amounts being recognised as underwriting activity and investment activity because they include changes in different cash flows in the calculation of the effects of changes in market variables, which would affect the measurement of the CSM. Although the staff believed that entities could explain each approach, the staff suggested establishing a principle to ensure comparability across entities.

The approach that the staff believed would provide the most faithful representation of participating contracts with discretionary cash flows under the general measurement model assumed that an entity promises to pay to the policyholder a return based on market conditions, less the spread that the entity expected to retain. Any additional return to the policyholder would be considered at the discretion of the entity.

This analysis implies that the effect of discretion to be recognised in the CSM is the change in the expected discretionary cash flows, other than that which offsets the effect of a change in market conditions.

### **What did the staff recommend?**

The staff recommended that the effect of discretion to be recognised in the CSM under the general measurement model should be the change in the expected discretionary cash flows, other than that which offsets the effect of a change in market conditions.

### **What did the IASB discuss?**

Many Board members did not support the staff's recommended treatment, citing the following reasons.

- In the example given by the staff in the agenda paper, the CSM remained positive even though the contract was loss-making, which seemed to be a misleading result.
- Under different circumstances than those given in the example, the recommended approach might also create counter-intuitive results.

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3. See page 11 of the IASB's [agenda paper 2A](#) from November 2015.

### What did the IASB decide?

The Board agreed that in principle, the treatment of discretionary cash flows should be split from the treatment of other cash flows. However, they did not agree with the approach recommended by the staff. They directed the staff to conduct additional research to be discussed at a future meeting, including whether a decision is even necessary.

#### KPMG insight

Many entities would have to use both the general measurement model and the variable fee approach for measuring their insurance contracts, because they will issue some contracts that qualify for each approach. These entities would have to be aware of the differences between the models and the impact that these differences would have on their existing systems.

For example, regardless of the accounting policy choice to present the effects of changes in discount rates in profit or loss or other comprehensive income (OCI), an entity would need to track historical discount rates beginning at transition for contracts under the general measurement model, but not for contracts under the variable fee approach. Consequently, the entity would still have to make system changes to track historical discount rates.



# Issues arising from the variable fee approach

**The IASB decided to extend the fair value exception for certain underlying assets to direct participating contracts.**

## **Unit-linked contracts exception**

### **What's the issue?**

The ED proposed permitting the following assets underlying unit-linked contracts to be measured at FVTPL.

- Owner-occupied property accounted for under IAS 16 *Property, Plant and Equipment*;
- Own shares accounted for under IAS 32 *Financial Instruments: Presentation*; and
- Own debt accounted for under IFRS 9 *Financial Instruments*.

Those proposals that are intended to address accounting mismatches between the obligation in unit-linked contracts and the underlying items.

Unless the IASB specifies otherwise, these exceptions would apply to direct participating contracts only if they are in the form of unit-linked contracts, which is not always the case. The staff thought that the exceptions should apply to all direct participating contracts because:

- direct participating contracts have a contractual link to the underlying assets; and
- accounting mismatches would be reduced.

### **What did the staff recommend?**

The staff recommended that the exceptions to measure assets at FVTPL be extended to apply to:

- investment properties,
- investments in associates;
- owner-occupied property;
- own debt; and
- own shares,

if they are underlying items for direct participating contracts.

### **What did the IASB discuss?**

Board members supported the staff's recommendation and did not have any significant comments, other than a few clarifying questions to the staff.

### **What did the IASB decide?**

The IASB agreed with the staff recommendation.

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**The IASB decided to modify the simplified retrospective transition approach for contracts under the variable fee approach.**

## **Simplified retrospective transition approach**

### **What's the issue?**

In October 2014, the Board made the following decisions.

- On application of the forthcoming insurance contracts standard, an entity would apply the standard retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* unless this is impracticable.
- If retrospective application of the standard is impracticable, then an entity would apply a simplified retrospective transition approach that would enable it to approximate retrospective measurement of the CSM from the beginning of the earliest period presented.
- If the simplified retrospective transition approach is impracticable, then an entity would determine the CSM (or amount of loss) at the beginning of the earliest period presented as the difference between the fair value of the insurance contract and the fulfilment cash flows.

An entity attempting to apply the simplified retrospective transition approach to a contract subject to the variable fee approach might not be able to determine the fair value of its share of the returns from underlying items *at the beginning of the earliest period presented* without the use of hindsight, unless it had previously recorded the fair value of underlying items at each reporting date before the date of initial application.

Consequently, the simplified retrospective transition approach may be impracticable for entities applying the variable fee approach because estimating historical fair value information would require the use of hindsight. However, the staff did note that entities would be able to estimate:

- the total net cost of providing the contract (by adding the costs already incurred to the current estimate of the remaining net cost of providing the contract); and
- the accumulated fee for service provided in past periods (by comparing the remaining coverage period with the total coverage period of the contract).

### **What did the staff recommend?**

Based on the hindsight limitations and what entities would be able to estimate, the staff recommended that entities applying the simplified retrospective transition approach should measure the CSM of a contract accounted for using the variable fee approach *at the date of initial application of the forthcoming insurance contracts standard* as:

The fair value of the entity's share of returns from underlying items:

- less* the current estimate of the remaining net cost of providing the contract adjusted to reflect costs already incurred;
- less* the accumulated fee for service, provided in past periods (determined by comparing the remaining coverage period with the total coverage period of the contract).

An entity would restate the CSM in comparative periods by adjusting the CSM at the date of initial application assuming that the total fee for the contract had not changed since the beginning of the earliest period presented.



**The IASB decided that the recognition of changes in the value of embedded guarantees in profit or loss would be prospective.**

### **What did the IASB discuss?**

The IASB supported the recommendation. One Board member thought that the proposed approach may understate the CSM; however, they believed it would be difficult to find a better solution.

### **What did the IASB decide?**

The IASB agreed with the staff recommendation.

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## **Guarantees embedded in insurance contracts upon transition**

### **What's the issue?**

The Board decided in September 2015 that an entity that uses a derivative measured at FVTPL to mitigate the financial market risk from a guarantee embedded in a contract subject to the variable fee approach would have an option to recognise changes in the value of the guarantee in profit or loss, rather than as an offset in the CSM. An entity could apply that option retrospectively, unless the IASB specifies otherwise. However, an entity would be required to document its risk management objective and the strategy for mitigating the risk before applying the option.

When considering the hedge accounting requirements in IFRS 9, the Board concluded that it is not possible to designate a hedging relationship retrospectively without the use of hindsight. Consequently, IFRS 9 generally requires prospective application of its hedging requirements.

The staff recognised that similar considerations apply in the hedge accounting documentation requirements under IFRS 9 and those for derivatives used to mitigate the financial market risk from guarantees embedded in insurance contracts.

The staff considered that an entity:

- *would not* be able to prepare the documentation before the forthcoming insurance contracts standard is issued because the documentation defines the risk mitigation strategy in the context of that standard being applied;
- *may* be able to prepare the documentation after the standard is issued but before it is effective; and
- *would* be able to prepare the documentation from the date on which it first applies the standard.

### **What did the staff recommend?**

The staff recommended that an entity apply the option to recognise changes in the value of the guarantee embedded in the insurance contract in profit or loss prospectively from the date of initial application of the forthcoming insurance contracts standard.

### What did the IASB discuss?

One Board member believed that using hindsight for restating comparative information in this context should be permitted. Other Board members disagreed, noting the potential outcomes and stating that they wanted to be consistent with the fundamental transition principles of IFRS 9 that prohibit the use of hindsight in restating comparative information.

### What did the IASB decide?

The IASB agreed with the staff recommendation.

#### KPMG insight

Permitting the exceptions allowed to unit-linked contracts to measure assets at FVTPL, if they are underlying items for all direct participating contracts, may allow some entities to reduce accounting mismatches in a less cumbersome and more comprehensive manner than applying the CPBY approach. Entities would be able to address both profit or loss and equity accounting mismatches.

The Board continues to focus on consistency between the forthcoming insurance contracts standard and other standards. This is evidenced by their decision to require a prospective application of the option under the variable fee approach to recognise changes in the value of a guarantee embedded in an insurance contract in profit or loss. This reflects the general principles in IFRS 9 and IAS 8 that limit the use of hindsight where possible.

# Appendix: Summary of IASB's redeliberations

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Targeted issues</b>		
<b>Unlocking the CSM</b>	– Favourable changes in estimates that arise after losses have previously been recognised in profit or loss would be recognised in profit or loss to the extent that they reverse losses that relate to coverage and other services in the future.	Yes
	– Differences between the current and previous estimates of the risk adjustment that relate to coverage and other services for future periods would be added to, or deducted from, the CSM, subject to the condition that the CSM would not be negative. Consequently, changes in the risk adjustment that relate to coverage and other services provided in the current and past periods would be recognised immediately in profit or loss.	Yes
	– For non-participating contracts, the locked-in rate at inception of the contract would be used for: <ul style="list-style-type: none"> <li>- accreting interest on the CSM; and</li> <li>- calculating the change in the present value of expected cash flows that adjust the CSM.</li> </ul>	No
	– An entity would disclose: <ul style="list-style-type: none"> <li>- the changes in fulfilment cash flows that are accounted for as a change in the CSM (except when the variable fee approach applies); and</li> <li>- an explanation of when the entity expects to recognise the remaining CSM in profit or loss either: <ul style="list-style-type: none"> <li>– on a quantitative basis using the appropriate time bands; or</li> <li>– by using qualitative information.</li> </ul> </li> </ul>	Yes
<b>Presenting the effects of changes in the discount rate and other market variables in OCI</b>	– An entity could choose as its accounting policy either: <ul style="list-style-type: none"> <li>- to disaggregate changes in the discount rate and other market variables between profit or loss and OCI; or</li> <li>- to present insurance investment expense in profit or loss using a current measurement basis.</li> </ul>	Yes
	– An entity would present changes in estimates of the amount of cash flows that result from changes in market variables in the same location in the statement of comprehensive income as, and consistently with, changes in discount rates.	Yes
	– The objective of disaggregating changes in the measurement of an insurance contract arising from changes in market variables between profit or loss and OCI is to present an insurance investment expense in profit or loss using a cost measurement basis. The IASB has not specified detailed mechanics for determining the insurance investment expense using a cost measurement basis.	Yes
	– Application guidance would be added to clarify that, in accordance with IAS 8, an entity would select and apply its accounting policies consistently for similar contracts, considering the portfolio in which the contract is included, the assets that the entity holds and how those assets are accounted for.	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Presenting the effects of changes in the discount rate and other market variables in OCI (continued)</b>	<ul style="list-style-type: none"> <li>– The requirements in IAS 8 would be applied without modification to changes in accounting policy relating to the presentation of the effects of changes in discount rates and other market variables.</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then it would recognise:               <ul style="list-style-type: none"> <li>- <i>in profit or loss</i>: the interest expense determined using the discount rates that applied at the date on which the contract was initially recognised; and</li> <li>- <i>in OCI</i>: the difference between the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date and the amount of the insurance contract measured using the discount rates that applied at the date on which the contract was initially recognised.</li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then:               <ul style="list-style-type: none"> <li>- it would disclose an explanation of the method used to calculate the insurance investment expense using a cost measurement basis;</li> <li>- if the entity uses the simplified approach at transition to measure the accumulated balance of OCI at zero, then it would:                   <ul style="list-style-type: none"> <li>– designate financial assets as relating to contracts in the scope of the forthcoming insurance contracts standard; and</li> <li>– disclose at the date of transition and in each subsequent reporting period a reconciliation from the opening to the closing balance of the accumulated OCI balance for those financial assets.</li> </ul> </li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– For all portfolios of insurance contracts, an entity would disclose an analysis of total interest expense included in total comprehensive income disaggregated at a minimum into:               <ul style="list-style-type: none"> <li>- the amount of interest accretion determined using current discount rates;</li> <li>- the effects on the measurement of the insurance contract of changes in discount rates in the period; and</li> <li>- the difference between the present value of changes in expected cash flows that adjust the CSM in a reporting period measured using the discount rates that applied on initial recognition of insurance contracts and current discount rates.</li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– For non-participating contracts accounted for under the premium allocation approach (PAA), when an entity presents the effects of changes in discount rates in OCI, the discount rate that is used to determine the interest expense for the liability for incurred claims would be the rate locked in at the date the claim was incurred. This would also apply if a liability for onerous contracts is established under the PAA, in which case the locked-in discount rate would be the rate on the date the liability is recognised.</li> </ul>	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Insurance contract revenue</b>	– An entity would be prohibited from presenting premium information in profit or loss if that information is not consistent with commonly understood notions of revenue.	No
	– An entity would present insurance contract revenue in profit or loss, as proposed in paragraphs 56–59 and B88–B91 of the ED.	No
	– An entity would disclose the following: <ul style="list-style-type: none"> <li>- a reconciliation that separately reconciles the opening and closing balances of the components of the insurance contract asset or liability;</li> <li>- the inputs used when determining the insurance contract revenue that is recognised in the period; and</li> <li>- the effect of the insurance contracts that are initially recognised in the period on the amounts that are recognised in the statement of financial position.</li> </ul>	No
	– For contracts accounted for under the PAA, insurance contract revenue would be recognised on the basis of the passage of time. However, if the expected pattern of release of risk differs significantly from the passage of time, then it would be recognised on the basis of the expected timing of incurred claims and benefits.	Yes
	– The disclosure required by paragraph 79 of the ED to reconcile revenue recognised in profit or loss in the period to premiums received in the period would be deleted.	Yes
<b>Participating contracts</b>		
<b>The variable fee approach</b>	– For direct participating contracts – i.e. those that meet the following criteria – the CSM would be unlocked for changes in the estimate of the variable fee for service that the entity expects to earn: <ul style="list-style-type: none"> <li>- the contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items;</li> <li>- the entity expects to pay to the policyholder an amount equal to a substantial share of returns from the underlying items; and</li> <li>- a substantial portion of the cash flows that the entity expects to pay to the policyholder is expected to vary with the cash flows from the underlying items.</li> </ul>	Yes
	– An entity would be permitted to measure at FVTPL investment properties, investments in associates, owner-occupied property, own debt and own shares that are underlying items for direct participating contracts.	Yes
<b>Recognising the CSM in profit or loss</b>	– An entity would recognise the CSM in profit or loss on the basis of the passage of time.	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Accounting mismatches arising from hedging activities for direct participating contracts</b>	<ul style="list-style-type: none"> <li>– If an entity uses the variable fee approach to measure insurance contracts, and uses a derivative measured at FVTPL to mitigate the financial market risk from a guarantee embedded in the insurance contract, then it would be permitted to recognise in profit or loss the changes in the value of the guarantee embedded in an insurance contract, determined using fulfilment cash flows, but only if the following criteria are met. <ul style="list-style-type: none"> <li>- That risk mitigation is consistent with the entity's risk management strategy.</li> <li>- An economic offset exists between the guarantee and the derivative – i.e. the values or cash flows from the embedded guarantee and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity would not consider accounting measurement differences in assessing the economic offset.</li> <li>- Credit risk does not dominate the economic offset.</li> </ul> </li> </ul>	No
	<ul style="list-style-type: none"> <li>– An entity would be required to: <ul style="list-style-type: none"> <li>- document, before it starts recognising changes in the value of the guarantee in profit or loss, its risk management objective and its strategy for using the derivative to mitigate the financial market risk embedded in the insurance contract; and</li> <li>- discontinue recognising in profit or loss changes in the value of the guarantee prospectively from the date on which the economic offset no longer exists.</li> </ul> </li> </ul>	No
	<ul style="list-style-type: none"> <li>– An entity would disclose changes in the amount of the guarantee recognised in profit or loss for the period.</li> </ul>	Yes
<b>Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches</b>	<ul style="list-style-type: none"> <li>– For contracts for which there is no economic mismatch between the insurance contract and the underlying items, the objective of disaggregating changes would be modified to present the insurance investment expense that eliminates accounting mismatches in profit or loss between: <ul style="list-style-type: none"> <li>- the insurance investment expense; and</li> <li>- the items held that are measured using a cost measurement basis in profit or loss – i.e. the CPBY approach.</li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– Accordingly, the difference between the changes in the contract arising from changes in market variables – i.e. changes in the fair value of the underlying items – and the insurance investment expense would be recognised in OCI.</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– Economic mismatches do not exist when: <ul style="list-style-type: none"> <li>- the contract is a direct participation contract – i.e. the entity has an obligation to pay policyholders the fair value of the underlying items, and therefore applies the variable fee approach; and</li> <li>- the entity holds the underlying items, either by choice or because it is required to.</li> </ul> </li> </ul>	Yes



What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches (continued)</b>	<ul style="list-style-type: none"> <li>– If an entity is required to change to or from the CPBY approach, then it would: <ul style="list-style-type: none"> <li>- not restate the opening accumulated OCI balance;</li> <li>- recognise in profit or loss the accumulated OCI balance at the date of the change, in the period of change and in future periods, as follows: <ul style="list-style-type: none"> <li>– if the entity had previously applied the effective yield approach, then it would recognise the accumulated OCI balance in profit or loss using an effective yield determined by applying the same assumptions that applied before the change; and</li> <li>– if the entity had previously applied the CPBY approach, then it would continue to recognise the accumulated OCI balance in profit or loss using the assumptions that applied before the change;</li> </ul> </li> <li>- not restate prior period comparatives; and</li> <li>- disclose, in the period during which the change in approach occurred: <ul style="list-style-type: none"> <li>– an explanation of the reason for the change and the effect of the change on each financial statement line item affected; and</li> <li>– the value of the contracts that no longer qualify for the CPBY approach but previously qualified (and vice versa).</li> </ul> </li> </ul> </li> </ul>	Yes
<b>Accounting policy choice for participating contracts</b>	<ul style="list-style-type: none"> <li>– For participating contracts, including direct participating insurance contracts with no economic mismatches with the underlying items held, the entity would make the accounting policy choice as described above for disaggregating changes arising from changes in market variables in the statement of comprehensive income.</li> </ul>	Yes
<b>Mirroring approach</b>	<ul style="list-style-type: none"> <li>– The mirroring approach proposed in the ED for the measurement of participating contracts would be neither permitted nor required in the forthcoming insurance contracts standard.</li> </ul>	Yes
<b>Transition</b>		
<b>Transition</b>	<ul style="list-style-type: none"> <li>– An entity would apply the forthcoming insurance contracts standard retrospectively in accordance with IAS 8, unless this is impracticable.</li> <li>– However, an entity would apply the option to recognise changes in guarantees embedded in insurance contracts subject to the variable fee approach in profit or loss prospectively.</li> <li>– For the simplified retrospective approach, instead of estimating the risk adjustment at the date of initial recognition as the risk adjustment at the beginning of the earliest period presented, an entity would estimate it by adjusting the risk adjustment at the beginning of the earliest period presented by the expected release of the risk before the beginning of the earliest period presented. The expected release of risk would be determined with reference to the release of risk for similar insurance contracts that the entity issued at the beginning of the earliest period presented.</li> </ul>	No  Yes  Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Transition (continued)</b>	<ul style="list-style-type: none"> <li>– For circumstances in which full retrospective application is impracticable, the approach for determining insurance investment expense (and accumulated OCI) for contracts in which changes in market variables affect the amount of cash flows would be simplified as follows ('simplified approach'). <ul style="list-style-type: none"> <li>- For contracts whose objective is to present an insurance investment expense using a cost measurement basis in profit or loss, an entity would assume that the earliest market variable assumptions that should be considered are those that occur when the entity first applies the forthcoming insurance contracts standard. Accordingly, on initial application of the forthcoming insurance contracts standard, the accumulated OCI balance for the insurance contract would be zero.</li> <li>- For contracts under the CPBY approach, insurance investment expense (or income) would be equal and opposite in amount to the gains (or losses) presented in profit or loss for the items held by the entity.</li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– If the simplified retrospective approach is impracticable, then an entity would apply a fair value approach. The entity would determine the: <ul style="list-style-type: none"> <li>- CSM at the beginning of the earliest period presented as the difference between the fair value of the insurance contract and the fulfilment cash flows measured at that date; and</li> <li>- interest expense in profit or loss, and the related amount of OCI accumulated in equity, by estimating the discount rate at the date of initial recognition using the method in the simplified retrospective approach proposed in the ED.</li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– For each period presented for which there are contracts measured in accordance with the simplified retrospective approach or the fair value approach, an entity would disclose <ul style="list-style-type: none"> <li>- the amounts in the financial statements determined at transition and in subsequent periods; and</li> <li>- the information proposed in paragraph C8 of the ED separately for contracts measured using the: <ul style="list-style-type: none"> <li>– simplified retrospective approach; and</li> <li>– fair value approach.</li> </ul> </li> </ul> </li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– If the simplified approach is used on transition for contracts accounted for using the variable fee approach, at the date of initial application of the forthcoming insurance contracts standard, the CSM should be measured as. <ul style="list-style-type: none"> <li>- the fair value of the entity's share of returns from underlying items; less <ul style="list-style-type: none"> <li>– the current estimate of the remaining net cost of providing the contract adjusted to reflect costs already incurred; and</li> <li>– the accumulated fee for service, provided in past periods (determined by comparing the remaining coverage period with the total coverage period of the contract).</li> </ul> </li> </ul> </li> </ul>	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Transition – Classification and measurement of financial assets</b>	<ul style="list-style-type: none"> <li>– Consistent with the approach to identifying financial assets that relate to insurance activities under the overlay approach, an entity would be permitted to reassess the business model for managing financial assets on transition to the forthcoming insurance contracts standard for financial assets that an entity designates as related to insurance activities.</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– On transition to the forthcoming insurance contracts standard, the reassessment of the business model for managing financial assets and designation and de-designation of financial assets under the FVO and the OCI presentation election for investments in equity instruments would be based on the facts and circumstances that exist on initial application of that standard – i.e. the beginning of the latest period presented.</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– The resulting classifications would be applied retrospectively and the cumulative effect of any changes in classification and measurement of financial assets as a result of applying those transition reliefs would be recognised in the opening balance of retained earnings or accumulated OCI.</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– The entity would disclose its policy for designating financial assets to which the transition relief is applied.</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>– For any changes in classification and measurement of financial assets as a result of applying the transition provisions in the forthcoming insurance contracts standard, an entity would be required to disclose, by class of financial assets: <ul style="list-style-type: none"> <li>- the measurement category and carrying amount immediately before initial application;</li> <li>- the new measurement category and carrying amount determined as a result of applying the transition provisions;</li> <li>- the amount of any financial assets in the statement of financial position that were previously designated under the FVO but are no longer so designated, distinguishing between those that the entity was required to de-designate and those that it elected to de-designate; and</li> <li>- qualitative information that would enable users of the financial statements to understand how the entity has applied the transition provisions to those financial assets whose classification has changed as a result of initial application, including: <ul style="list-style-type: none"> <li>– the reasons for any designation or de-designation of financial assets under the FVO; and</li> <li>– an explanation of why the entity came to a different conclusion in reassessing its business model.</li> </ul> </li> </ul> </li> </ul>	Yes
<b>Transition – Restatement of comparative information</b>	<ul style="list-style-type: none"> <li>– On initial application of the forthcoming insurance contracts standard: <ul style="list-style-type: none"> <li>- an entity would be required to restate comparative information about insurance contracts; and</li> </ul> </li> </ul>	No
	<ul style="list-style-type: none"> <li>- an entity that has previously applied IFRS 9 would be permitted (but not required) to restate comparative information about financial assets only if it is possible without hindsight and the entity chooses to apply the transition reliefs for classification and measurement of financial assets.</li> </ul>	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Non-targeted issues</b>		
<b>Recognising the CSM in profit or loss</b>	– The remaining CSM would be recognised in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services under the insurance contract.	No
	– The service represented by the CSM would be insurance coverage that: <ul style="list-style-type: none"> <li>- is provided on the basis of the passage of time; and</li> <li>- reflects the expected number of contracts in force.</li> </ul>	Yes
<b>Fixed-fee service contracts</b>	– Entities would be permitted, but not required, to apply the revenue recognition standard to fixed-fee service contracts that meet the criteria stated in paragraph 7(e) of the ED.	Yes
<b>Significant insurance risk</b>	– The ED's guidance will be adjusted to clarify that significant insurance risk occurs only when there is a possibility that an issuer will incur a loss on a present-value basis.	Yes
<b>Portfolio transfers and business combinations</b>	– Paragraphs 43–45 of the ED will be amended to clarify that contracts acquired through a portfolio transfer or a business combination would be accounted for as if they had been issued by the entity at the date of the portfolio transfer or the business combination.	Yes
<b>Determining discount rates when there is a lack of observable data</b>	– The discount rates used to adjust the cash flows of an insurance contract for the time value of money would be consistent with observable current market prices for instruments with cash flows whose characteristics are consistent with those of the insurance contract.	No
	– In determining those discount rates, an entity would use judgement to: <ul style="list-style-type: none"> <li>- ensure that appropriate adjustments are made to observable inputs, to accommodate any differences between observed transactions and the insurance contracts being measured; and</li> <li>- develop any unobservable inputs using the best information available in the circumstances, while remaining consistent with the objective of reflecting the way market participants assess those inputs – accordingly, any unobservable inputs should not contradict any available and relevant market data.</li> </ul>	Yes
<b>Asymmetrical treatment of gains from reinsurance contracts</b>	– After inception, entities would recognise in profit or loss any changes in estimates of cash flows for a reinsurance contract that arise as a result of changes in estimates of cash flows that are recognised immediately in profit or loss for an underlying insurance contract.	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Level of aggregation</b>	– The objective of the proposed insurance standard is to provide principles for measuring an individual insurance contract; but in applying the standard, an entity could aggregate insurance contracts, provided that the aggregation would meet that objective.	No <sup>4</sup>
	– The definition of a portfolio of insurance contracts would be amended to “insurance contracts that provide coverage for similar risks and are managed together as a single pool”.	Yes
	– Guidance would be added to explain that, in determining the CSM or loss at initial recognition, an entity would not aggregate onerous contracts with profit-making contracts. An entity would consider the facts and circumstances to determine whether a contract is onerous at initial recognition.	Yes
	– Examples would be provided of how an entity could aggregate contracts but nevertheless satisfy the objective of the proposed insurance standard when determining the CSM on subsequent measurement.	Yes
<b>Presentation of line items</b>	– An entity would not be required to present a separate line item for contracts measured using the variable fee approach.	No
<b>Comparability with IFRS 15 disclosure requirements</b>	– An entity would be required to disclose any practical expedients used.	Yes
<b>Differing effective dates of IFRS 9 and the forthcoming insurance contracts standard</b>		
<b>Proposed interim amendment to existing IFRS 4 – Overlay approach</b>	– IFRS 4 would be amended. For eligible assets that relate to insurance activities, an entity would be permitted to remove from profit or loss, and recognise in OCI, the difference between: <ul style="list-style-type: none"> <li>– the amounts that would be recognised in profit or loss under IFRS 9; and</li> <li>– the amounts recognised in profit or loss under IAS 39.</li> </ul>	N/A
	– The adjustments could be applied only if the entity: <ul style="list-style-type: none"> <li>– issues contracts that are accounted for under IFRS 4; and</li> <li>– applies IFRS 9 in conjunction with IFRS 4.</li> </ul>	N/A
	– An entity would be prohibited from applying the overlay approach if it is a first-time adopter of IFRS.	N/A
	– The effective date of the proposed requirements would be for annual reporting periods beginning on or after 1 January 2018. Early adoption would be permitted if an entity adopts IFRS 9 early.	N/A
	– There would be no expiry date for the overlay approach.	N/A

4. In the staff's view, this decision represents a clarification of the principle already included in the ED. However, many respondents to the ED noted that they were unsure how to apply the different levels of aggregation. Consequently, this clarification may result in a change in the application of the principle.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Overlay approach – Eligibility of financial assets</b>	<ul style="list-style-type: none"> <li>– An entity would be permitted to make an overlay adjustment in respect of financial assets that meet both of the following criteria: <ul style="list-style-type: none"> <li>- the entity designates them as relating to contracts that are in the scope of IFRS 4; and</li> <li>- they are classified as at FVTPL under IFRS 9 and would not have been classified as at FVTPL in their entirety under IAS 39.</li> </ul> </li> </ul>	N/A
	<ul style="list-style-type: none"> <li>– An entity may change the above designation only if there is a change in the relationship between the financial assets and contracts that are in the scope of IFRS 4.</li> </ul>	N/A
<b>Overlay approach – Transition: Starting to apply the approach</b>	<ul style="list-style-type: none"> <li>– An entity would be permitted to start applying the overlay approach only when it first applies IFRS 9 – including if it chooses to apply IFRS 9 early. An entity that has started applying IFRS 9 without applying the overlay approach would not be allowed to subsequently start applying it.</li> </ul>	N/A
	<ul style="list-style-type: none"> <li>– An entity would apply the overlay approach retrospectively to eligible financial assets on transition to IFRS 9. It would recognise, as an adjustment to the opening balance of OCI, an amount equal to the difference between: <ul style="list-style-type: none"> <li>- the fair value of eligible financial assets; and</li> <li>- their amortised cost, or cost carrying amount under IAS 39, immediately before transition to IFRS 9.</li> </ul> </li> </ul>	N/A
	<ul style="list-style-type: none"> <li>– An entity would restate comparative information to reflect the overlay approach only if it also restates that comparative information under IFRS 9.</li> </ul>	N/A
<b>Overlay approach – Transition: Stopping applying the approach</b>	<ul style="list-style-type: none"> <li>– An entity would be required to stop applying the overlay approach when it applies the forthcoming insurance contracts standard, and would be permitted to stop in any earlier reporting period.</li> </ul>	N/A
	<ul style="list-style-type: none"> <li>– When an entity stops applying the overlay approach, it would reclassify any balance of the prior periods' overlay adjustments accumulated in OCI to retained earnings at the later of the beginning of the earliest reporting period presented or the beginning of the reporting period when the overlay approach was first applied.</li> </ul>	N/A
<b>Overlay approach – Redesignating financial assets</b>	<ul style="list-style-type: none"> <li>– An entity would be permitted to apply the overlay approach prospectively to a financial asset at the date the financial asset first meets the eligibility criteria.</li> </ul>	N/A
	<ul style="list-style-type: none"> <li>– An entity would be required to stop applying the overlay approach to a financial asset when the financial asset no longer meets the eligibility criteria. Any accumulated OCI balance relating to the overlay adjustment on that asset would be immediately reclassified to profit or loss.</li> </ul>	N/A



What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?						
Overlay approach – Presentation and disclosures	<ul style="list-style-type: none"><li>– An entity that applies the overlay approach would present a single line item for the amount of the overlay adjustment in profit or loss, or OCI, or both. An entity may disaggregate the amount of the overlay adjustment in profit or loss.</li><li>– An entity that applies the overlay approach would disclose in each reporting period:<ul style="list-style-type: none"><li>- the fact that it has made an overlay adjustment, and the financial assets to which the overlay adjustment relates;</li><li>- its policy for determining the financial assets for which an overlay adjustment is made;</li><li>- an explanation of the total amount of overlay adjustments made in each period, in a way that enables users of the financial statements to understand how it is derived; and</li><li>- the effect of the overlay adjustment on line items in profit or loss, to the extent that they are not separately identified on the face of the profit or loss account.</li></ul></li></ul>	N/A						
	N/A							
Overlay approach – Presentation and disclosures (continued)	<ul style="list-style-type: none"><li>– For financial asset transfers and redesignations of financial assets, an entity would also make the following disclosures.</li></ul>	N/A						
	<table><tr><th>For financial assets that are <i>newly in the scope</i> of the overlay approach</th><th>For financial assets <i>removed from the scope</i> of the overlay approach</th></tr><tr><td>The amount of overlay adjustment that <i>has</i> arisen in profit or loss and OCI</td><td>The amount of overlay adjustment that <i>would have</i> arisen in profit or loss and OCI</td></tr><tr><td></td><td>The amount of overlay adjustment that is due to the reclassification of amounts in accumulated OCI to profit or loss</td></tr></table>	For financial assets that are <i>newly in the scope</i> of the overlay approach	For financial assets <i>removed from the scope</i> of the overlay approach	The amount of overlay adjustment that <i>has</i> arisen in profit or loss and OCI	The amount of overlay adjustment that <i>would have</i> arisen in profit or loss and OCI		The amount of overlay adjustment that is due to the reclassification of amounts in accumulated OCI to profit or loss	
	For financial assets that are <i>newly in the scope</i> of the overlay approach	For financial assets <i>removed from the scope</i> of the overlay approach						
The amount of overlay adjustment that <i>has</i> arisen in profit or loss and OCI	The amount of overlay adjustment that <i>would have</i> arisen in profit or loss and OCI							
	The amount of overlay adjustment that is due to the reclassification of amounts in accumulated OCI to profit or loss							
Proposed interim amendment to existing IFRS 4 – Deferral approach	<ul style="list-style-type: none"><li>– IFRS 4 would be amended to defer the effective date of IFRS 9 for certain entities that issue contracts in the scope of IFRS 4.</li></ul>	N/A						
	<ul style="list-style-type: none"><li>– An entity that has applied IFRS 9 would not be permitted to stop applying IFRS 9 and revert to applying IAS 39.</li></ul>	N/A						
	<ul style="list-style-type: none"><li>– An entity would be prohibited from applying the deferral approach if it is a first-time adopter of IFRS.</li></ul>	N/A						
	<ul style="list-style-type: none"><li>– The effective date of the proposed requirements would be for annual reporting periods beginning on or after 1 January 2018. Early adoption would be permitted if an entity adopts IFRS 9 early.</li></ul>	N/A						
	<ul style="list-style-type: none"><li>– The expiry date of the deferral approach would be no later than reporting periods beginning on or after 1 January 2021, after which an entity could choose to apply the overlay approach if the forthcoming insurance contracts standard is not yet effective.</li></ul>	N/A						
	<ul style="list-style-type: none"><li>– An entity would be permitted, rather than required, to apply the deferral approach.</li></ul>	N/A						

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
<b>Deferral approach – Eligibility</b>	– An entity that issues contracts in the scope of IFRS 4 would be permitted to defer the effective date of IFRS 9 if that activity is predominant for the reporting entity. It would apply to all financial assets held by the reporting entity.	N/A
	– An entity would be required to initially assess whether its insurance activities are predominant, based on: <ul style="list-style-type: none"> <li>- the level of gross liabilities arising from contracts that are in the scope of IFRS 4; relative to</li> <li>- the entity's total liabilities at the date when the entity would otherwise be required to initially apply IFRS 9.</li> </ul>	N/A
	– There would be no quantitative threshold for the assessment of predominance of insurance activities; however, the basis for conclusions would include an example specifying the levels at which an entity's insurance activities would not be considered predominant for the purposes of this assessment.	N/A
	– An entity would be required to reassess whether insurance activities are predominant for it at subsequent annual reporting dates if there is a demonstrable change in the entity's corporate structure that could result in a change in its predominant activities.	N/A
	– If, as a result of that reassessment, an entity concludes that insurance activities are no longer predominant for it, then it would be required to: <ul style="list-style-type: none"> <li>- apply IFRS 9 from the beginning of the next annual reporting period; and</li> <li>- disclose, in the reporting period in which the reassessment took place: <ul style="list-style-type: none"> <li>– the fact that it is no longer eligible for deferral;</li> <li>– the reason why it is no longer eligible; and</li> <li>– the date on which the change in corporate structure took place that resulted in the entity no longer meeting the predominance condition.</li> </ul> </li> </ul>	N/A
<b>Deferral approach – Disclosures</b>	– An entity applying the deferral approach would disclose: <ul style="list-style-type: none"> <li>- the fact that it has chosen to delay application of IFRS 9;</li> <li>- an explanation of how it concluded that it is eligible for the deferral; and</li> <li>- information about the characteristics and credit quality of financial assets.</li> </ul>	N/A
<b>Deferral approach – Transition</b>	– When an entity applies the deferral approach, it would use the applicable transition provisions in IFRS 9 to the extent needed to provide the disclosures required under the deferral approach.	N/A
	– An entity that applies the deferral approach would be permitted to stop applying it and start applying IFRS 9 at the beginning of any annual reporting period before the forthcoming insurance contracts standard is applied. It would be required to do so from the beginning of the annual reporting period in which the forthcoming insurance contracts standard is initially applied.	N/A
	– When an entity starts applying IFRS 9, it would follow the transition provisions under IFRS 9, and would stop providing the disclosures required under the deferral approach.	N/A

# Project milestones and timeline

In May 2007, the IASB published a discussion paper (DP), *Preliminary Views on Insurance Contracts*. It re-exposed its revised insurance contracts proposals for public comment by publishing the exposure draft ED/2013/7 *Insurance Contracts* (the ED) in June 2013.

Since January 2014, the Board has been redeliberating issues raised through the ED.

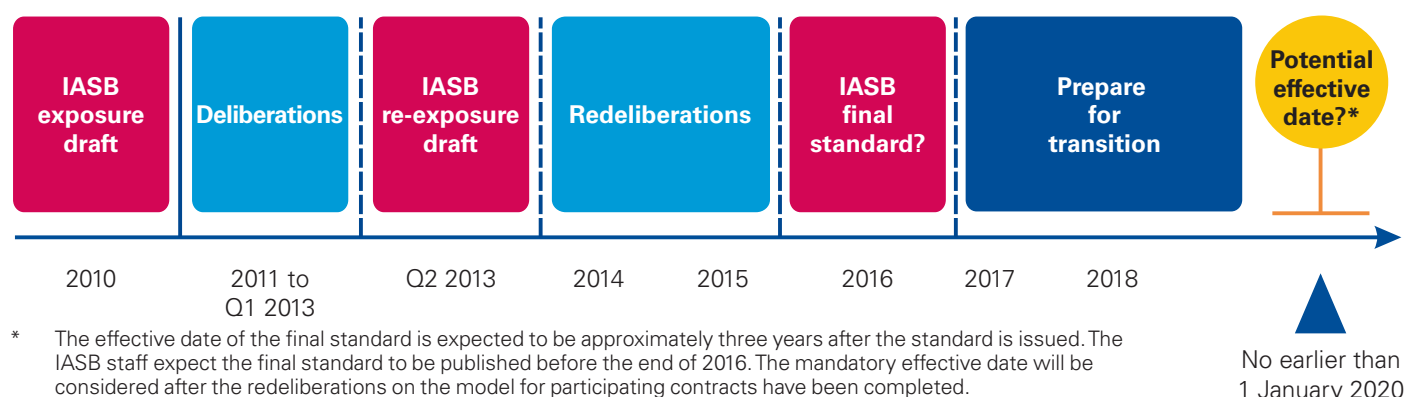
## Interaction with other standards

Throughout its redeliberations, the Board has considered whether the accounting for insurance contracts would be

consistent with other existing or future standards, including the new revenue recognition standard – IFRS 15 *Revenue from Contracts with Customers*<sup>5</sup>.

The Board has also considered how IFRS 9<sup>6</sup> might interact with the forthcoming insurance contracts standard – because IFRS 9 will cover a large majority of an insurer's investments. It expects to publish an exposure draft of amendments to IFRS 4 in December 2015 to address some of the consequences of the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard.

5. See our [Issues In-Depth: Revenue from Contracts with Customers](#) and [New on the Horizon](#).
6. See our [First Impressions: Financial instruments – The complete standard](#).



Our suite of publications considers the different aspects of the project.

KPMG publications	
1	<a href="#">IFRS Newsletter: Insurance (issued after IASB deliberations)</a>
2	<a href="#">New on the Horizon: Insurance contracts (July 2013)</a>
3	<a href="#">Challenges posed to insurers by IFRS 9's classification and measurement requirements</a>
4	<a href="#">Evolving Insurance Regulation: The journey begins (March 2015)</a>

For more information on the project, including our publications on the IASB's insurance proposals, see [our website](#). You can also find, in the same place, information about the FASB's insurance contracts project before February 2014, when this newsletter stopped following that project.

For information on the FASB's project subsequent to February 2014, see KPMG's [Issues & Trends in Insurance](#).

The [IASB's website](#) and the [FASB's website](#) contain summaries of the Boards' meetings, meeting materials, project summaries and status updates.

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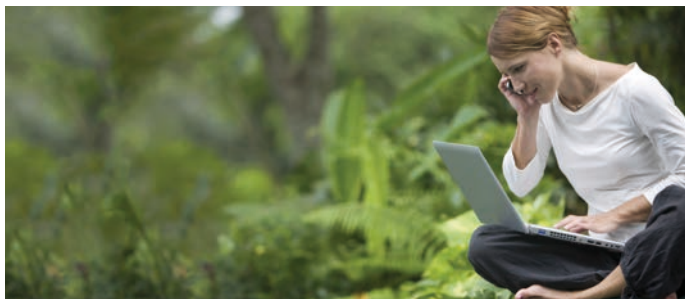
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# Keeping you informed



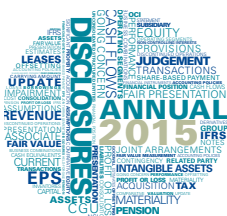
Visit [kpmg.com/ifrs](http://kpmg.com/ifrs) for the latest on IFRS.

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effective requirements.



Newly effective standards



US GAAP

## ...and prepare for IFRS tomorrow



IFRS news



IFRS newsletters



IFRS for banks



IFRS 15 for sectors

## Major new standards



Revenue



Financial instruments

## Major standards under development



Leases



Insurance contracts

## Amendments to existing standards



Business combinations and consolidation



Presentation and disclosures



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